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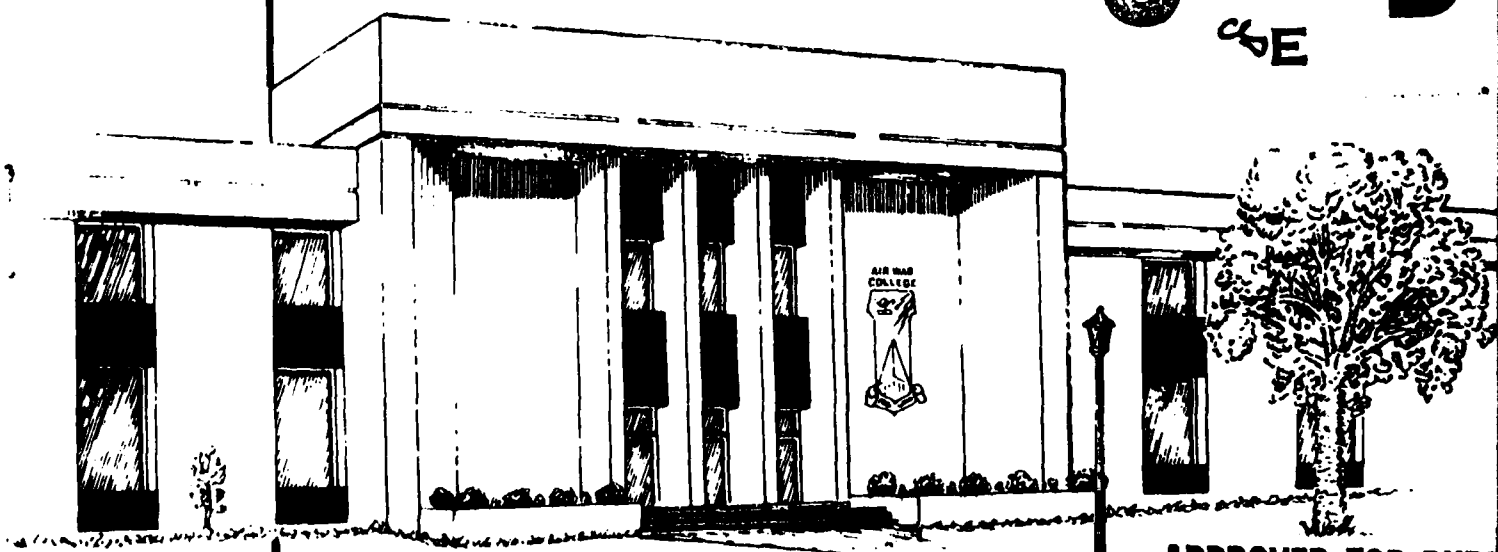
RESEARCH REPORT

IMPACT OF THE DEPARTMENT OF DEFENSE
REORGANIZATION ACT OF 1986 ON MANDATORY
RETIREMENT POLICY: TIME FOR A CHANGE?

COLONEL HARRY A. WHITE III

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UNITED STATES AIR FORCE
MAXWELL AIR FORCE BASE, ALABAMA

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IMPACT OF THE DEPARTMENT OF DEFENSE
REORGANIZATION ACT OF 1986 ON MANDATORY RETIREMENT POLICY:
TIME FOR A CHANGE?

by

Harry A. White, III
Colonel, USAF

A RESEARCH REPORT SUBMITTED TO THE FACULTY

IN

FULFILLMENT OF THE RESEARCH

REQUIREMENT

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MAXWELL AIR FORCE BASE, ALABAMA

April 1988

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AIR WAR COLLEGE RESEARCH REPORT ABSTRACT

TITLE: Impact of the Department of Defense Reorganization Act of 1986 on Mandatory Retirement Policy: Time For a Change?

AUTHOR: Harry A. White, III, Colonel, USAF

The Goldwater-Nichols Department of Defense Reorganization Act of 1986 (PL 99-433), made sweeping revisions in the identification, assignment and promotion of personnel. Joint duty is now an essential prerequisite for promotion to general officer. Following promotion, there is a further requirement for general officers in joint assignments to serve for three years in those positions. These requirements are incompatible with officer career progression moves and with desired "payback" on the investment of promotion to four-star rank. Current length-of-service retirement restrictions do not provide an officer with enough time to be trained and developed to the depth required to become both a proficient member of his service and a credible joint specialist.

This report considers extending officer tenure on active duty to accommodate both the needs of the service and the intent of Congress when it passed the new law. It reviews military retirement history and compares our current policies with plans of the civilian sector as well as foreign military policies. It reviews the background of the current legislation to show the extent of changes that must be made. The report suggests that our current retirement laws are outdated, have not kept pace with technological change or modern requirements of the Air Force, or considered improved health and increased longevity of Air Force members. Lastly, the report recommends an update of the RAND Senior Officer Extended Service Model which addressed officer tenure prior to the sweeping changes to joint officer personnel policy caused by this new legislation.

BIOGRAPHICAL SKETCH

Colonel Harry A. White, III, (M.A., Central Michigan University) is a career personnel officer with assignments at Travis AFB, California, Tan Son Nhut AB, Southeast Asia, Randolph AFB, Texas, and Hickam AFB, Hawaii. He was in the first contingent of Air Staff Training Officers (ASTRA) in 1971 serving at the Air Force Military Personnel Center. Following a tour as Aide-de-Camp to an Air Force General Officer, he served in the office of the Assistant for General Officer Matters on the Air Staff at the Pentagon. He became the Assistant for Senior Officer Assignments for Pacific Air Forces (PACAF) in 1979 followed by a tour as Executive Officer to the Commander of the United States Air Force Recruiting Service. He served as the Director of Personnel at Travis AFB in California in 1985-1987. He holds the Bronze Star medal for his service in Vietnam. Colonel White is a graduate of the Air War College, class of 1988.

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CHAPTER I

INTRODUCTION

A long habit of not thinking a thing wrong gives it a superficial appearance of being right, and raises at first a formidable outcry in defense of custom.

Thomas Paine
Introduction to Common Sense

Perhaps this characterizes the military services' initial reaction to Congress' intent to reorganize the Department of Defense. Hearings before the Armed Services Committees of both Houses considering the reorganization were characterized with substantial reluctance toward the proposals, particularly as they pertained to officer personnel management. Congressional intent behind the Goldwater-Nichols Department of Defense Reorganization Act of 1986 was threefold. First, it was to strengthen the joint structure. Second, it was to remove the military departments from the direct control of military operational forces. Third, it was to improve the structure of the employment of operational forces. (7:5) The Bill proposed to create a "Joint Specialty" career identifier for officers specifically chosen to train and serve in joint duties. Joint experience would become a prerequisite for promotion to general officer and for nomination to certain military positions. The objective of the legislation is "to provide more authority for those elements of the military that operate 'jointly' or on a multiservice basis," according to Rep. Bill Nichols (D-Ala.), one of the sponsors of the Bill. "In other words," said Rep. Les Aspin (D-Wis.), House Armed Services Committee

chairman, "it's a slap at service parochialism." (8:8)

The Air Force told the committee it could not support the establishment of a "corps of elitists, segregated after one-third of their career for special consideration and promoted based on assignment instead of individual merit." (8:8) The Army said in one of its memorandums to the committee that the emphasis should be on making successful officers "joint" instead of making joint officers successful. (8:8) David L. Gray, publisher of Air Force Magazine, was moved to ask, "Do we really want to draw our top military leaders mostly from the ranks of those who gained early membership in an insulated and exclusive corps and whose demonstrated skills are in staff and coordination jobs?" (8:8) (Then) Secretary of Defense Caspar Weinberger cautioned that the steps to improve the performance of joint personnel could be accomplished by regulation rather than legislation. He felt that the legislation would create inequities in officer personnel management which could interfere with the professional development of officers who need "significant time to develop combat, combat support and leadership expertise in their Services to prepare for command, or to be effective Service experts on joint staffs." He went on to say, "Our experience indicates that the joint staffs benefit most from the infusion of first-rate officers with functional expertise and solid, current Service backgrounds." (19:876)

In one of the more compelling statements made to the Senate Armed Services Committee, (then) Secretary of the Navy, John Ichman, implored the committee to rethink imposing the joint staff officer provisions of the bill:

Like a Joint Chief, a Joint Staff officer needs the most state-of-the-art and intimate familiarity with current military capabilities.

A Joint Staff composed of officers whose staff duties had kept them out of the field for successive years would necessarily rely on outdated information about Service capabilities. Their knowledge would be as out-of-touch as those critics of defense organization who rely on information about Defense Department procedures that was acquired during their tenures in office. Such a Joint Staff would function in an Ivory Tower. And Ivory Towers have few windows. They are isolated from the real world. Even worse, they would become increasingly like those think-tank Clausewitzes, innocent of any military or government service, whose entire expertise is academic and, of necessity, secondhand. (20:603)

Notwithstanding the preceding words of caution and concern and the many more contained in the almost 2000 pages of congressional testimony, the Goldwater-Nichols Department of Defense Reorganization Act of 1986 became the law in October of that year.

In an interview with Air Force Magazine that same month, Air Force Chief of Staff, General Larry D. Welch, clearly stated the Air Force position with respect to the legislation. He said, "There is absolutely no question that we will continue the 'joint initiative' with the other services. The emphasis on joint programs and cooperation will expand more and more. There are many features of the Defense Department reorganization plan that I agree are very beneficial." (10:55)

But, he warned that in all reorganization schemes there is the acute danger that proposals will be added that "are not helpful." "The core proposals of the various plans are generally positive. It's the fringe that contains a lot of things that are dangerous." (10:55)

Title IV of the act addresses Joint Officer Personnel Management. It has a profound impact on the traditional way we have managed our personnel resource. There are enumerable challenges for us if we are

to comply with the law and still retain a viable officer corps as pointed out in Secretary Lehman's testimony. It has been said, however, that aggressive organizations will always be faced with more good options for solving a problem than they can execute. If this is true, Title IV has provided personnel planners in each of the Services with a "target-rich environment" and ample opportunity for innovation. It is our challenge to look at traditional personnel programs that may have a long-standing, superficial appearance of "being right" and not be afraid to challenge them within the framework of the act. The "sacred cow", length-of-service retirement program which has been in-being for over 100 years is one of those programs that begs review. We should address this before being told to do so by Congress. Perhaps our reluctance to change is a driving factor in Congress' appearing compelled to manage the Department of Defense for us.

Congress' interest in reorganizing our Department is not new. It established the Defense Department in 1947 by reorganizing the War Department and Navy Department into one centrally managed organization. Our experience in World War II and the years following provided much of the impetus. One goal was to integrate more closely the military and foreign policy of America. Another goal was to improve the efficiency of operation. Hearings implied this was to be done by applying good business practices in areas where they could save the taxpayer money. (20:265)

The years since 1947 have seen many other calls for the Department of Defense to implement management practices used in the private sector to improve efficiency and effectiveness. The Government Accounting Office (GAO), political candidates, incoming Secretaries of Defense,

and particularly Congress are continually proposing management techniques proven in their experience base. The public, the media, organizations of retired military people and various other organizations concerned with defense issues also have opinions as to how their dollars should be used more effectively. Our defense budget and programs depend on the perceptions of these groups and their opinions must be heeded. (20:265-266)

The comparison of the Department of Defense to business, however, may not be useful in some contexts or in some areas of defense management. In deference to the Department of Defense, it is larger than any private organization in the United States. It has a budget twice the size of the number-one business in the Fortune 500. And, the Defense Department supports six times the workers of the American Telephone and Telegraph Company, the single largest employer in the private sector. (20:266-267)

The Department of Defense differs from business as well in that it is part of the government. It has no "bottom line" number that can be referred to to indicate how well it is being managed. There are also subtleties in the way our business is done in peacetime versus wartime. Readiness for combat is expensive, yet the American people are reluctant to support large budgets when crises are remote. This is true today. It is a dichotomy that the better you do your job, the harder it is to get financial support to continue. The Defense Department cannot be fully managed in the same manner as a business. There is no single measurable criterion that indicates our relative success. (20:268)

It is within this frustrating atmosphere that legislation such as the latest reorganization is designed in Congress. This latest act is another attempt by Congress to fine-tune our behemoth on the Potomac for

improving efficiency.

