

## *RESERVE RETIREMENT EQUALITY: TREATING RESERVES FAIRLY WHILE SAVING TAXPAYER DOLLARS*

BY

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by

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Topic Approved By  
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## ABSTRACT

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This paper calls on Congress to harmonize the regular and reserve military retirement systems. Specifically, this paper advocates for reducing the retirement age to 50 for the Reserves and increasing it to 50 for new active duty entrants.

Reforming the two systems to more closely conform to their private-sector counterparts will keep budget outlays in check while meeting the goal of treating all of our fighting men and women equally.



## *RESERVE RETIREMENT EQUALITY: TREATING RESERVES FAIRLY WHILE SAVING TAXPAYER DOLLARS*

Perhaps at no time in its history has the United States asked so much from its reserve military forces. No longer “weekend warriors,” Reserves<sup>1</sup> deploy frequently helping to ensure America lives up to its global commitments. While Reserves’ sacrifices are as significant as their active-duty counterparts, their military retirement annuity is not. Many active-duty retirees draw retired pay as early as age 38; Reserves, on the other hand, must generally wait until they reach age 60.

This paper introduces a proposal – styled *Reserve Retirement Equality* (RRE) – which calls on Congress to harmonize the active-duty and reserve military retirement systems. Specifically, RRE reduces the retirement age to 50 for the Reserves and increases it to 50 (for new active-duty entrants). As this paper demonstrates, implementing RRE would save billions of dollars while treating Reserves fairly.

### Origins of the Current System

The Pilgrims passed the first pension law in America in 1636, providing that any soldier maimed in conflict should be “maintained competently” by the colony during his life.<sup>2</sup> In 1776, the federal government undertook to pay half-pay pensions for life, or duration of disability, to every officer, soldier and sailor who became so disabled through military service as to be incapable of earning a livelihood.<sup>3</sup>

The Civil War saw the expansion of the U.S. military retirement system. Besides increasing the breadth of the disability retirement, Congress introduced the concept of providing pensions based on years of service without regard to disability. In 1861 Congress allowed officers of all services to receive a pension after 40 years of service.<sup>4</sup>

In 1870, Army and Marine Corps officers became eligible for retirement after 30 years of service, a policy extended to Navy officers in 1908.<sup>5</sup> In 1885, Army and Marine enlisted personnel were allowed to retire after 30 years of service.<sup>6</sup>

By 1945, enlisted personnel of all services became eligible to draw retired pay after 20 years of service.<sup>7</sup> Navy and Marine Corps officers attained this benefit the following year, and in 1948, officers of the Army and the recently-established Air Force were allowed to retire after serving 20 years.<sup>8</sup> The law was intended to address concerns that the post-war force lacked vigor, and was becoming too aged, by granting the service secretaries the authority to approve such early retirements.<sup>9</sup> Congress envisioned that the 20-year retirement option would be granted sparingly.<sup>10</sup> The services, however, approved these early retirements liberally, shortening the lengths of military careers and lengthening retirement payout streams, a norm that continues to this day.<sup>11</sup>

The 1948 Act also established the reserve-retirement system.<sup>12</sup> While Congress was concerned that the active-duty force had grown too old, it had the opposite concern with the Reserves: that they were separating too early in their careers.<sup>13</sup> To address this concern, Congress established a monetary incentive to retain skilled, trained, and readily available personnel to augment active duty forces in times of national emergency.<sup>14</sup> Since 1948, the basic reserve-retirement scheme has not been materially altered.<sup>15</sup>

### Description of the Current Retirement Benefit

The military-retirement system includes service pensions for active-duty members and Reserves; a defined-contribution plan known as the Thrift Savings Plan (TSP); and a comprehensive disability-retirement program. This paper's scope does

not include TSP or the disability retirement system. Instead, it focuses only on the non-disability, active-duty and reserve service pensions.

The military pension system discussed in this monograph is a noncontributory, defined-benefit plan. Defined-benefit plans differ from defined *contribution* plans, where the employee contributes a portion of her salary to her retirement account, sometimes receiving an employer matching contribution. A 401(k) plan and TSP are examples of a defined contribution plan.<sup>16</sup>

Unlike most civilian plans where an employee begins vesting after a few years of service, the current military system is an “all-or-nothing” plan.<sup>17</sup> With few exceptions, a servicemember must serve at least 20 years in order to vest.<sup>18</sup> To receive an active-duty retirement, the member must have served at least 20 years on active duty. For a reserve retirement, one must obtain 20 years of qualifying service, known as “good years.” A good year is one in which the Reserve earned at least 50 points.<sup>19</sup> It is possible one may have been a member of the reserve components for 25 years, for example, but have only 19 good years, and thus, not be vested for a military retirement.

Servicemembers who complete 20 years of active-duty service receive pensions at 50 percent of basic pay.<sup>20</sup> For each year of service beyond 20 years, one’s retired pay is increased by an amount equal to 2.5 percent of basic pay.<sup>21</sup> Thus, a member serving 30 years would receive a monthly payment of 75 percent of his basic pay.<sup>22</sup> Basic pay is that portion of military compensation based on grade and years of service.<sup>23</sup> Basic pay excludes bonuses, special pays, subsistence, and housing allowances. The basic pay used for the computation is final pay, except for those who

entered military service after September 8, 1980. For those servicemembers, their final pay is the average of the highest 36 months of basic pay.<sup>24</sup>

For Reserves, retired pay is the product of basic pay multiplied by “years of service” (YOS) by 2.5 percent.<sup>25</sup> A YOS is a constructive notion. That is, a YOS is not a literal year or measure of time but rather, a measure of service equivalent to one year of active duty. A Reserve earns one YOS after he has accumulated 360 points.<sup>26</sup> Reserves earn one point each day they serve on active duty or attend an inactive-duty training (IDT) assembly.<sup>27</sup> Reserves may attend two paid IDT assemblies (“drills”) in one day, thereby earning two retirement points per day.<sup>28</sup> Generally, Reserves are paid for participating in no more than 48 IDT assemblies per year.<sup>29</sup> They may also earn inactive-duty points, without pay, for participating in other types of training.<sup>30</sup> In addition, a Reserve earns 15 inactive-duty points, without pay, each year for maintaining active membership in a reserve component.<sup>31</sup> In 2007, the maximum number of inactive-duty points a Reserve can earn in a year increased from 90 to 130.<sup>32</sup>

It is important to understand that the reserve pension is prorated based on actual service. In other words, the scheme compensates Reserves less generously than their active-duty counterparts in direct proportion to their amount of reserve duty served. Except when called to active duty, Reserves do not earn 360 points per year. As such, a Reserve may serve many years before he has accumulated enough points to be credited one YOS. A typical, non-mobilized Reserve will perform 14 days of annual training (a form of active duty), participate in 48 paid IDT drills, and earn 15 membership points per year. A Reserve earning these 77 points a year for 20 years would accumulate 1,540 points.<sup>33</sup> Prorating this sum by 360 results in 4.27 YOS, about one-

fifth of a 20-year active-duty career. If the Reserve's base pay were \$5000 per month, he would receive approximately \$538 per month at retirement.<sup>34</sup> His active duty counterpart, on the other hand, after serving 20 years, would receive \$2,500 per month.<sup>35</sup>

Active-duty retirees begin drawing pay immediately upon separating from the military. Reserves, on the other hand, must generally wait until age 60 to begin drawing retired pay.<sup>36</sup> In 2008, Congress provided that certain Reserves could draw retired pay earlier, in three-month increments, for each 90-day block of active duty performed in support of contingency operations within a fiscal year, on or after January 28, 2008.<sup>37</sup> However, in no event may the retirement age drop below 50, and eligibility for retiree health benefits remains at age 60 even if the eligibility age for retired pay is reduced.<sup>38</sup> Other reserves can elect to receive an active-duty retirement if they attain 20 years on active duty. Five percent of the active-duty force (approximately 75,000 servicemembers) serve in a full-time status organizing and administering the reserve components.<sup>39</sup>

Active duty retirement pay is calculated using the current basic-pay rates in effect upon retirement. The pension is indexed for inflation, however, so that retired pay generally increases each year to keep up with inflation.<sup>40</sup> For those Reserves who remain in the Retired Reserve until age 60, their retired pay is calculated based on the pay tables in effect at that time. Their pay is also indexed for inflation.

#### The Reserve Retirement Equality (RRE) Proposal

This paper's Reserve Retirement Equality (RRE) proposal calls for both active duty and Reserves to draw retired pay at age 50 (assuming they have served the requisite 20 years). For active-duty personnel, the change would be prospective, that

is, it would only apply to those entering military service after the proposal is enacted into law. The 20-year vesting requirement would remain the same as it exists today. RRE, as envisioned, would not alter the current scheme of health benefits. Thus, a Reserve would not be entitled to healthcare any earlier than under the current scheme, and an active-duty retiree would receive healthcare on the same basis as would an active-duty member subject to the current retirement system.