So, we should look at this act as an opportunity to improve the way we do business. We have the framework, albeit Congressionally mandated, to revolutionize one important area--personnel management. The Defense Department may not be capable of being managed "fully" like a business, but the author submits that managing parts of it in a businesslike way may be desirable. In fact, with the passage of this act, it may be imperative. We can improve efficiency by bringing our personnel policies in the executive retirement arena out of the dark ages. Former Secretary Weinberger states:

To manage the nation's defense efficiently at the lowest possible cost, along the lines of private-sector business management and organization, is a useful standard.

He goes on to say:

Defense cannot be managed like a business, but it can be led in such a way that preserves United States national security interests while operating effectively in a world of limits and amid the pull of conflicting interests. (20:274)

Let us assume, then, that there may be opportunities for us to improve our organization by applying proven private-sector management initiatives to personnel management in the military. Unfortunately, it is not a simple task to effect change in a bureaucracy such as the Defense Department. Our problem becomes even more difficult in the area of executive retirement where our laws date to 1780 and the first major non-disability retirement legislation came with the outbreak of the Civil War. (14:VII-1) The thrust of this legislation was to retire older officers no longer fit for field duty. In fact, maintaining a youthful, vigorous military capable of handling the charge in the field

has been the theme of all legislation passed since that time, even in the face of a radically changed, technologically advanced defense establishment. (14:VII-1-15) The Department of Defense remains the only major employer that forces its key managerial and leadership resources to retire at a time when they should be kept. Addressing this issue is not new. Indeed, many major studies have been conducted to determine if retirement laws are accomplishing what Congress had intended. Predictably, each study has recommended little, if any, change to the length-of-service restrictions.

Now is the time to make those recommendations. The 1986 reorganization imposed upon us by Congress impacts personnel policy significantly and dictates an in-depth look at the prudence of forced early retirement in light of the new joint personnel restrictions.

Therefore, a review of the history of military retirement laws is useful to determine congressional intent with respect to length-of-service retirements. Then, a comparison of our current law with industry pension plans and other foreign military retirement laws will be discussed. A review of the provisions of the Goldwater-Nichols legislation and their effect on joint officer personnel policy will be provided to give a perspective of the management implications if innovative changes are not forthcoming. Finally, the results of a study conducted that examined the impact of extending length-of-service retirements in the Air Force will be presented with conclusions and recommendations for application in the post-reorganization environment.

Shoe



From
The Montgomery Advertiser

12 January 1988

CHAPTER 11

MILITARY RETIREMENT HISTORY

In order to gain an appreciation of current retirement laws and to evaluate them objectively in the context of today's military, the historical background of military retirement should be studied. It will also serve to develop an understanding of congressional intent underlying the legislation. This chapter addresses the chronology of events and legislative history that led to the current uniformed services non-disability retirement system for officers. Much of the historical information was provided by the Fifth Quadrennial Review of Military Compensation. A more detailed accounting of the legislative history may be found in their January 1984 report to the Secretary of Defense, but is not required for the purpose of this study.

The military retirement system has evolved over a period of many years. Early origins depended primarily on death, disability or voluntary departure only after all military effectiveness was diminished. The current system is based on the need to maintain an effective, combat ready force, by rewarding those who have served their country and providing them with retired pay based on their service. It has been designed to meet specific needs which are not generally found in the civilian sector of business. Our system must be able to control the size of the force through voluntary or mandatory retirement, and at the same time, be attractive enough to retain the highly qualified individuals needed to meet the needs of a career military force. It must motivate the most capable military members to remain in service during their most productive

years to ensure both technological and physical efficiency. At the same time, we have to provide for mobility within the force to insure opportunities for advancement and to avoid stagnation. (28:5)

Our present military retirement system has roots that date back to our English forefathers. The Pilgrims at Plymouth provided in 1636 that "any man sent forth as a soldier and returned maimed should be maintained by the Colony during his lifetime." (14:VII-1) The practice of providing special pay to persons disabled while performing military service can be traced to some of the earliest enactments of the Federal Congress. The first national pension law of August 26, 1776, promised half pay for life, or for the duration of the disability. After the Revolutionary War, disabled commissioned officers were paid at one-half of their monthly pay. (14:VII-1)

But, these are examples of compensation for disabled members of the services. Pensions based solely on service (non-disability) were more controversial. In 1780, Congress promised officers half pay for life for serving until the end of the war. The claims presented for payment were settled for less than had been promised and not without considerable argument. (14:VII-1) However, the treasury of the United States began to improve and the numbers of veterans submitting claims decreased and Congress began meeting its obligations. In March of 1818, Congress provided for relief to Revolutionary War veterans in need, although the magnitude of that relief is unspecified. By 1832, it became full pay for life, regardless of need. A cursory review of the life expectancy for that period coupled with the fact that it was now fifty years following the war makes this a less-than-magnanimous gesture on the part of

Congress. What is significant is that this same pattern was followed by Congress for subsequent wars.

It wasn't until 1861 that legislative authority was provided for either the voluntary or the involuntary retirement of active duty members of the armed forces. (14:VII-1) The Congress, while conducting a study of Army retirement, reflected on the lack of authority:

The unsatisfactory personnel conditions in the Regular Army which prompted these repeated recommendations of the War Department that Congress provide some form of retirement for the Regular Army were emphasized during the field service required over the period 1812-1861. While the law provided a pension of one-half pay for disabled officers, there is no provision for compulsory separation from active service of old and disabled officers; there was no limit to active service save by dismissal or resignation of the officer. Thus, an officer could remain on active duty until death, despite incapacity due to old age, physical disability, etc. In consequence, many junior officers exercised commands in the field beyond their rank, the old and disabled officers who should have exercised these commands being left behind--often on leave--whenever field service was performed. (14-VII-2)

The Act of August 3, 1861, authorized the voluntary retirement of regular officers after 40 years of service. It was later broadened to provide for the involuntary non-disability retirement of Navy officers with 45 years of service or at age 62. Six months later, the law established similar provisions for the Army and Marine Corps. It is interesting to note that, while these laws provided the authority for involuntary retirement, nothing required the authorities to take such action. (14:VII-2)

The Appropriation Acts of July 15, 1870, not only provided for an active duty salary system for officers, it also authorized the voluntary

retirement of Army and Marine Corps officers after 30 years of service.

The Act of June 30, 1882, made retirement mandatory for officers of all branches of the Service at age 64. This was the first compulsory retirement law based on age. It also gave officers a non-discretionary right to voluntary retirement after 40 years of service. They had the authority to retire at this point under earlier legislation but it was at the discretion of the President. (15:A-2)

The Act of March 3, 1899, was one of the more innovative pieces of legislation passed. The intent appeared to have been to enhance promotion opportunities in the Navy. Certain Navy officers in grades lieutenant through captain could request voluntary retirement regardless of age or length of service. If the required number of promotion vacancies did not materialize through normal attrition during a fiscal year, the applicants were retired in order of their seniority until the required number of vacancies were achieved. If the numbers were still insufficient in the grades required, additional people were retired involuntarily. This was the first "promotion flow" retirement program on record and it remained in effect for the next sixteen years. (15:A-3)

The Act of May 13, 1908, finally brought the Navy in line with the Army and Marine Corps by authorizing the voluntary retirement of Navy officers after 30 years of service.

The Act of August 29, 1916, brought two of the more significant milestones to the retirement system. First, it initiated use of the formula used today for determining retired pay entitlements. More importantly, it established a retirement program integrated with an "up-or-out" selective promotion plan. The act permitted the Secretary of the Navy to convene annual selection boards to select officers to the

grades of rear admiral, captain and commander. A captain who reached age 56, a commander who had reached age 50 or a lieutenant commander who had reached age 45 without having been selected for promotion had to be retired. (15:A-3)

The Act of June 4, 1920, provided for the identification of "inefficient" officers by separation into two classes. Officers in one class were retained but subject to further classification. All officers in the other class were retired if they had a minimum of ten years service and their ineffectiveness was not due to their own neglect or misconduct. This act applied only to Army officers.

The Act of June 30, 1922, also applied only to Army officers and was the first to address a reduction in the strength of the Army. The retirement system was used to help effect the reduction by providing a "plucking board." Officers "plucked" for retirement were well compensated. If they had more than 20 years of service they were entitled to three percent of their pay for each year of service. Those with between ten and twenty years of service were given a smaller multiplier. (15:A-3)

The Act of June 22, 1926, changed the Navy's age-in-grade program with one based on service-in-grade. For example, a captain with 35 years of service who was not selected for promotion was forced to retire. Commanders and lieutenant commanders were involuntarily retired at the 28 and 21 year points respectively. This was the first legislation to combine length-of-service to the up-or-out system. (15:A-4)

The Act of July 31, 1935, was designed to remove the "hump" created by the buildup of World War I. It allowed the retirement of Army officers

after only 15 years of active service. This is a management tool that could have application in today's force structure.

The Act of June 23, 1938, applied to the Navy and formed the system in effect today. It required retirement of officers twice failed promotion to the grades of captain, commander and lieutenant commander at the 30, 28 and 26 year points, respectively. It allowed the voluntary retirement at the 20 years of service point.

The Act of February 21, 1946, was significant in that it lowered the statutory retirement age from 64 to 62 and authorized a "plucking board" to remove officers in a World War II "hump" similar to those in World War I.

The Army and Air Force Vitalization and Retirement Equalization Act of 1948 was designed to standardize the retirement system for all Services by establishing an integrated promotion/involuntary retirement system for the Army and Air force. This act was historical in that we now had a uniform retirement authority among all branches of the Service.
(15:A-5)

The Officer Personnel Act of 1947, as amended by the Officer Grade Limitation Act of 1954, was the authority for the officer promotion and involuntary retirement system for the next 35 years. The Army and Air Force programs were different from those of the Navy and Marine Corps because the planning of the different programs was done independently. The act, however, incorporated all the systems into one piece of legislation. The provisions in the law that pertained to mandatory retirement based on length-of-service were capsulized by the Fifth Quadrennial Review of Military Compensation and follow:

<u>PAY GRADE</u>	<u>ARMY AND AIR FORCE</u>	<u>NAVY AND MARINE CORPS</u>
0-10 (Gen) 0-9 (LtGen)	Retired after 5 years in grade or 35 years of service, but may be deferred to age 64	Retired after 5 years in grade and 35 years of svc, unless selected for continuation
0-8 (MajGen)	Retired after 5 years in grade or 35 years of service, but retmt may be deferred to age 60	Retired after 5 years grade and 35 years of service, unless selected for continuation
0-7 (BrigGen)	Retired after 5 years in grade or 30 years of service, but retmt may be deferred to age 60	Rear admiral (lower half) retired after 5 years in grade and 35 years service unless selected for continuation. BG, USMC, retired after second failure for selection for promotion
0-6 (Col)	Retired after 5 years in grade or 30 years of service	Retired after 30 years of service if twice failed promotion, or after 31 years if not twice failed

"These provisions remained intact for more than 30 years. On December 12, 1980, however, Congress provided unified retirement authority to the Services. Congressional intent was to make the career expectations of members more "clearly defined and uniform...across the services."

(15:A-7) The Defense Officer Personnel Management Act (DOPMA) created the following principal provisions relating to involuntary retirement:

<u>PAY GRADE</u>	<u>RETIREMENT PROVISIONS</u>
0-10, 0-9	Retired at age 62 unless selected by the President for continuation on active duty, in which case retmt may be deferred, but not past age 64
0-8	Unless specially selected for continuation, retired after 5 years in grade or upon 35 years

of active commissioned service,
whichever is later

0-7

Unless specially selected for
continuation or on a list of
officers recommended for pro-
motion, retired after 5 years
in grade or upon completion of
30 years of active commissioned
service, whichever is later

0-6

Unless specially selected for
continuation or on a list of
officers recommended for pro-
motion, retired after 30 years
of active commissioned service

A provision of DOPMA that has yet to be exercised is one that, in the addition to the above, provides for the selective early retirement of officers in the paygrades of 0-8, 0-7 and 0-6 who have at least four years in grade and are not on a list recommending them for promotion. If selected for early retirement, they would be retired either immediately or as soon as they become eligible. As attractive as this provision is to personnel managers in an era of force reductions, it must be pointed out that Congress indicated the selective retirement authority was "to be used sparingly and....primarily as a means of reducing the number of officers in the affected grades when necessary to accommodate such actions as a reduction in officer personnel strengths." But, Congress went on to say that "these provisions are not intended to be used for the purpose of maintaining or improving promotion opportunity or timing." (15:A-7,8,21)

The most recent piece of legislation affecting service retirement was the Military Retirement Reform Act passed on July 1, 1986. The major provisions of this law affect the computation for retirement pay and apply

only to individuals entering the active duty rolls on or after August 1, 1986.

The changes which have been made to the retirement system over the years have been essential to meet the changing needs of the nation's defense. From a time when senior officers needed assistance to mount their horses to more recent times when we have been involved in major conflicts with millions of men and women in uniform, changes have been required to manage the size and quality of our military forces. Executive, congressional and independent study groups have made recommendations designed to improve the military organization. Some of these have led to the legislation and directives that now form our retirement system.

In addition to the legislative actions recounted above, there have been 12 major studies recommending substantive changes to service retirements over the last 35 years. Each of these studies proposed to reduce benefits and implied that the current system was too expensive. (13:IV-30) None of these studies addressed in sufficient depth, if at all, the feasibility of extending or eliminating length-of-service retirement requirements.

The following briefly lists these studies and addresses that portion of their reports that pertains to officer retirement eligibility. (15:B-1-12)

1. Hook Commission (1948). This was the first comprehensive study in forty years. It attempted to set military compensation on an equal footing with private industry. The commission recommended retirement at age 60 with 20 or more years of service or at any age with 30 or more years of service.

2. The Gorham Report/Randall Panel (1962). This was primarily formed to study compensation and it led to the second largest pay increase for the military in history. The commission recommended retirement at 20 or more years of service not to exceed 35 years or age 62.

3. First Quadrennial Review of Military Compensation (1967). This was the first such review of its kind. Required by law, its major recommendations were to propose a salary system. It recommended the same retirement provisions as the Gorham Report.

4. Interagency Committee (1971). This committee provided a comprehensive review of the non-disability retirement system. They recommended a reduced annuity for members retiring with less than 30 years of service as a major departure from previous studies.

5. DOD Retirement Study Group (1972). This Department of Defense study group was formed to evaluate the Interagency's report and the Retirement Modernization Act was the result of their efforts. Congress took no action on their proposal.

6. Third Quadrennial Review of Military Compensation (1975-1976). This was the first comprehensive look at military compensation since the Hook Commission in 1948. Because their focus was on compensation, no changes were recommended to age or length-of-service provisions in retirement law.

7. Defense Manpower Commission (1975-1976). Created by Congress, this commission recommended sweeping changes. Non-disability retirement would be based on between 20 and 30 years of service and based on time in combat or non-combat jobs. One-and-a-half credits would be given for each year in a combat job and one point per year in a non-combat position.

8. Aspin Retirement Proposal (1976). Although this proposal was somewhat less than a major study, it reflected the continuing concern of Congress that the military retirement system needed change. Under this proposal, retirement would be at age 55 with 30 or more years service or age 60 with 20-29 years of service.

9. President's Commission on Military Compensation (1978). This was a proposal known as the Zwick Commission. It recommended benefits be based on age and years of service and a retired pay formula of two percent for one-to-five years service, two-and-one-fourths percent for six-to-ten years service and two-and-three-quarters percent for 11 to 35 years of service with a maximum of 90 percent of the highest three years of basic pay over the last 10 years.

10. Uniformed Services Retirement Benefits Act (1979). The recommendations from this study were for a two-tier early withdrawal system. The first tier would offer benefits at 20 years of service and the second tier would offer increased benefits at age 60. No action was taken by Congress but this proposal offered a glimpse at consideration of easing the length-of-service restrictions. (15:B-10)

11. President's Private Sector Survey on Cost Control (Grace Commission) Task Force on Department of the Air Force (1983). This study proposed an immediate annuity but only after 30 years of service with a deferred annuity payable at age 60 for 20 to 29 years of service. Again, no action was taken by Congress on this proposal.

12. Fifth Quadrennial Review of Military Compensation (1984). This review recommended that the Grace Commission's recommendations be disregarded and that no change be made to the DOPMA provisions for retirement. This report went to great lengths to support what it considered

to be one of the military retirement system's underlying principles: namely, "That it must maintain young, vigorous and mission ready forces capable of operating efficiently both in peace and in war by providing for a continuing flow of officers through the required personnel structures". (14:I-1) The report gives no rationale as to why it perceived no change in the military since the days of the Pilgrims, particularly in terms of technological progress and overall improvement in the health of our fighting forces that directly affects vigor and readiness.

We have, indeed, come a long way since senior officers needed help to mount their horses. In 1940, life expectancy in the United States, according to the National Center for Health Statistics, was 62.9 years of age. (26:1) The Department of Defense Office of the Actuary advises the life expectancy of military retired officers is 78.5 years of age today. (26:1) And, The National Center for Health Statistics states the average age expectancy in the United States is expected to reach 80 by 2003. (26:1)

When the country mobilized for World War II the military was overage and physically lacking with a near stagnant promotion system. The 20 year retirement system was created to remedy that situation. We may now be faced with the fundamental social question, "Is the military's higher obligation to assure its own perpetual youth and vigor or to give continuing employment to workers who have not yet reached their prime?"

(3:3) The impetus over the years has been to enforce mandatory retirement in the Services to make room for the advancement of younger officers. The value of an individual to the Service after he reaches a certain age has been addressed superficially, if at all, by the studies and reports

in the past due to the concern that an individual can no longer perform the duties unique to military service. Perhaps extending tenure in the military is more of a concern to personnel managers in that such an action might eliminate a valuable management tool in maintaining the correct personnel structure in an era of drawdown and declining budgets.

Notwithstanding the uniqueness of military service in the United States, a study of the retirement provisions in the civilian sector and certain foreign military retirement plans is enlightening and follows in the next chapter.

CHAPTER III

RETIREMENT PLANS IN THE CIVILIAN SECTOR AND FOREIGN MILITARY ORGANIZATIONS AND COMPARISON OF THE SYSTEMS

To gain further insight into the current military retirement system in the United States, it is useful to compare its provisions with those in the private sector and in other countries. The comparisons which follow address the general provisions of these systems and highlight normal and early retirement ages and length-of-service considerations.

Civilian Retirement Plans

Civilian retirement plans are relatively new in comparison to what we have seen in the military. In fact, prior to 1900 they were almost not existent. Industry did not consider pension plans their responsibility and, as a result, by the 1920's, few existed. In his book, Executive Retirement, Harold Hall cites a study conducted that shows during the first 25 years of this century few retirement plans for executives had been established. When they were introduced, companies considered them essential to provide protection for salaried executives and a tool to attract and retain competent leaders. In addition, companies used pension plans to keep promotion channels open by providing a systematic elimination of leadership. (2:15-17)

The Social Security Act of 1935 signalled significant change to the retirement procedures throughout industry. It established age 65 as the eligibility age for receiving benefits and has had a profound influence on private sector retirement programs. The normal retirement age of 65 with provisions to retire at age 62 is found almost universally in

pension plans of private corporations today. (1:--)

Following World War II, collective bargaining and labor unions further improved the pension plan system. (4:83) Industry now viewed pensions as somewhat of a duty to their employees. The primary cause for this reversal in attitude can be attributed to several things. Primarily, unions were responsible as much as any other thing. Also, there was a realization by retirees that their pensions weren't keeping pace with inflation. The people were discouraged at their inability to effect rapid change to retirement laws. There was an increasing number of employers who were adopting forced retirement practices. Tax breaks were being given to employers for pension plans. And, lastly, there was a 1948 decision by the National Labor Relations Board that pensions were a legitimate subject for collective bargaining. (4:83)

Today, pension plans are an integral part of the vast majority of compensation packages of private industry. (15:D-21) In 1983, the Fifth Quadrennial Review of Military Compensation engaged a private actuarial consultant, The Hay Group, to perform an analysis of the military retirement system. The objective of the analysis was to compare, both quantitatively and qualitatively, the military system with retirement practices found in the private sector. Our retirement system was compared to the retirement plan practices of 805 firms (Appendix A) which are representative of the large employers in the United States. Not surprisingly, the survey found that the military retirement system provides higher benefits at an earlier age than the typical plan found in the private sector. (15:D-22)

The Hay Group reports:

One unique feature of the military retirement system when compared to the private sector, is the allowance for full retirement after 20 years of service. Because of the need to maintain a young and effective force, this is a practice peculiar to the military. The private sector typically permits retirement at age 62 or 65 with the preference being age 62. However, in most of the private sector, employees are still very effective in their jobs well past age 62.

The report goes on to say:

Since most military officers enter the system at ages 22 or 23, the earliest retirement age is age 42 or 43 with the average being age 46. (15:D-22,D-58)

An earlier study performed by the Wyatt Company entitled "Retirement Trends in Industrial and Public Pension Systems," compares the retirement provisions of the military with those of the United States Civil Service, State of Illinois, International Business Machines (IBM), and Exxon plans. (5:--) In their report they acknowledge that military retirement is earned through a career of service in the Armed Forces and that conditions of this service are substantially different from those in the private sector. This has been referred to as the "X" factor in presenting the military system to Congress. Conditions of military service are unique in some respects but are similar, in the area of exposure to direct and grave threat, to the occupations of police and firefighters. In their study, the Wyatt Company used the occupations of police and firefighters for comparison. A capsulization of the results of their study is presented in Appendix B. Certainly one could argue that maintaining a young and vigorous force is every bit as important on a police force or in a firefighting unit as it is in the military. It is curious, therefore, that in Illinois the retirement plans for their

police and firemen are so much more liberal than our military in the areas of age and length-of-service restrictions. (25:12-16)

Eighty percent of the nation's top industrial corporations predicate early retirement on a minimum length-of-service, usually age 55 with 10 years of service or any age with 30 years of service. (25:15) But, few have a maximum length-of-service contract prior to age 65. Uniformed service has been described as a truncated career even for those who are successful in reaching senior officer grades. We have seen that retirement is compulsory between 20 and 35 years of service depending upon the grade achieved. Because of age restrictions for entry into the service, this means retirement far earlier than the age norm in American society today. (13:I-5)

Foreign Military Retirement Systems

A 1983 study conducted by the National Defense University (NDU) at the request of the Director, Joint Staff, Office of the Joint Chiefs of Staff (OJCS), compared the Uniformed Services retirement system with the systems of six nations (Australia, Canada, The Federal Republic of Germany, Japan, Great Britain and the Netherlands). The study reached the following broad conclusions: (13:IV-6)

- (1) The United States system is unique in that it is structured to provide for mobilization and maintains worldwide commitments.

- (2) The comparison countries are generally committed to democratic socialism in which military retirement is integrated into comprehensive state welfare programs.

- (3) Foreign military retirement systems are used to augment old-age pensions rather than to be used in the roles of recruitment and retention incentives, deferred compensation, etc.

- (4) There are minimal differences between the logic used in establishing eligibility requirements in the United States and the comparison countries.

A recent GAO review of foreign military retirement also observed many of the same points. Although there are substantial differences, both the NDU and GAO studies stated that these comparisons are indicators of trends and concepts which could assist decision makers in establishing realistic retirement system modifications. (13:IV-6) If the logic used in establishing eligibility requirements is similar between these foreign systems and ours, then an examination of their systems with respect to a comparison of their retirement system to active force management will offer some insight into length-of-service retirement.