Though RRE would be viewed as a big shift from the status quo, its impact would not be overwhelming or unfair. The average age of entry is 19 for enlisted and 23 for officers.<sup>41</sup> As a result, many active-duty retirees are very young. There are non-disabled, active-duty retirees as young as 37. More than 11,000 are 40 or younger.<sup>42</sup> Twenty-one percent of all military retirees are 50 or younger. RRE would mean that incoming recruits would need to wait, on average, eleven years later to begin drawing retired pay than they would under the current system. Reserves, on the other hand, would see retirement pay as much as 10 years earlier as their retirement age would drop from 60 to 50. RRE would not affect the disabled. They would still be entitled to disability pay under the current rules in place today.

By raising the active-duty retirement age, RRE would save DOD billions each year. In terms of retirement costs, Reserves are a bargain. Besides costing less to maintain during their active careers, Reserves are cheaper to retire. Though they make up 34 percent of the uniformed force, they receive only eleven percent of retirement benefits paid.<sup>43</sup>

As of September 30, 2009, DoD paid 1.9 million military retirees (at an annual rate of) \$46.2 billion in retired pay.<sup>44</sup> Three percent (\$1.4 billion) of this amount was

paid to 92,000 disabled retirees.<sup>45</sup> Excluding disabled retirees, 1.81 million military retirees received \$44.7 billion in retired pay. As shown in Tables 1 and 2, 89 percent (\$39.95 billion) of this amount went to approximately 1.47 million active-duty retirees.<sup>46</sup> The remaining 11 percent (\$4.75 billion) was paid to 341,000 Reserve retirees (19 percent of all military retirees).<sup>47</sup>

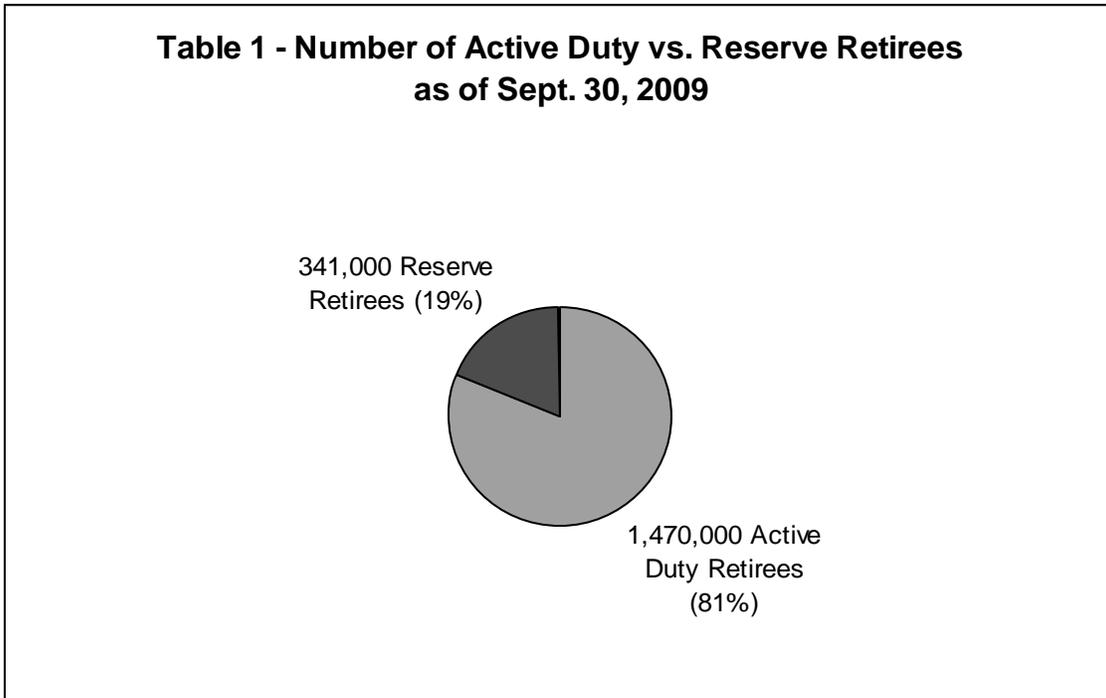


Table 1:

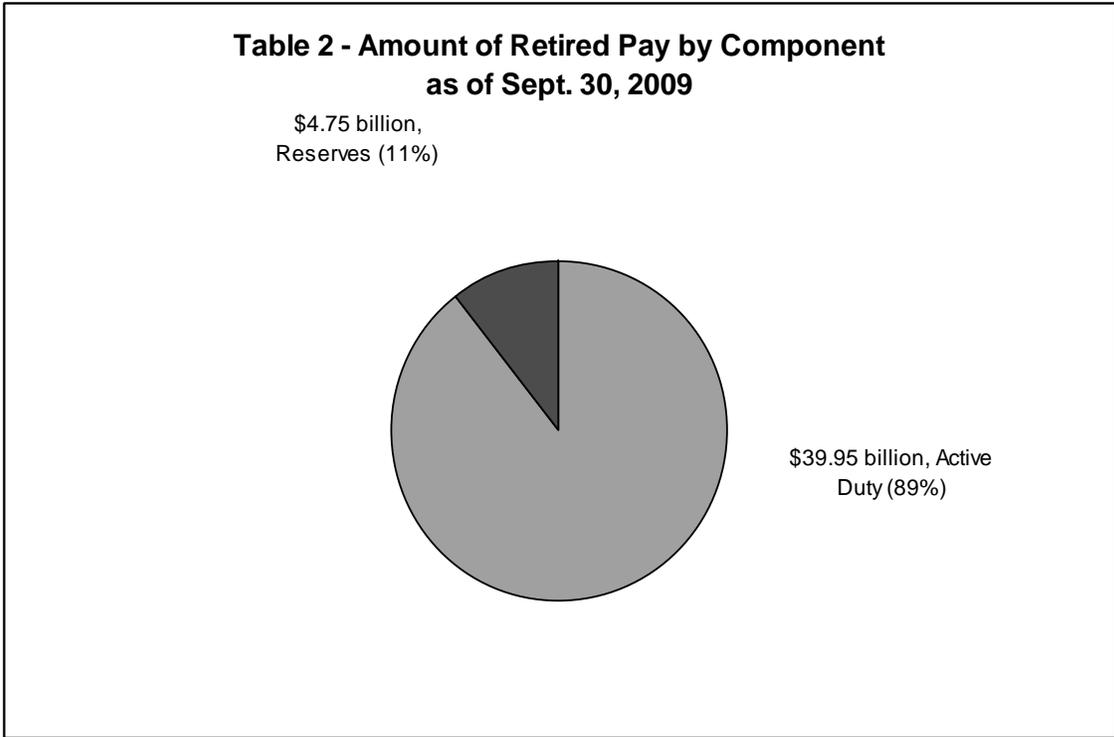


Table 2:

In 2008, DOD paid retirement benefits to 1.47 million active-duty retirees.

Eighteen percent of these retirees were under the age of 50.

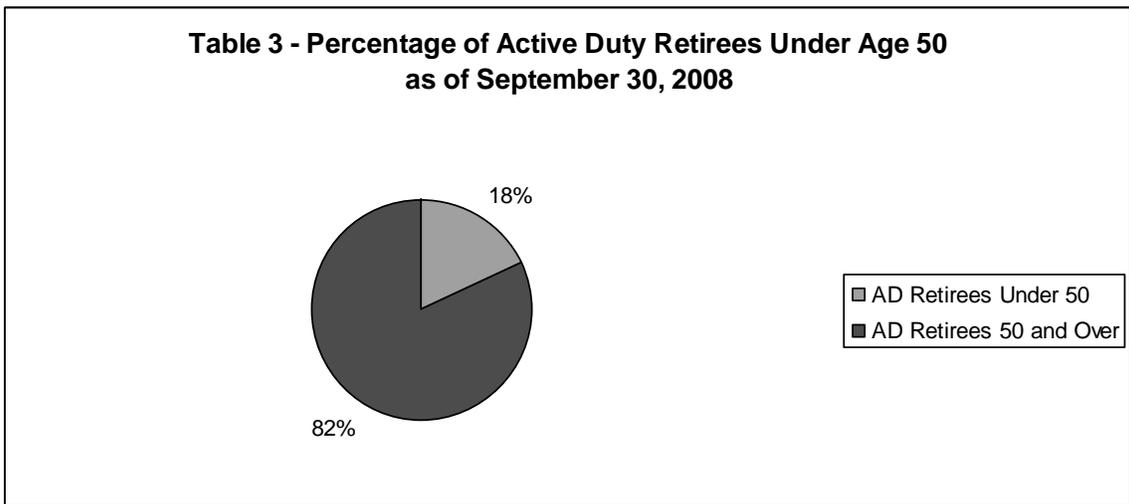


Table 3:

In fiscal terms, 15 percent of the total active-duty pension amount was paid to retirees under the age of 50 (\$5.4 billion).<sup>48</sup>