The most useful linkage of the retirement system to active force management is in recruitment, retention and organizational effectiveness. (15:C-3) In each of the countries surveyed, early retirement, at least in comparison with other employment sectors, was considered essential to the well-being of the military. Age was the determining factor, however, and not the length-of-service. Reasons cited are not unlike those we consider principles underlying our retirement system. Military officers are seen as both aggressive and dynamic. They desire upward mobility and, if frustrated, will turn to the private sector for better opportunities. Requirements for a young and vigorous force mandate younger personnel, and a continual flow through the force enhanced by a retirement and replacement cycle is essential. A subtle difference between our systems was not highlighted in their study and that is the disparity between what foreign nations consider "youthful" and that reflected in the laws of our military.

The following concentrates on the non-disability retirement system

of each selected country and provides a quick-look comparison of their age/length-of-service eligibility requirements. It also highlights any unique features of their systems. (15:C5-15)

AUSTRALIA

	<u>0-6</u>	<u>Grade</u> <u>0-5</u>	<u>0-4</u>
Years of Svc	20	20	20
Age	55/50	55/45	45/42
	(maximum/minimum)		

In Australia, officers who have not attained the notional retiring age for their rank may retire early. Those notional ages are: Major, 42; Lieutenant Colonel, 45; Colonel and Brigadier, 50; Major General, 52; Lieutenant General and General, 55.

CANADA

	<u>0-6</u>	<u>Grade</u> <u>0-5</u>	<u>0-4</u>
Years of Svc	30/20	28/20	28/20
Age	55/55	51/51	47/47
	(maximum/minimum)		

Although retirement is possible at 20 years, the "early retiree" will receive a reduced pension until age 65. Mandatory retirement ages depend on rank, branch of service and specialty.

FEDERAL REPUBLIC OF GERMANY

	<u>0-6</u>	<u>Grade</u> <u>0-5</u>	<u>0-4</u>
Years of Svc	10	10	10
Age	58	56	54

Mandatory retirement is a function of age and grade in Germany and voluntary retirement is not permitted.

<u>JAPAN</u>			
	<u>0-6</u>	<u>Grade</u> <u>0-5</u>	<u>0-4</u>
Years of Svc	20	20	20
Age	54/53	53/50	53/50
	(maximum/minimum)		

"Early" retirement at 20 years is permitted with a penalty in pension. Mandatory retirement is based on age and rank. Interestingly, because retirement at a young age imposes an undue economic hardship upon the retiree, the Japanese provide relief measures in the form of extended retirement ages without negative impact upon their force structure or personnel policies.

<u>UNITED KINGDOM</u>			
	<u>0-6</u>	<u>Grade</u> <u>0-5</u>	<u>0-4</u>
Years of Svc	34/16	34/16	34/16
Age	55/37	55/37	55/37

Eligibility for retirement in the United Kingdom is a function of age, rank and years of service. Normal retirement age is 55 for both voluntary and mandatory retirements.

<u>THE NETHERLANDS</u>			
	<u>0-6</u>	<u>Grade</u> <u>0-5</u>	<u>0-4</u>
Years of Svc	40/30	40/30	40/30
Age	55	55	55

The Netherlands bases retirement upon age and years of service with the normal age being 55. However, the retirement age is expected to be raised to 58 in the near term. (15:C5-15)

In summary, although there are distinct differences among the countries compared in this study, all countries surveyed share the common problem of attracting and retaining quality personnel in their military. Solutions to these common problems vary as do the circumstances of each country. There are, however, minimal differences between the logic used

in establishing eligibility requirements in the United States and in the other countries. The uniqueness of serving in the armed forces is a common thread as well. The service can hardly be manned with the necessary alertness and vitality needed to be able to provide the kind of leadership necessary to win on the battlefield unless officers are compelled to leave active service at a reasonable point in time and at a "reasonable" age. This problem, which is not only one of age but other factors affecting ability and competence, must be viewed by the average citizen as one that we are handling in a smart, businesslike manner and at the lowest cost to the taxpayer. But, are we doing that today? We have seen that certain jobs in the private sector carrying similar demands as those in the military have much more liberal retirement restrictions. We have seen that other military organizations can maintain a flow of officers through their force structure yet keep their senior executives on active duty much longer. Our insistence on retiring military personnel at much younger ages than in any other large organization is not even consistent with the original intent of Congress. In hearings on the Defense Officer Personnel Act of 1947, for example, a Senator noted that it is not in the best interests of the country to force the retirement of officers at the height of their usefulness. (18:5-6) Closing the length-of-service gap to one more in line with other military organizations and the civilian sector is an option that deserves pursuing.

Why should we address this issue now, after all of these years of "not thinking a thing wrong?" Because the DOD Reorganization Act of 1986 dictates that we take innovative approaches to implement the revolutionary changes to personnel management in the military, that is why.

CHAPTER IV

THE DEPARTMENT OF DEFENSE (DOD) REORGANIZATION ACT OF 1986 AND ITS IMPACT ON MILITARY PERSONNEL POLICY

In September 1986, the United States Senate and United States House of Representatives, by overwhelming margins, passed the Goldwater-Nichols Department of Defense (DOD) Reorganization Act of 1986. President Reagan subsequently signed the act into law (Public Law 99-433). The first incumbent of the newly created Vice Chairman, Joint Chiefs of Staff, position under this law, General Robert T. Herres, states, "Since the end of World War II, I don't think there is any issue that has permeated the national political scene so universally as that of how we should be organized for 'national defense'." (9:19)

The organization of the military has evolved over time. The National security Act of 1947, and the series of changes in law such as the 1949 amendments, and the reorganizations of 1953 and 1958 were all designed to strengthen the military advice given to the President while retaining congressional oversight of defense. The act of 1947 created a unified Armed Services organization under a civilian Secretary of Defense. Since 1958, numerous studies have been conducted that have questioned the effectiveness of defense organization. The only thing common to all criticisms is that the system is not perfect. In 1982, General David C. Jones, who was serving as the Chairman, Joint Chiefs of Staff, wrote, "Structural problems diminish the effectiveness of the Joint Chiefs of Staff". (16:2172) Following what most military experts consider a successful military operation in Grenada, Senator Sam Nunn stated, "A close look at the Grenada operation can only lead to the

conclusion that, despite our victory and success, despite the performance of individual troops who fought bravely, the U.S. Armed forces have serious problems conducting joint operations." (9:22) Statements such as these by our leaders in government convinced the Congress and led to the Department of Defense Reorganization Act of 1986, hereafter referred to in this chapter as the act.

Previous chapters have shown that the United States military "marches to a different drummer" when it considers an individual's utility when he approaches the age of 60. It could be assumed that, in the absence of any change in the law or massive buildup of the Armed Forces, the retirement eligibility criteria would have remained status quo. However, the most significant change to officer personnel management since the National Security Act of 1947 was codified is found in the 1986 Reorganization Act. (30:11) The remainder of this chapter details the major provisions of Title IV of the act and its impact on traditional Air Force personnel policy. Title IV pertains to Joint Officer Personnel Policy.

Title IV represents the most dramatic change to air force officer management in recent times. The primary purpose of the legislation was to insure more effective integration of the services' capabilities and achieve better coordination among them. (30:6) Actions directed by the law included eliminating duplication within the service military and civilian staffs, reducing the service headquarters by 15 percent, reducing subordinate headquarters staffs such as major commands and numbered Air Force headquarters by 10 percent, reducing general officer strength on the staffs by 15 percent, and developing the joint officer. While only

a small part of the major changes related to personnel, the changes contained in Title IV will require major shifts in Air Force officer management. (30:--)

The law defines the parameters for joint officer management by defining joint matters and joint duty assignment. Joint matters are:

...matters related to integrated employment of land, sea and air forces, including matters related to national military strategy; strategic planning and contingency planning; and command and control of combat operations.

Joint duty assignment is defined as:

...limited to assignments in which officer gains significant experience in joint matters
...excludes assignments for joint training/education...and assignments within officer's own service.

The act directs the Secretary of Defense to establish an occupational specialty for officers of all services who are qualified in joint matters. Officers nominated for the joint specialty designation must successfully complete an appropriate program at a joint professional military school. Following school, the officer must complete a full tour in an acceptable joint duty assignment before being eligible to become a joint specialty officer. The statute also calls for a finite number of assignments to joint duty of which at least 1000 must be designated as critical positions filled only by a joint specialist. Title IV has added a number of requirements to the assignment process as well. The tour length average, coupled with Professional Military Education (PME), now becomes a factor in the force flow. Generally, joint duty for general and flag officers will be at least three years, and for all others not less than three and one-half years. Length of tour in a

joint assignment becomes important since the act stipulates that an officer may not be selected to the grade of brigadier general without having served in a joint duty assignment. Not only is service in the joint arena important, the quality of that service will be evaluated by the Secretary of Defense with input from the Chairman, Joint Chiefs of Staff, for consideration of officers for three and four star rank. Those officers serving (or having served) in joint assignments are expected to be promoted at a rate comparable to their "in-service" equivalents.

The act has added a number of other requirements in the general officer management area. The joint tour requirement is not new; however, previous legislation allowed for in-service equivalents. This deletion will prove to be a challenge for the Air Force to manage, especially for our rated force. (30:10) The in-service equivalency provision was used to qualify approximately 38 percent of our brigadier generals from 1982-1985 and 59 percent in 1986. (30:10-11)

The Air Force, as much as the other services, has strong cultural biases as to how officers should be developed and used in the Air Force. There is simply not enough time in an individual's career under the current retirement restrictions for an officer to be trained and developed in the depth desired, both as a specialist in Air Force operations and doctrines, and also as a joint specialist in areas such as strategy, joint planning, and joint operations. Admiral William Crowe, the current Chairman, Joint Chiefs of Staff, says:

No matter how much we tinker with the system, one problem will remain. How do we get the people who can deal with such thorny problems-- people in uniform who are expert in their warfighting specialties and able to assist the

National Command Authorities in matters of strategy, policy, resource allocation and operations? (6:4)

The Government Accounting Office (GAO) has recently gone on record as saying the law may require change in traditional career paths of officers in order to satisfy its requirements. (11:51) It reported that last year the DOD asked Congress to reduce the average tour length in joint assignments from three and one-half to three years for officers in the grades of O-6 and below. The Senate approved the change but the House refused to go along until Congress had a chance to study the effect. GAO's testimony on the subject supported the Pentagon's effort to reduce the tour length requirement. They reported that an Air Force officer spends about 14.3 years in field grade assignments with slightly more than seven of those years spent in operational assignments such as squadron and wing level jobs. This leaves, they said, another seven years to fulfill non-operational positions. The median time spent between operational assignments is three years and nine months, long enough to allow a three and one-half year tour of joint duty. But, it is not long enough to accommodate another year at a service school to get joint duty training before the joint tour. To meet the joint duty requirement, an officer would have to spend less time assigned to major Air Force commands and headquarters which could lead to less in-service expertise the officer could bring to his joint assignment. (11:51)

In addition to career development considerations for officers in the grades addressed in the GAO study, personnel issues such as weapon system skill degradation, job match requirements and career development and growth opportunity for general officers must also be addressed.

Successful performance in a joint duty assignment was stated to be a prerequisite for promotion to general officer under the act. It also requires general officers to serve for three years in joint duty assignments. On average, we select officers in the Air force for promotion to the grade of brigadier general at about the 24 years of active service point. (24:--) This promotion gives them tenure to 30 years of service or five years in grade, whichever is later. Appointment to major general provides tenure to 35 years of service or five years in grade, whichever is later. If the desired retainability of an officer selected for four-star rank is five years, we have only six years (between 24 and 30 years of service), on average, to "groom" our future four star generals. (It should be noted that a five year payback on a four-star promotion is an assumption on the author's part. It is based on personal experience gained while assigned to the General's Group and was considered the "desirable" time a Commander-in-Chief, Major Commander or other four-star would spend in grade. In actuality, the average time-in-grade the Air Force four-star generals on active duty today will have on their mandatory retirement dates is just over three and one-half years). (23:1) Before passage of the act, we had the flexibility to give our senior officers the requisite experience necessary to fill our most demanding billets. A mandatory three year joint tour for general officers during this critical six year grooming window reduces by half the time the officer has to gain in-service experience at the general officer level.