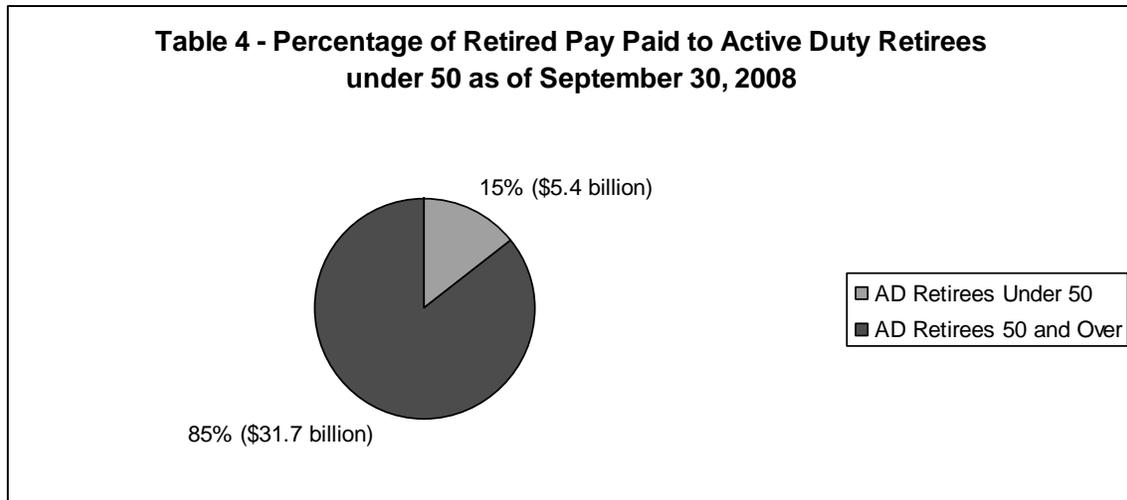


Table 4:

This amount far exceeds the total amount paid to all Reserve retirees, who received only \$4.3 billion.<sup>49</sup> In other words, the entire amount paid to Reserve retirees of all ages could be completely funded by the amount paid to retirees under the age of 50.

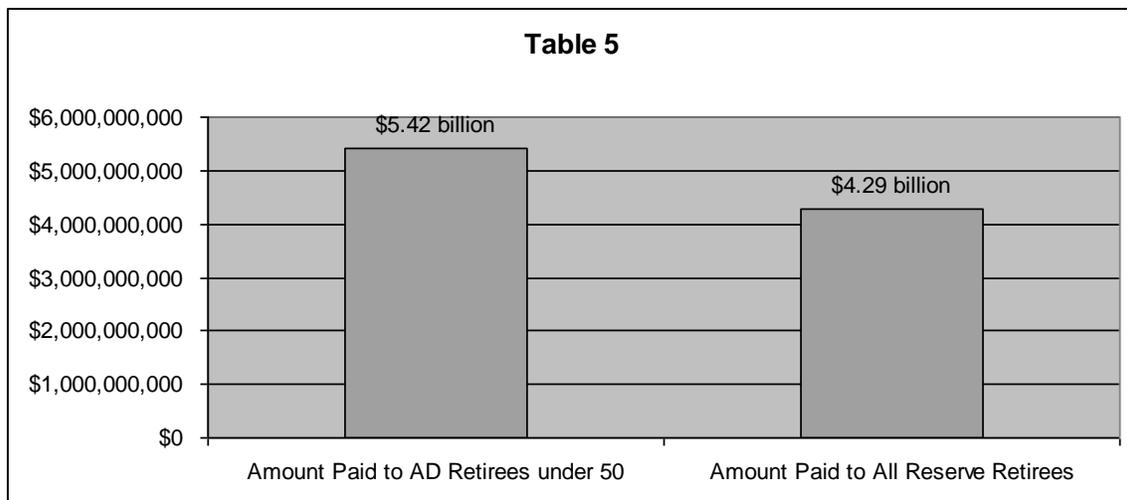


Table 5:

The costs of reducing the reserve-retirement age would more than be offset by the savings RRE would produce. Conservatively assuming that all Reserves above the age of 50 are retirement eligible (i.e, have 20 years of creditable service for retirement), the cost of reducing the reserve-retirement age to 50 would only be \$2.73 billion.<sup>50</sup> As Table 6 illustrates, by concurrently raising the AD retirement age to 50, a net savings of \$2.69 billion per year would accrue.

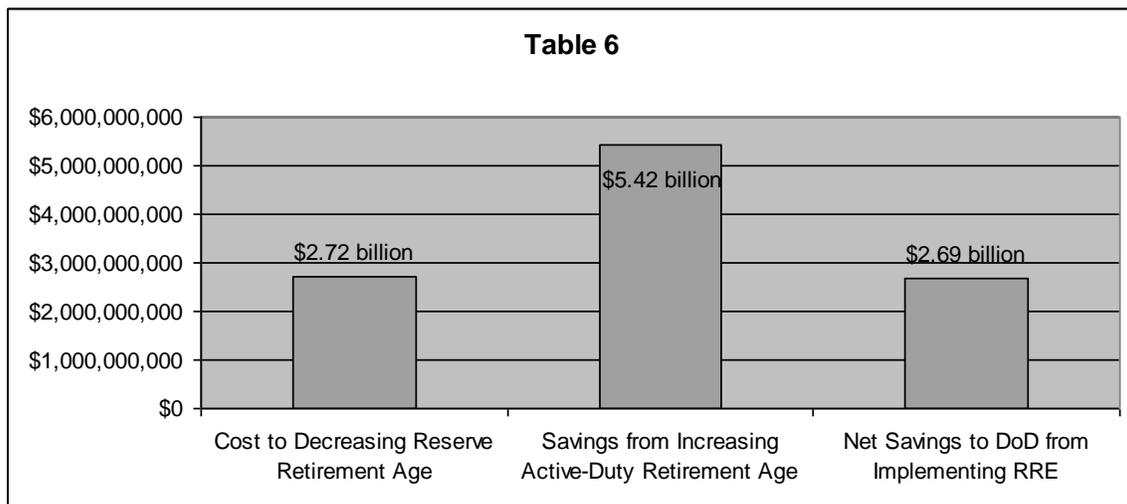


Table 6:

Retirement compensation is not considered a cost of current military personnel.<sup>51</sup>

The annual cost to DOD comes in the form of an accrual charge into the Military Retirement Fund.<sup>52</sup> DOD makes payments into this trust fund based on current payroll to reflect its accruing liabilities for service members' retirement benefits.<sup>53</sup> These accruals are calculated actuarial payments representing the estimates of the present value of the future costs of current military personnel.<sup>54</sup> As basic pay increases, DOD must make larger payments from the military personnel accounts into the retirement fund.<sup>55</sup> The money deposited in this trust fund grows in order to pay the benefits claimed in future years by current military personnel after their retirement.<sup>56</sup>

Although RRE would require an extra, one-time appropriation to the Military Retirement Fund to account for newly-eligible Reserve retirees between the ages of 50 and 60, DOD would realize an immediate savings in the amount it would be required to contribute to the fund.<sup>57</sup> Because DOD's contributions to the Military Retirement Fund are based on an estimate of its future obligations, DOD's financial obligation to the fund would decrease. The DOD Office of the Actuary estimates that raising the retirement age to 50 while lowering the Reserve retirement age would immediately save DOD \$1.6 billion, a 9 percent reduction of its annual obligation to the fund.<sup>58</sup>

Admittedly, RRE rests on the assumption that current trends will continue, an assumption that may ultimately prove false. Peter Zouras of the DOD Office of the Actuary imagines that lowering the reserve retirement age might motivate active-duty members to transfer to the reserves, thus raising costs.<sup>59</sup> Active-duty members have no guaranteed right to serve in the reserves, however. Billets are controlled, and end-strengths are statutorily limited. Thus, the services would be able to prevent any excessive inflow into the reserve components. Even if a large number of active-duty members transferred to the reserves, it is unlikely this would negate RRE's cost savings; Reserves are generally cheaper to maintain, both while in service and in retirement.

Conversely, Zouras can conceive of RRE increasing retention and costs by motivating active-duty personnel to remain in service until age 50.<sup>60</sup> Creating such an incentive is not necessarily undesirable, however. In fact, the 20 year retirement is often criticized precisely because it creates an incentive for highly-skilled individuals to exit in their prime. This concern also seems misplaced because the services have

force-shaping tools, such as early-retirement boards, to ensure the right mix of personnel.<sup>61</sup>

### Justification for Raising the Active-Duty Retirement Age

The current active-duty retirement is an expensive benefit being drawn from an increasingly strapped treasury. Salary accounts for approximately 48 percent of average military compensation; retirement benefits make up 31 percent.<sup>62</sup> Between fiscal years 1995 and 2005, total compensation costs for current and former military personnel increased by almost 60 percent.<sup>63</sup> Retirement pay is a significant portion of these costs.<sup>64</sup>

To understand the significance of the military-retirement benefit, it must be viewed against the backdrop of the American private sector. In the private sector, only 45 percent of workers have a pension.<sup>65</sup> Far fewer – only 20 percent – have defined-benefit pensions.<sup>66</sup> The remaining 25 percent participate in defined-contribution plans, funded, at least in part, with their own salaries.