As noted in the GAO report, recent efforts to gain relief from these undesirable aspects of the law have proven unsuccessful. Our mandatory

retirement laws are equally inflexible. Coupled with these new joint duty requirements, they create a situation where we simply do not have sufficient time to test and train our senior officers in the leadership positions required for them to assume our most responsible jobs in the Air Force. And what about joint positions? Don't we want experienced leaders in our warfighting billets?

The act severely restricts our personnel management options at a time when we must think of innovative ways to better manage our shrinking personnel resource. Yet, attempts to change the act have been unsuccessful. We do, however, have retirement laws that have not changed in over 40 years even in the face of dynamic changes in the armed forces. We remain the only industry that mandatorily retires its executives for length-of-service reasons only at the average age of between 52 and 57 years. We do it without regard to their worth to the organization. For example, of the 14 four-star generals on active duty in the Air Force today, their average age at mandatory retirement will be 56.9 years.

(23:1)

It is appropriate that we examine the feasibility of extending the length of time senior officers can remain on active duty by extending the mandatory retirement phase points. The next chapter addresses the impact on the force structure and other personnel policies that could be affected were we to extend tenure of senior officers on active duty.

CHAPTER V

CONSEQUENCES OF EXTENDING LENGTH OF SERVICE PHASE POINTS

In earlier chapters, we described the far-reaching implications the Goldwater-Nichols legislation have had on personnel management in the Air Force. We have seen that major shifts in Air force senior officer career development will have to take place in order to comply with Title IV of the act to accommodate the inflexible joint personnel policy requirements. Even then there will not be sufficient time in an officer's career to satisfy in-service requirements for senior leadership positions as well as the requirements of positions in the joint arena. A possible solution to this problem was suggested. Changing long-standing length-of-service retirement restrictions to allow extension of senior officers on active duty was proposed. On the surface, it would appear that there would be several benefits if this proposal was adopted. It would allow us sufficient time to give the officer the in-service experience needed to be effective in our most responsible Air Force positions. This Air Force experience would be more useful in the joint arena when the officer was called upon to serve jointly. We would receive a better payback on the investment of a promotion to general officer. And, it would bring our antiquated retirement laws in line with modern times. These are the most obvious benefits. This chapter will examine the consequences in more depth.

It is useful at this point to review the Air Force Chief of Staff's guidance with respect to implementation of the DOD Reorganization Act. General Larry D. Welch made it clear that it was important the Air Force go on record that we believe in the value of "jointness" and recognize

the necessity for change. He said, "It is our purpose to comply with the law to its full spirit and intent." (30:20) To that end, the Chief's direction was to make minimum changes to the original guidance.

These criteria, that the change coincide with the spirit of the law and that it conveys the Air Force's commitment to respond to the national priority of increasing "jointness," are woven into the proposal of this paper.

If the benefits of extending the length of time officers can remain on active duty are so obvious, why hasn't something been done to change the mandatory retirement laws? The answer to that question is not so obvious. As alluded to in the quote from Common Sense at the beginning of this study, people resist change, especially to a long standing practice. Personnel managers in the military are comfortable with the current retirement laws because they are basically doing what they were designed to do. They "support and complement the manpower force management requirements of the services in order to meet national security objectives." (14:I-1) Changing the retirement phase points would be disruptive to the "continuing flow of officers through the required personnel structures" and, thereby, require some innovative adjustments to some programs that have been equally etched in granite.

Senior officers are perhaps reluctant to address the issue. Proposing to extend one's tenure on active duty would appear self-serving to the public. A closer examination of that argument will reveal that a general officer has little more than increased responsibility to gain from a promotion higher than major general. For example, general officers receive no pay raises once they reach the Executive Salary Ceiling. The Ceiling is reached fairly early. The 1 January 88, Officer Pay Guide, shows that a

major general with over 22 years of service reaches that ceiling and receives the same basic pay as a four-star general. (Although not within the scope of this paper, should extensions past the 35 years of service point be adopted, a management problem that may need to be addressed will be to create some incentives for general officers to want to remain on active duty longer).

The author believes that the reluctance to change the current retirement phase points is a combination of many more involved reasons. Changes to the personnel system should never be made for insignificant or transitory reasons. By the same token, every organization must constantly reexamine current practices in terms of dynamics and changes in the needs of its personnel. The Air Force Personnel Plan calls for the capability to improve our objectives and policies and procedures developed to achieve these new objectives. (31:1) It is a delicate balancing act to compromise between the needs of the Air Force for efficient manpower and the needs of the individuals who possess the skills and knowledge we need.

The most difficult problem we face is that no one personnel policy exists in a vacuum. A change to one policy such as mandatory retirement phase points will affect other policies simultaneously. For example, promotion phase points will have to be addressed when one considers slowing down or stopping the forced attrition of certain groups of officers. It is imperative that we understand these interrelationships, but it's equally imperative that we do not avoid the tough management decisions because we are afraid to address these interrelationships.

What programs, then, are tied to the mandatory retirement of senior officers? An inextricably linked program to our present retirement

system is what has long been referred to as the "up-or-out" promotion policy. (14:VIII-1) Simply put, officers must be promoted to the next higher grade after reaching designated points in their career or they will be involuntarily separated or retired. By way of review, in the more senior grades, lieutenant colonels are retired after 28 years of service; colonels are retired after completing 30 years of service; brigadier generals are retired after completing 30 years of service or five years in grade, whichever is later; and major generals are retired after 35 years of service or five years in grade, whichever is later. Promotion to lieutenant general and general do not affect tenure unless selection coincides with assignment to a specific billet such as Chief of Staff which carries its own tenure upon appointment.

The up-or-out system is a management tool that allows us to exercise quality control and to "shape" the officer force into a career profile that would not normally be achieved if we were to allow natural and voluntary attrition. Our personnel structure must be comprised of the right occupational mix at different authority levels or grades and provide us with the youthful, vigorous force required. (29:5) We have fewer individuals with greater responsibility at the top of the grade structure and more individuals with less responsibility at the lower levels. Congress controls the number of individuals allowed at each of the grade structure levels. (22:--)

The evolution of the retirement system was detailed in Chapter II. As noted, the Navy Personnel Act of 1916, instituted the concept of the up-or-out system. The Army adopted the system with the passage of the Officer Personnel Act of 1947. During the hearings for this act, General

Dwight D. Eisenhower said, "It is merely a question of...keeping the outflow at the top so as to keep your vigorous body underneath". (18:11)

Three of the major concepts the up-or-out system is based upon are worth review at this point. They are:

- (1) Junior positions are the most physically demanding and require the vigor of youth.

- (2) Sufficient tenure should be provided to senior officers so that they have a chance to apply their experience in a meaningful manner.

- (3) In order to insure sufficient movement through the system, the services should involuntarily separate officers in a planned program of forced attrition. (29:8)

The up-or-out system and the accompanying retirement restrictions were designed and developed to meet the needs of a largely combat military. The size and skill composition of today's military has shifted much of our force to non-combat occupations. The "youthful, vigorous" requirements in General Eisenhower's day may not be as valid when applied to the force structure today.

In a Working Note prepared in response to a request by the Deputy Chief of Staff/Personnel for the Air Force, the Rand Corporation examined the impact of specific changes to the up-or-out system as we know it today. Using static force planning models, they studied several alternatives to our tenure system such as the one proposed in this paper. The results of their analysis follow. (29:--)

By way of background, the impetus for the request to review the up-or-out system may have been Senator Sam Nunn's statement during the hearings on the Defense Officer Personnel Management Act when he said:

[DOPMA] rigidifies the already too rigid up-or-out system...it...prohibits the continuation on active duty of...highly

qualified officers even when they wish
to continue and the services need them. (17:--)

To examine changes to the up-or-out system, Rand simulated various options to promotion and tenure policies by using computerized force planning models. Their models took a cohort of entering officers and flowed them through the system, promoting, augmenting and attriting them according to current policies. They began at the lieutenant level and applied loss rates and policy factors such as promotion opportunity to determine the structure of the next grade, captain. The process was repeated through the grade of colonel. (29:--)

To facilitate their analysis, Rand used their Constrained Progression Model to establish a base case. Assumptions used in the base case were:

- (1) An officer force of 78,000 line officers
- (2) Promotion opportunity and phase points of
 - to captain, 95 percent and five years of service
 - to major, 80 percent and 10 years of service
 - to lieutenant colonel, 70 percent and 16 years of service
 - to colonel, 50 percent and 22 years of service
- (3) Maximum completed service
 - five years for lieutenants
 - 11 years for captains
 - 20 years for majors
 - 26 years for lieutenant colonels
 - 30 years for colonels (29:13)

Rand studied five separate scenarios using this base case for comparison. The one with the most applicability to this paper was the Senior Officer Extended Service Model. It addressed concerns about the possible wastefulness of an up-or-out system expressed by the House Armed Services Committee when it noted that, "One of the concerns frequently expressed with the up-or-out system is the belief that it is a more costly system because officers retire earlier and spend a relatively

longer period on the retired rolls and replacements must be trained and remunerated." (29:34) The case also built upon the strengths of the up-or-out system. It concentrated on the tenure of senior officers and stressed the following:

(1) That since the promotion screen for junior officers is relatively easy, i.e. , high promotion opportunity, those junior officers who fail to make the grade should be separated;

(2) That since the promotion screen for senior officers is relatively hard, it is reasonable to expect that the best nonselectees are sufficiently productive to warrant continuation;

(3) Current voluntary retirement provisions allowing a twenty year retirement deprives the military of many outstanding senior officers by establishing financial incentives for early retirement and appears to be inconsistent with the intent of Congress and the experience of foreign military organizations. (29:34-35)

We saw in Chapter III that the last point was especially true. The Federal Republic of Germany, for example, retires its senior field grade officers about five years later than their American counterparts. There is a single retirement age for each grade in Germany compared to a range in the United States. Colonels, for example, retire between five and fifteen years earlier in the United States than in Germany. An analysis of the base case in the Rand study shows that the median retirement age for colonels is fifty-two years of age, or about one to four years earlier than the mandatory retirement age in grade. (29:36)

The "intent" of Congress comment deserves expansion as well. A fair appraisal of Congressional intent in considering early retirement in the military can be gleaned from the original hearing before the Senate on the Officer Personnel Act of 1947. Senator Guy Cordon remarked:

I have noted certain proposals which, in my opinion, would be very detrimental to the best interests of the country as they

would...force the retirement of officers at the height of their usefulness...It may be that some of the restrictions in the bill are justified for combat units, but I feel strongly that they are inadvisable for the technical services... Specifically, the retirement of colonels after they have completed either five years in grade or 30 years of service, whichever is later...would mean that the average officer, figuring that he received his commission at age 22, would be forced to retire at 52 years of age. This seems to me to be a most wasteful and illogical requirement, particularly for the technical services. (18:5-6)

Reflecting this intent, Rand's Senior Officer Extended Tenure Model was designed that career officers would serve "full" careers. The model did not allow colonels or lieutenant colonels to retire until their mandatory retirement points. Most importantly for the purpose of this paper, the model extended the mandatory retirement years-of-service to completion of 32 years for lieutenant colonels and 35 years for colonels. It assumed the use of continuation boards and provided for the separation of marginal performers.

When the same promotion phase points and grade structure were used as in the base case, the model showed the new policy would lower promotion opportunities to lieutenant colonel and colonel to "unrealistically low levels." (29:38) Using the same phase points and promotion opportunity as in the base case produced a much larger number of lieutenant colonels and colonels. Therefore, the phase points were shifted from 16 to 17 years for lieutenant colonel and from 22 to 24 years for colonel.