Private-sector employees typically must work longer and wait later – usually to age 62 – before they can begin drawing retired pay.<sup>67</sup> Active-duty retirement-benefit streams are more than 20 years longer than civilian ones,<sup>68</sup> a fact that makes the active-duty retirement benefit significantly more expensive.<sup>69</sup> Moreover, unlike the vast majority of private pension plans, military retirements are indexed for inflation.<sup>70</sup> Virtually no private-sector plans offer *full* cost-of-living adjustments and certainly none is as secure as a U.S. Government treasury bond.<sup>71</sup>

Because of cost-of-living allowances and length of payment streams, military retirees may receive more pay from the Government in retirement than they did during their military career.<sup>72</sup> Of course, military retirement also includes healthcare benefits,

other privileges, and additional deferred compensation through the Department of Veterans Affairs.<sup>73</sup> One authority rated the military pension to be six times more generous than the best private-sector plans; others rate it at least twice as good.<sup>74</sup>

The author was unable to compare the payouts of military retirements to private-sector pensions. It is becoming increasingly clear, however, that military pay, which forms the basis for retired pay, is very competitive. In 2002, DOD estimated that its members earned more than 70 percent of similarly educated workers in America.<sup>75</sup> Since 2002, basic pay has risen by 42 percent and housing allowances by 83 percent.<sup>76</sup> By contrast, private-sector salaries rose only 32 percent during the same period.<sup>77</sup>

One stated reason for making the active-duty pension immediately payable upon retirement was to compensate for military experience not being easily transferable to the civilian sector.<sup>78</sup> Because it was believed military retirees would earn lower salaries than civilians with comparable education and years of experience, Congress implemented immediate payment as a compensatory measure.<sup>79</sup> Current research suggests, however, that military retirees do not experience lower earnings upon transitioning to the civilian workforce.<sup>80</sup> Although enlisted members with military-unique jobs, such as combat arms, suffer some disadvantage upon entering the civilian labor market, officers and enlisted members with transferable skills encounter no significant pay loss.<sup>81</sup> Retirees with at least 20 years of military service experience earnings comparable to civilians with similar education and experience.<sup>82</sup>

Another stated reason for offering a sizeable pension is to help recruiting and retention. Unfortunately, deferred compensation is less efficient for recruiting and retaining personnel than immediate payment of benefits.<sup>83</sup> It costs the Government

more to provide a pension than its perceived value.<sup>84</sup> Considering that most servicemembers are young and do not intend to make the military a career, it should not be surprising that junior personnel are motivated more by cash-in-hand than deferred compensation.<sup>85</sup> In fact, only one in four Reserves remains in service long enough to become eligible to draw retired pay.<sup>86</sup> Factoring in active-duty servicemembers, only about 15 percent of an entering class of enlisted personnel will ever reach retirement (though nearly 50 percent of officers will reach retirement).<sup>87</sup>

One study determined that 90 percent of enlisted personnel (and more than half of all officers) had personal (subjective) discount rates of 18 percent or higher.<sup>88</sup> This simply means that these individuals would prefer to receive \$5 today than \$100 twenty years from now.<sup>89</sup> Of course, it would be much cheaper for the taxpayer to pay the \$5 today than to set aside the money necessary to pay that \$100 twenty years from now.<sup>90</sup> This is because the actual discount rate – the rate at which the Government can borrow money – is much lower than 18 percent. At a three-percent interest rate, for example, the Government must set aside \$55 today to pay \$100 twenty years from now. Thus, the actual present cost to the Government to make the payment is much higher than its perceived value to the servicemember. The bottom-line is that servicemembers do not value deferred compensation as much as it costs the Government to provide it.<sup>91</sup> The difference between servicemembers' subjective value of the retirement benefit and its actual cost expose the inefficiency in this form of compensation.

If the Government's revenues were greater, perhaps the cost of retirement would not be an issue. After all, if money were no object, no reasonable person would begrudge a substantial pension to those patriots who have devoted their lives to

carrying out a dangerous, difficult, and arduous profession. The Government, however, is massively in debt and growing more indebted every day. The cost of servicing the national debt – now in excess of \$12 trillion – is \$200 billion per year. By 2019, the annual cost will exceed \$700 billion.<sup>92</sup> Putting this \$500 billion-a-year increase in perspective, it exceeds everything spent on education, energy, homeland security, and the wars in Iraq and Afghanistan in 2009.<sup>93</sup> In addition to interest payments on the national debt, mandatory government entitlement spending associated with Medicare, Medicaid, and Social Security will be rising as well, to as much as 11 percent of the U.S. Gross Domestic Product (GDP) by 2016.<sup>94</sup>

As the budget tightens, political pressure to further reduce defense discretionary spending will increase.<sup>95</sup> In an environment where simply having a job is a benefit, where defined-benefit plans are rare, and where tax increases are being considered, it will become increasingly difficult for the American taxpayer to remain supportive of early military retirements.

#### Justification for Lowering the Reserve Retirement Age

In 1948, when the current reserve-retirement system was conceived, it seemed appropriate to compensate Reserves less generously based upon the presumption that their roles were significantly different from active-duty forces. Active forces fought the wars; Reserves stayed on the sidelines, only to be used in strategic emergencies.<sup>96</sup> Six decades later, these assumptions seem anachronistic and bear scrutiny.

After the Vietnam War, General Creighton Abrams, Chief of Staff of the Army, declared that the nation should not go to war without the involvement of the Reserves to ensure public will was followed.<sup>97</sup> In response, DOD downsized its active force and placed large portions of its force structure in the Reserves.<sup>98</sup> Thirty years of adherence

to the Abrams Doctrine has resulted in the military being dependent on the reserve components to conduct its current operations, to include those in Desert Shield/Desert Storm, Operation Enduring Freedom, and Operation Iraqi Freedom.<sup>99</sup>

Since Desert Storm, the role of the Reserves has clearly shifted from a strategic reserve, rarely called to active duty, to an operational force actively integrated in all major military operations worldwide.<sup>100</sup> Making up a third of the total force,<sup>101</sup> more than 700,000 Reserves have been called to active duty since September 11, 2001.<sup>102</sup> Reserves also comprise 21 percent of deployed combat power in Afghanistan and 11 percent in Iraq and are responsible for U.S. border security and homeland defense.<sup>103</sup> Reserves not only supplement, but now actually relieve, active-duty forces in military operations around the world.<sup>104</sup> Because of their proven competence and cost-efficiency, Reserves will be increasingly used in future DOD operations.

Few things undermine morale in an organization more than the sense by its members that they are treated and compensated unfairly.<sup>105</sup> Those in the military may be even more sensitive to this phenomenon as they are conditioned to receiving pay based solely on grade, time in service, and specialty.<sup>106</sup> Although Reserves understand why their retired pay is proportionally lower than their active-duty brothers-in-arms', they do not understand why they must wait so much longer to receive the benefit. Not surprisingly, DOD routinely receives inquiries into the rationale for making Reserves wait until age 60.<sup>107</sup> Some members of Congress, having observed this inequity, have proposed legislation to lower the Reserve retirement entitlement age.<sup>108</sup>

Although retired pay is, by its nature, more inefficient than cash in terms of recruiting and retention, it may be more efficient in the Reserve context. This is

because the Reserves are, by design, an older force. Reserve units specifically target servicemembers separating from active duty. Allowing a prospect to roll his active-duty service into a reserve pension is a sizeable lure. In fact, one survey listed retirement income as the highest contributor, by far, to a Reserve's decision to stay in the Reserves until retirement.<sup>109</sup>

### Arguments against Lowering the Reserve Retirement Age

A 2006 Rand study makes a number of arguments against lowering the retirement age.<sup>110</sup> In the view of the study's authors, the fact that Reserves are an increasingly vital part of the deploying force is not a significant reason for making the Reserve retirement more generous. Lowering the retirement age, according to the study, would not be fair or efficient.<sup>111</sup>

The authors list a number of factors which they believe demonstrate that the service of Reserves is not comparable to that of active-duty members.<sup>112</sup> They note Reserves have civilian careers that supposedly allow them to boost their earnings potential relative to active-duty members.<sup>113</sup> Many, the authors assert, will qualify for pensions through their civilian employers.<sup>114</sup> The authors also point to the fact that reserve duty, when nonactivated, is relatively predictable and limited: a weekend of drilling each month and two weeks of training in the summer.<sup>115</sup> Active-duty members, on the other hand, frequently must work long, irregular hours to hone their skills, maintain and repair their equipment, and prepare for inspections, exercises, training, and deployment.<sup>116</sup> Active-duty members, according to the study, spend days or weeks away from home for training, professional development courses, and exercises.<sup>117</sup> The study correctly notes that active-duty members and their families are frequently relocated every few years under permanent change of station (PCS) moves, whereas

reservists are not subject to such moves.<sup>118</sup> Frequent movement takes a toll on the active-duty family and on earnings potential of the military spouse.<sup>119</sup> Even if active duty and reserve service were the same, the authors argue that would not be fair to lower the retirement age for all Reserves since some will never deploy and some will deploy more than others.<sup>120</sup>

Upon closer scrutiny, each of these arguments is either based on shaky assumptions or simply inaccurate. First, putting aside the date of eligibility to draw retired pay, the reserve-retirement scheme addresses the disparity in service between active duty forces and Reserves. As discussed, the reserve retirement is pro rata.<sup>121</sup> For example, a Reserve who performs the equivalent of five years of active duty, will receive one-fourth the retired pay of his active duty retired counterpart who served 20. Reserves do not begrudge the fact that they draw a fraction of active-duty retired pay because they understand their fractional pay accounts for the days they did not serve in uniform. What Reserves find unfair is that active-duty retired pay is immediately payable upon separation from the service.

This fact massively tips the scales in favor of the active-duty retiree. The Rand study calculated the present value benefit of the future reserve annuity and compared it to the present value of the active-duty retirement annuity. The study found that on balance, the present discounted value of retirement pay under the reserve-retirement system is less than half of that under either of the active-duty systems.<sup>122</sup>

To illustrate, the Rand study considered the hypothetical case of a lieutenant colonel (O-5) who separated from the Reserves at age 50 with 25 creditable years of service, basic pay of \$6,761, accumulated retirement points of 3,146, and a life

expectancy of 78.<sup>123</sup> If reserve-retirement benefits were based simply on years of service, the reservist's retirement benefits would equal 25 years x 0.025 x \$6,761, or \$4,225 per month.<sup>124</sup> But because reserve-retirement benefits are based on pro rata years of service, this officer's years of service for retirement purposes are 3,146 retirement points divided by 360.<sup>125</sup> This results in 8.74 years pro rata years of service.<sup>126</sup> His retirement benefits thus are calculated as 8.74 x 0.025 x \$6,761, or \$1,477 per month.<sup>127</sup>

If the officer could receive this payment immediately upon retiring, he would have received \$1477 per month. But because this 50-year-old must wait ten more years to begin receiving benefits, the present value of the first monthly payment of \$1,477 is only \$576.<sup>128</sup> Furthermore, the fact that no benefits are received until age 60 means that the reservist has 10 fewer years of benefit payments than a similarly-situated active duty retiree.<sup>129</sup> Calculating the present value of this delayed annuity, at the assumed interest rate, is \$67,000.<sup>130</sup> For a comparable active-duty retirement, the present value is \$192,000.<sup>131</sup> Thus, the fact that Reserves serve part time is already accounted for by the fact that their retirement service is calculated on a pro rata basis.

Second, although many Reserves will draw two pensions, many will not. As discussed earlier, only about 20 percent of American workers receive a defined-benefit pension, and virtually no private citizens receive one as generous as the military's. But for those Reserves who are in fact fortunate enough to draw two pensions, have they not, in fact, worked two jobs? Surely it is not unfair for a schoolteacher who moonlights to receive retirements from both of her employers. If it is unfair for the Reserve to draw

two pensions, then it would seem equally unfair for the active-duty retiree to draw a pension from his post-retirement job.

Third, the sacrifices of Reserves and their families are substantial. Surely, it is true that permanent-change-of-station (PCS) moves work a great hardship on active duty families. And it is also true that Reserves are more likely to have the opportunity to raise their families in one place. But surely this difference cannot be a valid reason for granting active-duty servicemembers significantly more generous pensions. It is also not true that reserve duty is “relatively predictable and limited.” Just like their active-duty counterparts, Reserves work long and unpredictable hours to hone their skills; maintain and repair their equipment; and prepare for inspections, exercises, training, and deployment. Unlike active duty personnel, however, Reserves often work without compensation performing such military duties. Reserve leaders are especially involved with their units throughout the month, frequently spending time every day on military matters. Virtually all Reserves spend their own time to participate in individual military education. Reserves generally attend the military schools necessary for professional advancement through distance education (correspondence courses) without compensation. They juggle these demands along with their civilian job *and* their regular reserve duties.

One huge difference is that unlike active-duty servicemembers, whose jobs are tenured, Reserves are liable to suffer career repercussions for frequent or long activations.<sup>132</sup> Rational employers – even if they patriotically support the Reserves – might naturally be cautious of promoting Reserves to key positions for fear that the employee will disappear via mobilization.<sup>133</sup> Promotion denial is only one adverse

consequence Reserves face on account of their military affiliation. Many believe they have been laid off, given reduced hours, or not hired, simply because of their reserve status.<sup>134</sup>

The most persuasive argument against lowering the retirement age is an economic one; namely, that if the military is attracting enough recruits, there is no need to make compensation more generous.<sup>135</sup> Or, as a corollary, if more members are needed, compensation should be offered in the most efficient way possible. In other words, if more of a particular demographic is needed (junior Army officers, for example), perhaps retention bonuses should be targeted at that narrow population instead of enhancing the retirement benefit for all of the uniformed forces.

Certainly if efficiency is the driving motivator, the military should offer no more compensation than what is minimally necessary to meet its manpower needs.<sup>136</sup> Under this logic, the military retirement system as a whole would be unnecessary. As discussed above, deferred compensation is generally more inefficient than cash in terms of attracting members of the military.<sup>137</sup> Presently the military is not having great difficulties meeting their retention and recruiting goals.<sup>138</sup> Where the services do have difficulties, they appear to be fairly successful in addressing these needs with bonuses.<sup>139</sup> Thus, it is difficult to make an economic case for retaining the current defined-benefit retirement program, let alone making it more munificent for Reserves.

This paper argues, however, that compensating the military is not simply about efficiency. It is about equity. Reserves no longer sit by on the sidelines while the Regulars go off to war. They are fully integrated in all current operations and will continue to do so for the foreseeable future. They deserve pro-rata parity with their

active mates. Pensions are not simply a recruiting tool. Like healthcare benefits, pensions are part of the American social contract. Even as far back as the 1800s, pensions were viewed as rewards for long and faithful service.<sup>140</sup> The fact that a state has an absolute right to require the services of its citizens in time of war, makes the payment of a pension a gratuity, not a mere benefit of a bargain.<sup>141</sup> It would be fitting then to reward the Reserves in the same fashion as their active-duty brothers and sisters.

### Political Hurdles

RRE will certainly face political opposition. At least initially, the services probably would be unwilling to touch such a potentially controversial hot potato.<sup>142</sup> More certain is that military associations would condemn RRE out of fear of eroding the active-duty benefit, notwithstanding the fact that it applies prospectively only.<sup>143</sup> Most importantly, elected officials – fearing a political backlash – will not likely risk being perceived as unsupportive of the Regulars, especially in this time of war.

To realize how difficult retirement reform is to implement, one only need to look at the 1986 “Redux” retirement reform, a much more mild restructuring than RRE. Redux made two basic changes to the active-duty retirement system.<sup>144</sup> First, it provided that those who entered active duty after August 1, 1986 and retired after 20 years of service would receive a pension equal to 40 percent of final basic pay until they reached age 62, as opposed to 50 percent for those already in the service.<sup>145</sup> Second, Redux indexed those servicemembers’ pensions by the Consumer Price Index (CPI) minus one percentage point (as opposed to the full CPI).<sup>146</sup> At age 62, the pension would have increased to 50 percent of basic pay and the CPI would be adjusted to catch up as if no decrement had been made.<sup>147</sup> The pension level for those retiring after

30 years, rather than 20, would have remained unchanged at 75 percent of final pay, to create incentives for personnel to stay rather than leave at the 20-year point.<sup>148</sup>

Redux was quite modest in comparison to RRE because it still allowed retirees to collect an annuity immediately upon retirement regardless of age. Nevertheless, the Military Coalition, an alliance of some 30 military associations, and the Joint Chiefs of Staff, urged the Congress to repeal Redux.<sup>149</sup> In response to this pressure, Congress eventually nullified the reform in 2000.<sup>150</sup>

While RRE is unlikely to be enacted any time soon, the idea of reforming the active-duty benefit is alive and will only gain strength as budgetary pressures mount. The American public is patriotic, but their support has limits. Already taxpayers are questioning the benefit. Here one summarizes his objection:

[R]etirement at 20 years of service, for instance, strikes me as a relic of an age when twenty years in the Army left a veteran a broken man, with blown joints, no hearing, and a limited ability to work in an agricultural or industrial economy. Advances in medicine, lengthening lifespan, and the shift to a service economy in this country (albeit with large swaths of agricultural and industrial employment across the workforce) make me wonder -- as a taxpayer -- why we're paying 38-year-olds as they embark on their second full career.<sup>151</sup>

### Conclusion

In the current operational environment, it is difficult to justify making Reserves wait up to 22 years longer than their active duty counterparts to draw retired pay.<sup>152</sup> Conversely, it is difficult to defend the overly generous early active-duty retirement age. The Reserve Retirement Equality proposal harmonizes both retirement systems, provides manifest fairness to all warfighters, all while reducing the taxpayers' ever-mounting fiscal obligations.

## Endnotes

<sup>1</sup> This paper uses the traditional term “Reserve” instead of “reservist.” See, e.g., 10 U.S.C. § 10141(a) (“There are in each armed force a Ready Reserve, a Standby Reserve, and a Retired Reserve. Each Reserve shall be placed in one of those categories.”) This term is meant to encompass all members of the reserve components of the armed forces, that is, the Army National Guard of the United States, the Army Reserve, the Navy Reserve, the Marine Corps Reserve, the Air National Guard of the United States, the Air Force Reserve, and the Coast Guard Reserve. See 10 U.S.C. § 10101.