Maintaining a constant grade structure as that in the base case substantially reduced promotion opportunity. Promotion opportunity for O-5's declined by twenty-six percent. Colonel promotion opportunity went

from fifty to forty-two percent. The study showed that, taking into account the decline in promotion opportunity to these two grades, the chances of a major being selected for promotion to colonel declined from thirty-five to twenty-three percent. (29:40)

It is interesting that Rand's conclusion from this was that this "higher degree of selectivity is consistent with the desire that only the highest quality officers should be retained to the latter mandatory retirement points imposed by the new retirement policy. Given the greater competition for promotion, it might be expected that average selectees for these grades would be more motivated and qualified for longer military service than the average selectee under the base case opportunities." (29:40)

In maintaining promotion opportunities constant as in the base case, the numbers of lieutenant colonels and colonels increased from eighteen to twenty-five percent of the force. This drove up the average age of the force by two years. (29:40)

A surprising result of the cost comparison was Rand's determination that both of the examples described above were less costly than the base case. Their explanation was that it is changes in the number of retirees and their years of service at retirement that affect cost changes more than changes in the number of officers. (29:41) Their rationale was that if a captain in his eighth year of service remains in the Air Force one additional year, he costs the Air Force an additional year's pay and allowances plus miscellaneous expenses. If a retirement eligible lieutenant colonel remains one more year, he costs the Air Force an additional year's allowances and miscellaneous expenses, but only half or

less of an additional year's base pay because he would have received the other one half of base pay in retirement had he not remained the additional year. (29:41)

The study has shown that an increase in tenure can have an impact on promotion opportunity and an accompanying problem of retention on active duty of those not selected for promotion. It should be noted that promotion opportunity rates should not be viewed as "sacred." They have evolved over time just as many other personnel policies have. We have no objective way of determining, at least on the basis of job performance and quality, if these rates are appropriate. Similarly, we cannot put an accurate cost figure on the potential productivity lost when we force an individual out of the Air Force before completion of a full career.

(29:15) This prompted the Defense Manpower Commission to comment:

It is inconceivable that a service member who has been screened many times during his service life is suddenly of no further value to his service simply because there are not enough promotions to go around. (21:261)

But, the Defense Officer Personnel Management Act gave us the flexibility to make individual determinations in these cases. It established selective continuation boards to determine if those officers who had failed promotion should be allowed to remain on active duty. The law also established selective early retirement boards, detailed in Chapter III, to attrit senior officers. The point to be made here is that were we to extend the mandatory retirement phase points for senior officers and, at some point in the future it was determined to be having a negative effect on the force structure or other personnel policy, we have the flexibility in our current law to adjust accordingly.

A more valid concern to personnel planners, in the view of the author, is the possible morale problem associated with the continuation of junior officers on active duty who have failed promotion. The focus is on junior officers because of the relatively high promotion opportunity and the same level of jobs for the remainder of a career. (29:16) This is less of a concern for senior officers because promotion opportunity is relatively low. (29:17) In fact, in a special study prepared for the Senate in conjunction with the hearings on DOPMA, it was noted:

The likelihood of promotion to flag rank is so small that it is not considered to be a major factor in defining the 'career opportunity' as perceived by military officers. (12:12)

The Rand study also addressed the issue when it reported:

The failure to be selected [for flag rank] will most likely be viewed by one's self and one's peers with less consternation. A similar but weaker argument may be made for the failure to be promoted to colonel. (29:17)

The Rand study shows us that focusing exclusively on policies like promotion opportunity or grade distribution such as in the Senior Officer Extended Service Model can lead to inappropriate conclusions concerning cost and/or the retention implications of policy changes. (29:42)

This study makes it clear that changes to our retirement system such as the one considered in this paper can be measured in terms of their impact on other personnel policies and their effects on the force structure. But, we need to expand the scope of the Rand study to include general officers. The Senior Officer Extended Service Model addressed the extension of lieutenant colonels and colonels to the 32 and 35 years of service points, respectively. We need to know what impact the extension

of general officers on active duty past the 35 years of service point would have on the Air Force. The model should be used to examine the effects of an up to five year extension of general officers by grade. General officer promotion phase points and promotion opportunity must also be addressed.

We have shown that the DOD Reorganization Act of 1986 has forced us to examine changes in our current personnel policies. We have seen that there are distinct interrelationships between these policies and the Rand study has laid the groundwork for us to measure these interrelationships. We have the flexibility under DOPMA and the Personnel Plan to react positively to whatever change is necessary.

The bottom line is that there is a value in a fundamental reexamination of the bases for the laws and policies governing maximum tenure in the Air Force. Rand cautions that, "These personnel policies should not be considered in isolation from considerations of officer quality or the selectivity for promotion to the senior officer grades." (29:43) It is the hope of the author that a study as suggested be undertaken and that whatever changes are recommended are taken with Rand's words of caution in mind. What is most important is that the Air Force initiate the action before being told to take an undesirable alternative course of action by Congress.

CHAPTER VI

CONCLUSIONS AND RECOMMENDATIONS

The Department of Defense Reorganization Act of 1986, and specifically those requirements under the act that pertain to joint personnel policy for senior officers, have created a serious personnel management problem. Under current length-of-service retirement restrictions there is not enough time in an officer's career to satisfy both the joint and in-service assignment requirements.

Our options to solve the problem are to change the requirements of the reorganization act or to change the requirements of our retirement laws. The Department of Defense, with input from each of the services, requested relief from the Goldwater-Nichols reorganization legislation and was unsuccessful in the area of joint tour length requirements for senior officers.

Military retirement laws have not kept pace with a dynamic managerial force structure or with technological changes in the services. Current retirement policies have evolved in response to problems of stagnation in grade due to archaic, strict seniority promotion systems, quality control in the officer force and a compromise between experience and stamina of officers. Our retirement laws, in comparison with foreign military systems and pensions in the civilian sector, mark us as the only institution that forces its key managers and leaders out of their profession at a time when they should be kept.

A Senior Officer Extended Service Model was applied by the Rand

Corporation to lieutenant colonels and colonels in the Air Force. The results suggested that extension of senior officers on active duty would not have deleterious effects on the force structure if we use the flexibility of our personnel policies to accommodate changes dictated. The model showed that it has applicability to general officers and could be used to determine if an extension of general officers past the 35 years of service point is desirable in response to the restrictions imposed by the reorganization act.

Recommendations

The Rand Senior Officer Extended Service Model should be applied to today's general officer force to examine the effects of extending length-of-service retirements for up to 40 years, depending on the grade achieved.

The results of the study should be given to a study group, appointed by the Chief of Staff, USAF, to assist them in examining the correlation between grade, duty and age and whether our retirement laws are still valid for our modern Air Force. That study group should also examine whether senior officers would have trouble meeting the physical demands of their jobs if the mandatory retirement dates were extended as suggested.

Lastly, should mandatory retirement dates be extended, a study group should be appointed by the Secretary of Defense to consider improving the incentives and perquisites for senior officers. Continued vesting after 30 years of service, removing the Executive Salary Ceiling on the pay for certain officers and creation of non-monetary perquisites should be entertained to insure our senior officers are compensated appropriately. A 40 year career in the military must be attractive to the officers we desire to retain.

NONCASH COMPENSATION COMPARISON

1982 LIST OF PARTICIPANTS BY MAJOR CATEGORY

INDUSTRIALS

Action Industries, Inc.
Air Products and Chemicals
Alabama Power Company
Alascom, Inc.
Alcan Aluminum
ALCOA
Alexander & Baldwin, Inc.
Allen Bradley Company
Allied Corporation
Allis Chalmers Company
AMAX, Inc.
Amerasia Hess Corporation
American Broadcasting Company, Inc.
American Crystal Sugar
American Electric
American Hospital Supply Corporation
American Shipbuilding
American Standard, Inc.
American Sterilizer Company
American Telephone & Telegraph Company
Amersham
Amtrak
Anacosta Minerals Company
Anchor/Darling Industries
Anchor Hocking Corporation
The Andersons
ARC America
Arcata Corporation
Archer Daniels Midland
Argo International
Armco, Inc.
Armstrong World Industries, Inc.
Asarco, Inc.
Ashland Oil, Inc.
Atlantic Aviation Corporation
Avery Products Corporation

Badische Corporation
Baltimore Aircoil
Barber Greene Company
Barden Corporation
Barnes Corporation
Basin Electric Power Cooperative
B. E. Bean, Inc.
Bechtel Corporation
Bell Helicopter Textron
Bell Telephone of Pennsylvania
Bertol Corporation
Bessemer & Lake Erie Railroad Company
Best Products Company, Inc.
Betz Laboratories
Beverage Management, Inc.
Black & Decker Manufacturing Company
Dick Blick Company
Boston Edison Company
B.P. Alaska Exploration
Briden Steel Corporation
Bristol Myers Company
Brooklyn Union Gas
Brooks and Perkins, Inc.
Brown & Williamson Tobacco
Brunswick Corporation

Buckeye Gas Products
Bucyrus Erie Company
Burger King Corporation
Burlington Northern, Inc.
Butler Manufacturing Company
H. E. Butt Grocery Company
Buttes Gas & Oil Company

California & Hawaiian Sugar Company
Cameron Iron Works
Campbell Soup Company
Cargill, Inc.
Carnet Corporation
A. M. Castle & Company
Castle & Cooke, Inc.
Caterpillar Tractor Company
Ceco Corporation
Central Soya Company, Inc.
Central Telephone and Utilities Corporation
Celtronics
Centanteed Corporation
CIS Continental
Chesbrough Ponds, Inc.
Chicago Bridge & Iron Industries, Inc.
Chicago & Northwestern Transportation Company
Chicago Tribune
Chipman Union, Inc.
Chrysler Corporation
Ciba Geigy Corporation
Citizen's Gas & Coke Utility
Cleveland Electric Illuminating
Clow Corporation
The Coastal Corporation
Coca-Cola Bottling Company United, Inc.
Coca-Cola Company, Inc.
Cole National Corporation
Columbia Gas System Service Corporation
Columbia Nitrogen Corporation
Commercial Shearings, Inc.
COMSAT
Consolidated Rail Corporation
Continental Corporation
Continental Emsco Company
Continental Materials Corporation
Contraves Goetz Corporation
Conwed Corporation
Cooper Industries
Copperweld Corporation
Country Pride Foods, Ltd.
Counor Corporation
Cox Cable Communications, Inc.
Crane & Company, Inc.
Crompton & Knowles Corporation
Crowley Maritime Corporation
CRST, Inc.
CSX Corporation
Cyclops Corporation

Dairy Machine Corporation
Dayton Power and Light Company
Dayton Hudson Corporation
Dead River Company
Deluxe Check Printers, Inc.

Dentsply International, Inc.
Detroit Edison Company
Dexter Corporation
Diamond Shamrock
A. B. Dick Company
DiGiorgio Corporation
Disston
Distribution Centers, Inc.
Dixie Yarns, Inc.
Donaldson Company
Dow Chemical, U.S.A.
Dow Corning Corporation
Dravo Corporation
Duke Power Company
Durrum Company, Inc.
Durrill-Hall Medical, Inc.

Eastern Stainless Steel
Ecodyne (Lindsey Div.)
Economics Laboratory, Inc.
EMC Technologies, Inc.
Energy Reserves Group
Euclid, Inc.
Evans & Sutherland Computers
Ex-Cell-O Corporation
Excelior Truck Leasing Company, Inc.