<sup>2</sup> William H. Glasson, *History of Military Pension Legislation in the United States* (New York: Columbia University, 1900), 12, [http://books.google.com/books?hl=en&id=p6FDAAAIAAJ&dq=%22Military+Pension+Legislation%22&printsec=frontcover&source=web&ots=64NB10xJUe&sig=qkioVACgY-p2qWqod5FdgBtGCfl&sa=X&oi=book\\_result&resnum=1&ct=result#v=onepage&q&f=false](http://books.google.com/books?hl=en&id=p6FDAAAIAAJ&dq=%22Military+Pension+Legislation%22&printsec=frontcover&source=web&ots=64NB10xJUe&sig=qkioVACgY-p2qWqod5FdgBtGCfl&sa=X&oi=book_result&resnum=1&ct=result#v=onepage&q&f=false) (accessed on May 30, 2010).

<sup>3</sup> *Ibid.*, 14-15.

<sup>4</sup> John Christian, *An Overview of Past Proposals for Retirement Reform* (Santa Monica, CA: Rand National Defense Research Institute, 2006), 2, available at <http://www.dtic.mil/cgi-bin/GetTRDoc?AD=ADA456781&Location=U2&doc=GetTRDoc.pdf> (last accessed on May 30, 2010). The impetus for these reforms and others like them during this era was the preservation of a “young and vigorous” officer corps.

<sup>5</sup> *Ibid.*, 2 - 3.

<sup>6</sup> *Ibid.*, 3.

<sup>7</sup> *Ibid.*

<sup>8</sup> *Ibid.*, 2 - 3.

<sup>9</sup> Secretary of Defense, *Report of the Tenth Quadrennial Review of Military Compensation*, Vol. II, (Washington, D.C.: Office of the Secretary of Defense, July 2008) 8. The 1948 law was entitled, “The Army and Air Force Vitalization and Retirement Equalization Act.”

<sup>10</sup> *Ibid.*

<sup>11</sup> *Ibid.*

<sup>12</sup> U.S. Government Accountability Office, *DOD Needs More Data Before It Can Determine if Costly Changes to the Reserve Retirement System Are Warranted*, GAO-04-1005, (Washington D.C.: U.S. Government Accountability Office, September 2004), 10.

<sup>13</sup> *Ibid.*

<sup>14</sup> *Ibid.*

<sup>15</sup> *Ibid.* Some would argue that the National Defense Authorization Act for Fiscal Year 2008 – which authorized Reserves to retire earlier based on certain active-duty service performed after January 28, 2008 – is a material change.

<sup>16</sup> The services do not match servicemembers' salary contributions to TSP.

<sup>17</sup> Cathleen McCracken, *Military Compensation: Balancing Fairness and Sustainability* (Arlington, VA: Association of the United States Army, February 7, 2006), 2.

<sup>18</sup> This is sometimes referred to as "cliff-vesting."

<sup>19</sup> DOD Office of the Actuary, *Fiscal Year 2009 Military Retirement Fund Audited Financial Statements*, 5.

<sup>20</sup> *Ibid.*, 3.

<sup>21</sup> 10 U.S.C. § 1409(b).

<sup>22</sup> This can be calculated as (Base Pay x (2.5% x 30)).

<sup>23</sup> DOD Office of the Actuary, *Valuation of the Military Retirement System, September 30, 2007* (Washington, D.C.: DOD Office of the Actuary, December 2008), 1.

<sup>24</sup> *Ibid.*, 9.

<sup>25</sup> DOD Office of the Actuary, *Fiscal Year 2009 Military Retirement Fund Audited Financial Statements*, (Washington, D.C.: DOD Office of the Actuary, November 6, 2009), 5, <http://actuary.defense.gov/cfo2009.pdf> (accessed on May 29, 2010).

<sup>26</sup> *Ibid.* In simplified terms, a retirement year is a 365-day period terminating the day before the anniversary of the date the reservist joined the reserves.

<sup>27</sup> *Ibid.*

<sup>28</sup> *Ibid.*

<sup>29</sup> See 10 U.S.C. § 10147.

<sup>30</sup> Department of Defense, *Service Credit for Reserve Retirement*, DOD Instruction 1215.07 (Washington, D.C.: Department of Defense, November 7, 2008), <http://www.dtic.mil/whs/directives/corres/pdf/121507p.pdf> (accessed on May 30, 2010).

<sup>31</sup> DOD Office of the Actuary, *Fiscal Year 2009 Military Retirement Fund Audited Financial Statements*, 5.

<sup>32</sup> This change is effective for retirement years after October 30, 2007. 10 U.S.C. § 12733.

<sup>33</sup>  $14 + 48 + 15 = 77$ .

<sup>34</sup>  $4.27 \text{ YOS} \times \$5000 \times 0.025 = \$538$ .

<sup>35</sup>  $20 \text{ YOS} \times \$5000 \times 0.025 = \$2500$ .

<sup>36</sup> Secretary of Defense, *Report of the Tenth Quadrennial Review of Military Compensation, Volume II* (Washington, D.C.: Office of the Secretary of Defense, July 2008), xii.

<sup>37</sup> 10 U.S.C. § 12731(f).

<sup>38</sup> DOD Office of the Actuary, *Fiscal Year 2009 Military Retirement Fund Audited Financial Statements*, 5. For actuarial purposes, the DoD Office of the Actuary assumes that the effect of this provision is to lower the age of retirement for newly-entering Reserves to 58. Peter M. Zouras, DOD Office of the Actuary, e-mail to the author, June 1, 2010.

<sup>39</sup> Peter M. Zouras, DOD Office of the Actuary, e-mail to the author, June 1, 2010.

<sup>40</sup> DOD Office of the Actuary, *Statistical Report on the Military Retirement System, Fiscal Year 2008*, 10. All non-disability retirement, disability retirement, and most survivor annuities are adjusted annually for inflation. Cost-of-living adjustments (COLAs) occur automatically every 12 months, on December 1st, and are reflected in the January payments. The COLA is computed by calculating the percentage increase in the average CPI over the third quarter of the prior calendar year to the third quarter of the current calendar year. The increase is based on the Urban Wage Earner and Clerical Worker Consumer Price Index (CPI-W) and is rounded to the nearest tenth of one percent. Ibid.

<sup>41</sup> Peter M. Zouras, DOD Office of the Actuary, e-mail to the author, June 1, 2010. The average age of enlistment in the Army is 23. Department of the Army, *Support Army Recruiting Website*, <http://www.2k.army.mil/faqs.htm#age> (accessed on May 23, 2010).

<sup>42</sup> DOD Office of the Actuary, *Statistical Report on the Military Retirement System, Fiscal Year 2008*, 53. The numbers are calculated as follows: (1 (age 36) + 5 (age 37) + 653 (age 38) + 3,421 (age 39) + 7,323 (age 40) = 11,403).

<sup>43</sup> Department of Defense, *Demographics 2008: Profile of the Military Community* (Washington, D.C.: DOD, 2008), iii. Adding active duty military personnel (1,387,674) to the number of active duty Coast Guard members (41,362) equals 1,429,036. DOD Ready Reserve and DHS Coast Guard Reserve members total 1,080,617. Combining active and Reserves equals 2,509,653. Dividing 1,080,617 by 2,509,653 equals 43 percent. The DOD Office of the Actuary does not include Coast Guard members in its calculations as DOD does not contribute to the Military Retirement Fund on their behalf. The actuary also includes full-time Reserves as active-duty personnel. The Actuary calculates drilling Reserves to be only 34 percent of the force. Peter M. Zouras, DOD Office of the Actuary, e-mail to the author, June 1, 2010.

<sup>44</sup> Peter M. Zouras, DOD Office of the Actuary, e-mail to the author, June 1, 2010.

<sup>45</sup> Ibid.

<sup>46</sup> DOD Office of the Actuary, *Fiscal Year 2009 Military Retirement Fund Audited Financial Statements*, 4. This does not include active-duty retirees receiving disability pay.

<sup>47</sup> Ibid., 5.

<sup>48</sup> DOD Office of the Actuary, *Statistical Report on the Military Retirement System Fiscal Year 2008*, 53. The calculation follows from the following table:

Age	A	Number of Retirees	Average Pay/Retiree	Total Retired Pay for Year Group
3			\$17,062	
8		653		\$11,141,486
3			\$16,172	
9		3,421		\$55,324,412
4			\$16,859	
0		7,323		\$123,458,457
4			\$17,319	
1		11,404		\$197,505,876
4			\$18,143	
2		15,993		\$290,160,999
4			\$19,024	
3		20,567		\$391,266,608
4			\$19,694	
4		25,972		\$511,492,568
4			\$19,973	
5		30,608		\$611,333,584
4			\$20,321	
6		34,466		\$700,383,586
4			\$20,711	
7		37,929		\$785,547,519
4			\$20,975	
8		40,534		\$850,200,650
4			\$21,517	
9		<u>41,671</u>		<u>\$896,634,907</u>
T		270,541		\$5,424,450,652
OTALS:		1		52

<sup>49</sup> DOD Office of the Actuary, *Fiscal Year 2009 Military Retirement Fund Audited Financial Statements*, 5.

<sup>50</sup> Approximately 21,000 Reserves transfer to the Retired Reserve each year. In 2008, 20,812 transferred to the Retired Reserve. Assuming that this number of transfers would remain constant, that everyone above the age of 50 is eligible to transfer to the Retired Reserve, and that every eligible reserve would in fact elect to transfer to the Retired Reserve, the total number of additional reserves eligible to draw retired pay can be estimated to be 208,120 (20,812 x 10). See 2008 Demographics Report, 103. In 2008, retirement pay averaged \$13,113 per retired reserve per annum. DOD Office of the Actuary, *Statistical Report on the Military Retirement System Fiscal Year 2008*, 54. Multiplying the number of reserves transferring to the Retired Reserve by the average reserve-retiree payment is approximately \$2.73 billion (20,812 x \$13,113 = \$2,729,077,560).

<sup>51</sup> Carl J. Dahlman, *The Cost of a Military Person-Year* (Santa Monica, CA: Rand National Defense Research Institute 2007), xii.

<sup>52</sup> Ibid.

<sup>53</sup> Congressional Budget Office, *Long-term Implications of the Fiscal Year 2010 Defense Budget* (Washington, D.C.: Congressional Budget Office, January 2010), 12.

<sup>54</sup> Dahlman, *The Cost of a Military Person-Year*, xii.

<sup>55</sup> Congressional Budget Office, *Long-term Implications of the Fiscal Year 2010 Defense Budget*, 12.

<sup>56</sup> Dahlman, *The Cost of a Military Person-Year*, xii.

<sup>57</sup> Defense Advisory Committee on Military Compensation, *The Military Compensation System: Completing the Transition to an All-Volunteer Force* (Washington, D.C.: DACMC, April 2006), 20.

<sup>58</sup> Peter M. Zouras, DOD Office of the Actuary, e-mail to the author, June 1, 2010.

<sup>59</sup> Ibid.

<sup>60</sup> Ibid.

<sup>61</sup> Unless Congress allows the services to create billets they would not have otherwise created, money not paid in retirement is money saved, even the servicemember is still earning a salary.

<sup>62</sup> Secretary of Defense, *Report of the Tenth Quadrennial Review of Military Compensation, Volume II*, 1 (citing a 2007 study by the Government Accountability Office (GAO)). Noncash benefits amount to 21 percent. Ibid., xii.

<sup>63</sup> Christian, *An Overview of Past Proposals for Retirement Reform*, 20

<sup>64</sup> Ibid.

<sup>65</sup> U.S. Congress, House of Representatives, H. Rept. 110-231 to accompany H.R. 3043, Committee on Appropriations (Washington, D.C.: Government Printing Office, July 13, 2007), 31.

<sup>66</sup> U.S. Bureau of Labor Statistics, *Program Perspectives on Retirement Benefits*, Issue 3 (Washington, D.C.: U.S. Bureau of Labor Statistics, March 2009), 1. Private sector employees are usually vested after only five years of employment. Secretary of Defense, *Report of the Tenth Quadrennial Review of Military Compensation, Volume II*, 13.

<sup>67</sup> Jack Faires, Joseph Whitley, and Bruce Wilson, *Military Retirement – Is it Time to Change?* (Carlisle Barracks, PA: Army War College, May 22, 1998) 7 (citing July 1995 Concord Coalition study). Typically, private-sector employees must wait at least until reaching age 59½ before they can begin to draw a full retirement benefit. Secretary of Defense, *Report of the Tenth Quadrennial Review of Military Compensation, Volume II*, 13.

<sup>68</sup> The cost of this pension is approximately 25 percent of payroll. Typical private sector plans, on the other hand, average only 12.2 percent of payroll. Faires, *Military Retirement*, 7.

<sup>69</sup> Christian, *An Overview of Past Proposals for Retirement Reform*, 19.

<sup>70</sup> Faires, *Military Retirement*, 7.

<sup>71</sup> Ibid.

<sup>72</sup> Faires, *Military Retirement*, 6; Alan Horton, "Military Pensions Outstrip Duty Pay, Aspin Charges," *Pittsburgh Press*, December 5, 1976, <http://news.google.com/newspapers?nid=1144&dat=19761205&id=IYYqAAAAIBAJ&sjid=5VYEAAAAIBAJ&pg=6832,2857837> (accessed on May 29, 2010). Representative Les Aspin stated, "A 20-year career man, therefore, can expect to get his lifetime salary paid to him all over again between the date he retires and the date he reaches normal retirement age – years during which almost all military retirees are employed at other jobs."

<sup>73</sup> DVA deferred compensation is not included in DOD's budget. The DVA provides compensation for Service-connected and non-Service-connected disabilities. DOD Office of the Actuary, *Statistical Report on the Military Retirement System, Fiscal Year 2008*, 10.

<sup>74</sup> President's Private Sector Survey on Cost Control, *War on Waste; A Report to the President*, Volume I (New York, NY: Macmillan Publishing Co., January 12, 1984), 4, <http://thetruthnews.info/GraceCommissionReport.pdf> (accessed on May 29, 2010); Faires, *Military Retirement*, 7.

<sup>75</sup> William J. Carr, Prepared Statement, Testimony before the Senate Armed Services Personnel Subcommittee, April 28, 2010, 3. The study compared the value of basic pay, the Basic Allowance for Housing, and the Basic Allowance for Subsistence, and the federal tax advantage from the housing and subsistence allowances, to civilian pay. The value of the military retirement and healthcare was not considered. Because retired pay is calculated using only basic pay, and not other allowances, that it is lower than private-sector defined-benefit pensions.

<sup>76</sup> Ibid.

<sup>77</sup> Ibid.

<sup>78</sup> Secretary of Defense, *Report of the Tenth Quadrennial Review of Military Compensation, Volume II*, 8, 14.

<sup>79</sup> Ibid., 8.

<sup>80</sup> Ibid., 14.

<sup>81</sup> Defense Advisory Committee on Military Compensation, *The Military Compensation System: Completing the Transition to an All-Volunteer Force*, 22.

<sup>82</sup> Secretary of Defense, *Report of the Tenth Quadrennial Review of Military Compensation, Volume II*, 8.

<sup>83</sup> Ibid., xii

<sup>84</sup> Ibid., 3.

<sup>85</sup> Ibid., xii - xiii. "A retirement benefit with both cash and deferred elements would be more efficient than the current system of deferred benefits only less costly to the government and of greater value to the service member." Ibid., xiii. "To address this problem, the studies have typically recommended a two-tier retirement system in which a reduced benefit amount is paid in the first-tier or second-career phase, and a "restored" benefit is paid at a later date during the second-tier, old-age annuity phase." Christian, *An Overview of Past Proposals for Retirement Reform*, 19.

<sup>86</sup> Government Accountability Office, *DOD Needs More Data Before It Can Determine if Costly Changes to the Reserve Retirement System Are Warranted*, GAO-04-1005 (Washington, D.C.: GAO, September 2004), 5.

<sup>87</sup> Dahlman, *The Cost of a Military Person-Year*, xii. This statistic does not account for those active-duty personnel who transfer to the reserves and later earn a reserve retirement. Peter M. Zouras, DOD Office of the Actuary, e-mail to the author, June 7, 2010. The retirement incentive appears to begin between the 12th to 14th year of service. Most personnel who have more than 14 years of service, DOD believes, have decided to make a career out of the military and will stay until they are eligible for retirement. Because data show that attrition rates decline as servicemembers approach 20 years of service, DOD generally does not offer retention bonuses to military members who have served more than 14 years. Government Accountability Office, *DOD Needs More Data Before It Can Determine if Costly Changes to the Reserve Retirement System Are Warranted*, 19.

<sup>88</sup> Secretary of Defense, *Report of the Tenth Quadrennial Review of Military Compensation, Volume II*, 4. To understand why the retirement benefit is inefficient, it is helpful to understand the concepts of the time value of money, discount rates and the perceived present value of a future payment, whether lump sum or an annuity. Because money can be used to make more money, e.g., earn interest or be invested, money in hand is worth more than a future payment of the same amount. That is, there is a time value of money. What one is willing to pay today for a future payment is known as the "present value." The difference between the present value and nominal value in terms of an interest-rate is known as the "discount rate." The discount rate can be an objective factor, e.g., the rate of interest paid by treasury bills, or it can be subjective. A subjective rate is based on one's personal willingness to accept a future payment at a particular price. As discount rates increase, present value decreases.

<sup>89</sup> Ibid.

<sup>90</sup> Ibid.

<sup>91</sup> Ibid.

<sup>92</sup> Edmund L. Andrews, "Payback Time: Wave of Debt Payments Facing U.S. Government," *New York Times*, November 22, 2009, <http://www.nytimes.com/2009/11/23/business/23rates.html?pagewanted=all> (accessed on May 28, 2010). Other experts assert the figure could be much higher.

<sup>93</sup> Ibid.

<sup>94</sup> Gregory J. Dyekman, *Security Cooperation: A Key to the Challenges of the 21st Century* (Carlisle, PA: U.S. Army War College Strategic Studies Institute, November 2007), 5 - 6.

<sup>95</sup> Dyekman, *Security Cooperation: A Key to the Challenges of the 21st Century*, 5 - 6.