Federal Express Corporation
Firestone Tire & Rubber Company
First Mississippi Corporation
Fisher Price Toys
Fickinger Corporation
Flo Valve Company
Florida Power Corporation
Florida Steel Corporation
FMC Corporation
Formost-McKesson
L.B. Foster Company
Fox & Jacobs, Inc.
Fox-Stanley Photo Products, Inc.
Foxboro Company
Frantz Manufacturing Company
Freeport McMoran, Inc.
Freightliner Corporation
R. T. French Company
Friendly Ice Cream Corporation
Frito Lay, Inc.
Fruit Growers Express
Fusion Systems Corporation

General Electric Company
General Foods Corporation
General Mills
General Shale Products Corporation
General Signal Corporation
Genstar, Ltd.
Georgetown Texas Steel
Georgia Power Company
Gould SFI, Inc.
GPU Service Corporation
Grand Trunk Western Railroad Company
Graybar Electric Company

Appendix A

LIST OF PARTICIPANTS (Continued)

Tesoro Petroleum Corporation
 Tetley, Inc.
 Texas Federal Savings and Loan
 Texas Instruments
 Texas Oil & Gas Corporation
 Texas Utilities Services, Inc.
 Textron, Inc.
 Thermo Electron
 Third National Bank and Trust of Dayton
 TIAA - CREF
 Time Life Books
 Timex Corporation
 Tonka Corporation
 Topps Chewing Gum, Inc.
 Tower Federal Credit Union
 Townsend Textron Cherry Fasteners
 Trailer Train Company
 Transamerica Corporation
 Traveler Laboratories
 Triangle Corporation
 Triangle Publications, Inc.
 Uarco, Inc.
 UGI Corporation
 Unigard Mutual Insurance Company
 Union Carbide Corporation
 Union Mutual Life Insurance Company
 Union Pacific Railroad Company
 Union Planters National Bank
 Union Special Corporation
 Unit Rig & Equipment Company
 United Hospital
 United Insurance Company of America

United Nuclear Corporation
 United Services Life Insurance Company
 United Telecommunications
 United Virginia Bank
 United Way of Southeastern Pennsylvania
 Universal Oil Products
 University Hospitals of Cleveland
 University of Alaska
 University of California
 Upjohn Company
 Upstate Milk Cooperative
 U.S. Brewers Association, Inc.
 U.S. Gypsum Company
 U.S. Life Corporation
 Utah International, Inc.
 Utah Power and Light Company
 Valero Energy Corporation
 Vallen Corporation
 Valley National Bank
 Versa Technologies
 Viacom International
 Virginia Chemical Corporation
 Virginia National Bank
 Volunteer Electric Cooperative
 Vulcan, Inc.
 Wagner Electric Company
 Ward Foods
 Warner & Swasey Company
 Washington National Corporation
 Washington Natural Gas

The Washington Post
 Washington Public Power Supply System
 Wausau Homes, Inc.
 Webster-Spring
 Wesley Medical Center
 West Penn Motor Club
 Western Forge Corporation
 Western Life Insurance
 Western Publishing
 Western Union International
 Western Union Telegraph
 Weston Hotels
 Morris Wheeler
 Wheeling Dollar Savings and Trust
 Wickland Oil Company
 Amherst H. Wilder Foundation
 John Wiley & Sons, Inc.
 Williams Brothers Engineering
 Williams Companies
 Williams International
 Wisconsin Public Service Corporation
 Wood Bureau, Inc.
 F.W. Woolworth Company
 Barry Wright Corporation
 Wm. Wrigley Jr. Company
 Wyman Gordon Company
 YMCA of the United States
 Zale Corporation
 Zayre Corporation
 Zenith Radio Corporation

LIST OF PARTICIPANTS

Abbott Northwestern Hospital	Archer Daniels Midland	Blue Cross/Blue Shield of Maryland
Acacia Mutual Life Insurance Company	Argo International	Blue Cross/Blue Shield of Massachusetts
Action Industries, Inc.	Arizona Bank	Blue Cross/Blue Shield of Michigan
Air Products and Chemicals	Armco, Inc.	Blue Cross/Blue Shield of Nebraska
AIKCO	Armco Insurance Group	Blue Cross/Blue Shield of North Carolina
Alabama Power Company	Armstrong World Industries, Inc.	Blue Cross/Blue Shield of Southern West Virginia
Alacorn, Inc.	Arvida Corporation	Blue Cross/Blue Shield of Texas
Alcan Aluminum	Asarco, Inc.	Blue Cross/Blue Shield of Virginia
ALCOA	Ashland Oil, Inc.	Boone County National Bank
Alexander & Baldwin, Inc.	Atlantic Aviation Corporation	Borg Warner Acceptance Corporation
Allegheny Intermediate Unit	Atlantic Mutual Insurance Company	Boston Edison Company
Allen Bradley Company	Automobile Club of Michigan	B.P. Alaska Exploration
Allendale Mutual Insurance	Avery Products Corporation	Braden Steel Corporation
Allied Bank International	BABR, Inc.	Bristol Myers Company
Allied Corporation	Badische Corporation	Brooklyn Union Gas
Allis Chalmers Company	Baker Industries	Brooks and Perkins, Inc.
AMAX, Inc.	Baltimore Aircoil	Brown & Williamson Tobacco
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American Association	Bank Marketing Association	Burkley Gas Products
for the Advancement of Science	Bank of New England, N.A.	Burgess Inc. Company
American Bank and Trust of Pennsylvania	BankEast Corporation	Burger King Corporation
American Bankers Association	Bankers Life and Casualty Company	Burlington Northern, Inc.
American Bio-Feasting Company, Inc.	The Bankers Life Company	Leo Burnett Company
American Chemical Society	Bankers Life of Nebraska	Business Men's Assurance Company of America
The American College	Barber Greene Company	Butler Manufacturing Company
American Council of Life Insurance	Barclays Bank of California	H.E. Butt Grocery Company
American Crystal Sugar	Barclays Bank of New York	Buttes Gas & Oil Company
American Express Company	Barden Corporation	California & Hawaiian Sugar Company
American Family Insurance Group	Banven Corporation	Cameron Iron Works
American Gas Association	Barnett Banks of Florida	Campbell Soup Company
American Heart Association, Inc.	Basin Electric Power Cooperative	Capitol Holding Corporation
American Hoechst	BATUS, Inc.	Cargill, Inc.
American Hospital Supply Corporation	E.L. Bean, Inc.	Carr Foundation
American Institute for Research	Beaven Companies	Carrier Corporation
American Institute of CPAs	Bechtel Corporation	A.M. Castle & Company
American Iron and Steel Institute	Bell Helicopter Textron	Castle & Cooke, Inc.
American Public Transit Association	Bell Telephone of Pennsylvania	Caterpillar Tractor Company
American Reinsurance Company	Berkshire Life Insurance Company	Ceco Corporation
American Security and Trust Company, Inc.	Berol Corporation	Central Bancshares of the South
American Security and Trust Company	Bessemer & Lake Erie Railroad Company	Central Life Assurance
American Shipbuilding	Best Products Company, Inc.	Central Soya Company, Inc.
American Society of Civil Engineers	Bethesda Hospital	Central Telephone and Utilities Corporation
American Society of Refrigerator	Betz Laboratories	Central Trust Bank
& Air Conditioner Engineers	Beverage Management, Inc.	Centronics
American Standard, Inc.	Bishop Clarkson Memorial Hospital	CertainTeed Corporation
American States Insurance Companies	Black & Decker Manufacturing Company	CFS Continental
American Sterilizer Company	Dick Blick Company	Chamber of Commerce of the United States
American Telephone & Telegraph Company	Blue Cross Hospital Service, Inc. -	Chase Federal Savings and Loan
Amenity Federal Savings & Loan	St. Louis, Missouri	Chase Manhattan Bank
Ameritrust	Blue Cross of Greater Philadelphia	Chemical Bank
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Andac Hotels	Blue Cross of Northeastern New York	Chesebrough Pond's, Inc.
Amtrak	Blue Cross of Southern California	Chicago Board of Trade
Anacosta Minerals Company	Blue Cross/Blue Shield Associations, Inc.	Chicago Bridge & Iron Industries, Inc.
Anchor/Darling Industries	Blue Cross/Blue Shield of Alabama	Chicago & Northwestern Transportation Company
Anchor Hocking Corporation	Blue Cross/Blue Shield of Connecticut, Inc.	Chicago Title and Trust
Arthur Anderson & Company	Blue Cross/Blue Shield of Delaware, Inc.	Chicago Tribune
The Andersons	Blue Cross/Blue Shield of Florida	Chipman Union, Inc.
ARI America	Blue Cross/Blue Shield of Iowa	Chrysler Corporation
Arca Corporation	Blue Cross/Blue Shield of Kansas	Ciba-Geigy Corporation
Archbishop Bergan Mercy Hospital		

NONCASH COMPENSATION COMPARISON

LIST OF PARTICIPANTS (Continued)

Citibank, N.A.	CRST, Inc.	First Interstate Bank of Arizona, N.A.
Citizen's Bank & Trust, Maryland	CSX Corporation	First Mississippi Corporation
Citizen's Gas & Coke Utility	Cyclops Corporation	First National Bank of Clayton
Citizen's Bank	Daily Machine Corporation	First National Bank of Maryland
City Bank & Trust	Dayton Power and Light Company	First National Bank of Mexico, Missouri
City of Chesapeake	Dayton Hudson Corporation	First National Bank of Minneapolis
City of Colorado Springs	Dead River Company	First National Exchange Bank
City of Hampton	Deluxe Check Printers, Inc.	First Oklahoma Bancorporation
City of Los Angeles	Dentsply International, Inc.	First Pennsylvania Bank
City of Los Angeles (Fire & Police)	Deposit Guaranty National Bank	First Security Corporation
City of Los Angeles (General)	Detroit Edison Company	Fisher Price Toys
City of Los Angeles (Water & Power)	Dexter Corporation	Flickinger Corporation
City of Newport News	Dial Financial Corporation	Flo Valve Company
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City of Portsmouth	A.B. Dick Company	Florida Steel Corporation
City of Richmond	DiGiorgio Corporation	FMC Corporation
City of Subiolk	Disston	Foremost McKesson
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Clow Corporation	Dixie Yarns, Inc.	Four Cities United Way
CNA Insurance	Dominion Bank Shares	Fox & Jacobs, Inc.
The Coastal Corporation	Donaldson Company	Fox Stanley Photo Products, Inc.
Coca-Cola Bottling Company United, Inc.	Dow Chemical, U.S.A.	Fushong Company
Coca-Cola Company, Inc.	Dow Corning Corporation	Frantz Manufacturing Company
Cole National Corporation	Dravo Corporation	Freeport McMoran, Inc.
Colonial Life and Accident	Duke Power Company	Freightliner Corporation
Columbia Gas System Service Corporation	Dupage County	R.T. French Company
Columbia Hospital	Duriron Company, Inc.	Friendly Ice Cream Corporation
Columbia Nitrogen Corporation	Durr Fillauer Medical, Inc.	Frito Lay, Inc.
Commercial Security Bank	Dynallecton Corporation	Fruit Growers Express
Commercial Shearing, Inc.	East New York Savings Bank	Fusion Systems Corporation
Commercial Union Insurance Companies	Eastern Stainless Steel	Gallaudet College
Commonwealth National Bank	Ecdyne (Lindsey Div.)	General Electric Company
Commonwealth of Pennsylvania	Economics Laboratory, Inc.	General Foods Corporation
Community Consolidated School District 146	EC & C Idaho	General Mills
Community Federal Savings and Loan	EMC Technologies, Inc.	General Shale Products Corporation
Computer Sciences Corporation	Empire Bank	General Signal Corporation
COMSAT	Energy Reserves Group	Genstar Ltd.
Congressional Budget Office	Equibank, N.A.	Georgetown Texas Steel
Connecticut Bank and Trust	Equitable Life Assurance Society	Georgia Power Company
Connecticut Mutual Life Insurance	Equitable Trust	German town Savings Bank
Consolidated Rail Corporation	Erie Insurance Group	Grand Bank
Continental Bank	Euclid, Inc.	Girl Scouts of the U.S.A.
Continental Corporation	Evans & Sutherland Computers	Godfather's Investments
Continental Express Company	Ex Cell O Corporation	Gold STL, Inc.
Continental Materials Corporation	Excelior Truck Leasing Company, Inc.	Government Employee's Life Insurance
Contraves Goetz Corporation	Factory Mutual Engineering Corporation	GPU Service Corporation
Conwed Corporation	Farm Credit Banks of Springfield	Grand Trunk Western Railroad Company
Thomas Cooke, Inc.	Farm Credit Banks of St. Paul	Graybar Electric Company
Cooper Industries	Farm Family Life/Mutual Insurance Companies	Great Southern Life Insurance Company
Copperweld Corporation	Federal Express Corporation	Greatwest Casualty Corporation
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Cotton States Insurance	Federal National Mortgage Association	GTE Automatic Electric, Inc.
Country Pride Foods, Ltd.	Federal Reserve Bank of San Francisco	Guarantee Federal Savings and Loan
County of Lake	Fidelity Bank	Hahnemann Medical College Hospital
Courier Corporation	Fidelity Mutual Life Insurance	Hallmark Cards, Inc.
Cox Cable Communications, Inc.	Firestone Tire & Rubber Company	Hanes Corporation
Crane & Company, Inc.	First American Bank & Trust, Maryland	John Hancock Mutual Life Insurance Company
Crocker National Bank	First American Bank, N.A.	Hammill Brothers
Crompton & Knowles Corporation	First Amteinn Corporation	Hart, Schaffner & Mark
Crowley Maritime Corporation	First Bank System, Inc.	Hartford Hospital

LIST OF PARTICIPANTS (Continued)

<p> J. Heinz Company Jewett Parkard Company Highlands Energy Corporation Joliet Medical Center Joffe Industries, Inc. Joffe, Inc. Joram Walker Johnson & Naveer, Inc. Joliet Federal Savings and Loan Joliet Petroleum Joneywell, Inc. PMSD Jucker Chemicals Jormel & Company Jospital Data Center of Virginia Jospital Service Plan of New Jersey Joughlin Millin Company Joward Johnson Company Joward University Jowe Baker, Inc. Hubbard Milling M. Huber Corporation Juman Resources Research Organization Phillip A. Hunt Chemical Corporation Junt Manufacturing Company Jusky Oil Jygien Coca Cola Bottling Company JTM Corporation JTM Employee's Credit Union J. Americas, Inc. Jknow Bell Telephone Jknow Central Gulf Railroad Jknow Power Company Jknow Tool Works, Inc. JNA Corporation Jno Electric Energy (ESB) Jndependent Life Insurance Jhianapolis Life Insurance Jhianapolis Power & Light Jgersoll Rand Company Jurance Services Office Jterlust Corporation Jtermedics, Inc. Jt Mountain Health Care Jt National Parkings Corporation Jt Store Diversified Services Jwa Methodist Medical Center Jk Graphic Systems J & Communications Industries J International Management Corporation Jndustrial Valley Bank Jmeson Memorial Hospital Jfferson Bank of Miami J. Johnson J. Johnson & Son Jmes & Laughlin Steel Corporation Jy Manufacturing Company Jyer Foundation Health Plan Jaser Steel Jansas City Power & Light Jwaraki Motors Corporation, U.S.A. </p>	<p> Kellogg Company Kendall Company Kennametal, Inc. Kennecott Corporation Kent Moore Corporation Kepner Tregoe, Inc. Ken McGee Corporation Kimberly Clark Corporation Knapp-King Size Corporation Kochung Company Kroger Company Lamb Weston, Inc. Laving Shipping Company Lawrence Livermore Laboratory Lebanon Steel Foundry Leeds & Northrup Company Levi Brothers Company Levi Strauss & Company Charles Levy Circulating Company Leybold Hermaus Vacuum Libbey-Owens Ford Company Liberty National Bank & Trust Company Liberty National Life Insurance Company LIMRA Lincoln National Corporation Lipe-Kulway Corporation Thomas J. Lipton, Inc. Lithium Corporation Lucas (CAV) Industries, Inc. Lucas Industries, Inc. Lutheran Brotherhood Lutheran Mutual Life Insurance Company Mack Printing Company Mack Trucks, Inc. Madison General Hospital Magnetic Controls Company Malinknuff Manchester Memorial Hospital Manufacturers and Traders Trust MAPL O, Inc. Marathon U.S. Realities Mary Kay Cosmetics Maryland National Bank Massachusetts Mutual Life Insurance Company The Mathes Company Matsushita, Inc. Mattel, Inc. May Department Stores Company Mayflower Corporation McGraw-Edison Company Robert E. McKee, Inc. McQuay-Perlex, Inc. Mead Corporation Mellon Bank Memorex Corporation Memorial Hospital Medical Center of Long Beach Memorial Hospital System of Houston Memphis Light, Gas, & Water Division Merchants Insurance Group Merck & Company, Inc. </p>	<p> Melpath, Inc. Metropolitan Life Insurance Company Fred Meyer, Inc. MIB, Inc. Michigan Wisconsin Pipe Line Company Mid-Atlantic Toyota Distributors, Inc. Midcon Corporation Midland Mutual Life Insurance Company Midwest Stock Exchange, Inc. Milchem, Inc. Miles Laboratories Milwaukee Sanitation Department Minnesota Fabrics, Inc. Minnesota Mining & Manufacturing Company Minnesota Mutual Life Insurance Company Minolta Corporation Missouri Pacific Railroad Company Mitre Corporation Mitsubishi International Modern Drop Forge Modern Merchandising, Inc. Modine Manufacturing Company Monarch Capital Corporation Montana Power Company Montefiore Hospital and Medical Center Montgomery Ward and Company Moog, Inc. Moore Business Forms, Inc. Morgan Guarantee Trust Company of New York Phillip Morris, U.S.A. Morrison, Inc. Morrison-Knudsen Company Motorola, Inc. MSI Insurance Company Murphy Oil Corporation Mutual Benefit Life Insurance Mutual Broadcasting System Mutual Federal Savings and Loan Association Mutual Life Insurance Company of New York Mutual of Omaha NACUBO Nalco Chemical Company Narco Scientific Industries, Inc. National Bank of Detroit National Can Corporation National Constructors Association National Electrical Manufacturing Association National Gypsum Corporation National Railroad Labor Conference National Rural Utilities Cooperative Finance Corporation National Savings and Trust Bank National Supply Natomas Navy Federal Credit Union NCNB Corporation NCR Corporation NERCO New England Mutual Life Insurance Company </p>
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NONCASH COMPENSATION COMPARISON

LIST OF PARTICIPANTS (Continued)

Newport News Shipbuilding & Drydock	Gregory Poole Equipment Company	Shawmut Bank of Boston, N.A.
Nippondenso of Los Angeles	Portland General Electric	Sherex Chemical Corporation
NKC, Inc.	Power Authority of State of New York	Siemens Corporation
Norfolk & Western Railway Company	PPG Industries	Sierra Pacific Power Company
North American Philips Corporation	PQ Corporation	SILCO Industries, Inc.
North Mississippi Medical Center	Preferred Risk Mutual Insurance Company	Sigride Corporation
Northern Trust Bank	T. Rowe Price Associates, Inc.	Sioux Valley Hospital Association
Northern Trust Company	Price Brothers Company	R & C Skane Manufacturing
Northwest Bancorporation	Protective Life Insurance Company	Smith & Welton
Northwest Industries, Inc.	Provident Life and Accident Insurance Company	Society for Savings
Northwest Pipeline Corporation	Provident National Bank	Society of Manufacturing Engineers
Northwestern Bell Telephone Company	Public Broadcasting Service	Solar Energy Research Institute
Northwestern Mutual Life Insurance Company	Public Service Company of New Mexico	Solutia Polymer Corporation
Norton Company	Puget Sound National Bank	Sonoco Products Company
Ohio Edison Company	Puritan Bennett Corporation	Soer Line Railroad Company
Ohio Medical Indemnity Mutual Corporation	Racal Milgo, Inc.	Southern Service Division of M.A.I.
Ohio Valley Medical Center, Inc.	Rainier National Bank	South Jersey Industries, Inc.
OKIDATA Corporation	Rapistan, Inc.	South Suburban Hospital
Old Kent Bank and Trust	Raymond International	Southeast Bank, N.A.
Old Stone Bank	Reading & Bates Corporation	Southern Company Services
Olin Corporation	Recognition Equipment	Southern Pacific Transportation Company
Omaha Airport Authority	Recreation Vehicle Industry	Southern Railway System
Omaha Public Power District	Red Owl Stores	Spohn Hospital
Overseas Development Council	Michael Reese Hospital	SPS Technologies
Owens Corning Fiberglas Corporation	Regional Transportation Authority	St. Joe Minerals Company
Owens Illinois, Inc.	Research Triangle Institute	St. Luke's Episcopal & Texas Children's Hospital
Paccar, Inc.	Research Cottrell, Inc.	St. Luke's Hospitals (Largo)
Pacific Mutual Life Insurance	Remond, Inc.	St. Mary's Medical and Health Center
Pacific Resources, Inc.	R.J. Reynolds Industries	St. Paul Companies, Inc.
Pako Corporation	Reynolds Metals	St. Paul Fire and Marine
Palco, Inc.	Richardson Vicks, Inc.	St. Vincent Hospital and Medical Center
Paper Converting Machine Company	Richmond School District	A.E. Staley Manufacturing Company
Peavey Company	Riggs National Bank	Standard, Inc.
Pendleton-Woolen Mills	Riviana Foods, Inc.	Standard Oil of California
Penn Central Energy Group	A.H. Robbins	State Department Federal Credit Union
Penn Virginia Corporation	Rogers Corporation	State Farm Insurance Companies
Pennshield Corporation	Rouse Company	State Meat System (Georgia)
Pennsylvania Blue Shield	Royal Bank of Canada	State of Virginia
Pennsylvania Medical Society	Royal Insurance Company	State of Wisconsin
Pennsylvania Power & Light Company	Royster Company	State Street Bank and Trust Company
Pennwalt Corporation	Ryan Homes, Inc.	Staudler Chemical Company
Pentagon Federal Credit Union	Ryder System, Inc.	Steelcase, Inc.
Peoples Gas, Light & Coke Company	Safeguard Industries, Inc.	Steiger Tractor, Inc.
Peoples Natural Gas Company, Inc.	Saga Corporation	Stein Boon-Loe Company
Peoples Savings Bank	Samaritan Health Services	Strategic Planning Association
Peoples Security, Maryland	San Diego Trust and Savings Bank	Student Loan Marketing Association
Perkin Elmer Company	Sanders Associates, Inc.	Suburban Bancorporation
Pet, Inc.	Sandia Corporation	Suburban Propane Gas
Prizer, Inc.	Sandvik, Inc.	Sun Chemical Company
Philadelphia Electric Company	Santa Fe Railroad	Sun Company, Inc.
Philips Coal Company	Santee Cooper/S. Carolina	The Sunpapers
Piedmont Natural Gas	Public Service Authority	Supermarket General Corporation
Pilbury Company	Schering Plough Corporation	Sunshine Corporation
PIMA County Governmental Center	Schreiber Foods, Inc.	Sverdrup/Aero Technology, Inc.
Pioneer Savings and Loan	SCM Corporation	Syntex
Pittsburgh & Lake Erie Railroad Company	Scott Paper Company	Syntex Research Laboratories
Pittsburgh National Bank	Sears, Roebuck and Company	Systems Research Laboratories
Pizza Hut, Inc.	Sentry Insurance Company	Talon
Plains Electric Generation	Shaker Corporation	Tenness Valley Authority
& Transmission Cooperative		Tenex Chemicals International, Inc.
Pontiac State Bank		

COMPARISON OF NONDISABILITY RETIREMENT SYSTEMS

Appendix B

GENERAL PROVISIONS

UNIFORMED SERVICES

CIVIL SERVICE

STATE OF ILLINOIS

POLICE & FIREMEN, ILLINOIS

IBM

EXXON

Normal Retirement

Payable when the indicated minimum age and service requirements are met.

Any age and 20 years of svc

Age 62 and 5 years of svc

Age 60 and 8 Years of service
Any age & 35 years of service

Same as other state employees

Age 65

Age 60

Early Retirement

Permitted when indicated minimum age and/or svc requirements are met.

Not Applicable

Age 60 & 20 years svc

Age 55 to 60 & 30 to 35 years svc

Same as other state employees

Age 55 & 15 YOS.
Age 62 & 5 YOS.

Age 50 & 15 YOS.

Vesting

Not until return eligibility is achieved

Yes, after 5 years svc

Yes, prior to 8 YOS only contributions. After 8 YOS, contributions + interest.

Same as other state employees

Yes, 10 YOS 100%

Yes, 10 YOS 100%

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