<sup>96</sup> Government Accountability Office, *DOD Needs More Data Before It Can Determine if Costly Changes to the Reserve Retirement System Are Warranted*, 6.

<sup>97</sup> Ibid.

<sup>98</sup> Ibid.

<sup>99</sup> Ibid.

<sup>100</sup> Secretary of Defense, *Report of the Tenth Quadrennial Review of Military Compensation, Volume II*, 14.

<sup>101</sup> Government Accountability Office, *DOD Needs More Data Before It Can Determine if Costly Changes to the Reserve Retirement System Are Warranted*, 7.

<sup>102</sup> Reserve Officers Association, *Need for an Early Retirement Fix* (Washington, D.C.: ROA), [http://www.roa.org/site/PageServer?pagename=abSen\\_earlyretire\\_660Sheet](http://www.roa.org/site/PageServer?pagename=abSen_earlyretire_660Sheet) (accessed on May 23, 2010).

<sup>103</sup> Michael Waterhouse and JoAnne O'Bryant, *National Guard Personnel and Deployments* (Washington, D.C.: Congressional Research Service, January 17, 2008), 3 - 5.

<sup>104</sup> Government Accountability Office, *DOD Needs More Data Before It Can Determine if Costly Changes to the Reserve Retirement System Are Warranted*, 6.

<sup>105</sup> Asch, *Reserve Retirement Reform*, 4.

<sup>106</sup> Ibid.

<sup>107</sup> Ibid.

<sup>108</sup> As discussed above, Reserves who have performed certain types of active duty since January 28, 2008 are eligible retire before age 60 by an amount of time equal to each full period of 90 days of active duty performed wholly within a fiscal year. House Bill H.R. 208 (111th Congress) would amend the United States Code to include certain active duty performed since September 11, 2001. Information obtained from THOMAS, The Library of Congress, <http://thomas.loc.gov/> (last accessed June 8, 2010).

<sup>109</sup> Robert A. Harris, *Youth and Vigor: Modernizing Reserve Component Retirement* (Carlisle, PA: Army War College, 2001), 7, citing Mary Ellen McCalla, et al., *Description of Officers and Enlisted Personnel in the U.S. Selected Reserve: 1986* (Arlington, VA: Defense Manpower Data Center, 1986).

<sup>110</sup> Asch, *Reserve Retirement Reform*.

<sup>111</sup> Ibid., 20.

<sup>112</sup> Ibid., 10.

<sup>113</sup> Ibid.

<sup>114</sup> Ibid., 11.

<sup>115</sup> Ibid.

<sup>116</sup> Ibid.

<sup>117</sup> Ibid.

<sup>118</sup> Ibid.

<sup>119</sup> Ibid.

<sup>120</sup> Ibid., 20.

<sup>121</sup> Some might argue that Reserves are overly compensated in that they earn two points per day on a typical drill weekend and 15 points for simply being active in the reserves. Active-duty servicemembers, on the other hand, receive retirement credit while off duty on the weekends, and during leave and pass periods. (In addition, Reserves do not earn housing or subsistence pays, nor do they accrue leave, while performing inactive duty.)

<sup>122</sup> Ibid., 9.

<sup>123</sup> Ibid., 10.

<sup>124</sup> Ibid.

<sup>125</sup> Ibid.

<sup>126</sup> Ibid.

<sup>127</sup> Ibid.

<sup>128</sup> Ibid.

<sup>129</sup> Ibid.

<sup>130</sup> The study used 10 percent as the assumed interest (discount) rate.

<sup>131</sup> Ibid.

<sup>132</sup> Ibid., 11.

<sup>133</sup> Ibid., xiii.

<sup>134</sup> Office of the Secretary of Defense, Reserve Affairs, Employer Support of the Guard and Reserve, *Congressional Response* (Washington, D.C.: ESGR, March 31, 2004), 6, <http://ra.defense.gov/documents/esgreport1april04.pdf> (accessed on May 29, 2010); David Kurle, "Online Poll Asks: Are Employers Reluctant to Hire Reservists" (442d Fighter Wing Public Affairs Office), available at <http://www.442fw.afrc.af.mil/news/story.asp?id=123052332> (accessed on May 29, 2010).

<sup>135</sup> This is, in fact, the position of the Government Accountability Office. According to the GAO, "[t]he sole purpose of reserve retirement is to provide a monetary incentive for qualified reserve personnel to retain membership in the reserve components and continue their training." Government Accountability Office, *DOD Needs More Data Before It Can Determine if Costly Changes to the Reserve Retirement System Are Warranted*, 10.

<sup>136</sup> Asch, *Reserve Retirement Reform*, 15.

<sup>137</sup> *Ibid.*, 20.

<sup>138</sup> Gerry J. Gilmore, "All Services Meet or Exceed October Recruiting Goals," *American Forces Press Service*, Nov. 13, 2009, available at <http://www.defense.gov/news/newsarticle.aspx?id=56685> (accessed on May 28, 2010). Active and reserve military components notched record recruiting numbers in fiscal 2009 and also signed up the highest-quality recruits since the all-volunteer force began in 1973. All four active-duty services also met or exceeded their retention goals for October 2009. All six reserve components met or exceeded their recruiting goals in October 2009. This success is attributed not only to the economic downturn but also to a robust bonus program in which 40 percent of recruits received an average bonus of \$14,000. *Ibid.*

<sup>139</sup> William J. Carr, Prepared Statement, Testimony before the Senate Armed Services Personnel Subcommittee, April 28, 2010, 4. Rick Maze, "Personnel chiefs warn against cuts to bonuses," *Army Times*, Mar 18, 2010, available at [http://www.armytimes.com/news/2010/03/military\\_personnel\\_031710w/](http://www.armytimes.com/news/2010/03/military_personnel_031710w/) (accessed on May 28, 2010). Clifford Stanley, Undersecretary of Defense for Personnel and Readiness, stated, "For the first time, we truly have the ability to target pay with pinpoint accuracy to achieve desired aims and maximize effects of dollars spent." Lt. Gen. Richard Newton, the Air Force Deputy Chief of Staff for Manpower and Personnel, stated that bonuses are critical to being able to shape the force. *Ibid.*

<sup>140</sup> Michael S. March, "Pensions for Public Employees Present Nationwide Problems," *Public Administration Review* 40, no. 4 (Jul. - Aug., 1980): 383, available at <http://www.jstor.org/stable/3110265> (accessed on May 30, 2010).

<sup>141</sup> Glasson, *History of Military Pension Legislation in the United States*, 10.

<sup>142</sup> Tom Philpott, "Why Congress Hasn't Lowered Reserve Retirement Age," *Military.Com*, available at [http://www.military.com/NewContent/0,13190,Philpott\\_052705,00.html](http://www.military.com/NewContent/0,13190,Philpott_052705,00.html) (accessed on May 28, 2010).

<sup>143</sup> Testimony of The Naval Reserve Association before the Senate Committee on Armed Services, Military Personnel Subcommittee, on March 11, 2003, 9, available at <http://www.ausn.org/LinkClick.aspx?fileticket=HVyXRw%2FZiZU%3D&tabid=1511>, (accessed on May 28, 2010).

<sup>144</sup> Center on Budget Policy Priorities, "CBO Analysis, Other Studies Raise Serious Doubts about Costly Military Pay and Pensions Bill: Yet Congressional Leaders Consider Adding Bill to Emergency Supplemental" (Washington, D.C.: CBP Website, April 29, 1999), available at <http://www.cbpp.org/cms/index.cfm?fa=view&id=1847>, (accessed on May 28, 2010).

<sup>145</sup> Ibid.

<sup>146</sup> Ibid.

<sup>147</sup> Ibid.

<sup>148</sup> Ibid.

<sup>149</sup> Marvin M. Smith, "The Military Retirement Reform Act of 1986 – or Redux: A Postmortem," *Journal of Political and Military Sociology* (Winter 2001), available at [http://findarticles.com/p/articles/mi\\_qa3719/is\\_200101/ai\\_n8938782/](http://findarticles.com/p/articles/mi_qa3719/is_200101/ai_n8938782/) (accessed on May 29, 2010).

<sup>150</sup> The National Defense Authorization Act for Fiscal Year 2000 did not actually repeal Redux but it provided that the traditional retirement system would apply to those who entered the service after August 1, 1986, unless the servicemember affirmatively elected to receive a \$30,000 "Career Service Bonus." U.S. House of Representatives, National Defense Authorization Act for Fiscal Year 2000, conference report to accompany S. 1059, Report 106-301 (August 6, 1999), 155-158.

<sup>151</sup> Nate Fick, "It is time to discard the military's 20-year retirement system," *ForeignPolicy.Com*, available at [http://ricks.foreignpolicy.com/posts/2010/05/06/nate\\_fick\\_it\\_is\\_time\\_to\\_discard\\_the\\_military\\_s\\_20\\_year\\_retirement\\_system](http://ricks.foreignpolicy.com/posts/2010/05/06/nate_fick_it_is_time_to_discard_the_military_s_20_year_retirement_system), (accessed on May 28, 2010).

<sup>152</sup> Secretary of Defense, *Report of the Tenth Quadrennial Review of Military Compensation, Volume II*, 14.