

USAWC STRATEGY RESEARCH PROJECT

**RESERVE RETIREMENT FOR AN OPERATIONAL RESERVE**

by

Lieutenant Colonel Timothy M. Clarke  
United States Army Reserve

Commander Carolyn R. Owens  
Project Adviser

This SRP is submitted in partial fulfillment of the requirements of the Master of Strategic Studies Degree. The U.S. Army War College is accredited by the Commission on Higher Education of the Middle States Association of Colleges and Schools, 3624 Market Street, Philadelphia, PA 19104, (215) 662-5606. The Commission on Higher Education is an institutional accrediting agency recognized by the U.S. Secretary of Education and the Council for Higher Education Accreditation.

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U.S. Army War College  
CARLISLE BARRACKS, PENNSYLVANIA 17013

# Report Documentation Page

*Form Approved*  
*OMB No. 0704-0188*

Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.

|   |  |   |   |                                  |                                 |
|---|--|---|---|----------------------------------|---------------------------------|
| 1. REPORT DATE<br><b>30 MAR 2007</b>  | 2. REPORT TYPE<br><b>Strategy Research Project</b> | 3. DATES COVERED<br><b>00-00-2006 to 00-00-2007</b> |   |                                  |                                 |
| 4. TITLE AND SUBTITLE<br><b>Reserve Retirement for an Operational Reserve</b>   |  | 5a. CONTRACT NUMBER                                 |   |                                  |                                 |
|   |  | 5b. GRANT NUMBER                                    |   |                                  |                                 |
|   |  | 5c. PROGRAM ELEMENT NUMBER                          |   |                                  |                                 |
| 6. AUTHOR(S)<br><b>Timothy Clarke</b>   |  | 5d. PROJECT NUMBER                                  |   |                                  |                                 |
|   |  | 5e. TASK NUMBER                                     |   |                                  |                                 |
|   |  | 5f. WORK UNIT NUMBER                                |   |                                  |                                 |
| 7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES)<br><b>U.S. Army War College, Carlisle Barracks, Carlisle, PA, 17013-5050</b> |  | 8. PERFORMING ORGANIZATION REPORT NUMBER            |   |                                  |                                 |
| 9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)   |  | 10. SPONSOR/MONITOR'S ACRONYM(S)                    |   |                                  |                                 |
|   |  | 11. SPONSOR/MONITOR'S REPORT NUMBER(S)              |   |                                  |                                 |
| 12. DISTRIBUTION/AVAILABILITY STATEMENT<br><b>Approved for public release; distribution unlimited</b>                           |  |   |   |                                  |                                 |
| 13. SUPPLEMENTARY NOTES   |  |   |   |                                  |                                 |
| 14. ABSTRACT<br><b>See attached.</b>  |  |   |   |                                  |                                 |
| 15. SUBJECT TERMS   |  |   |   |                                  |                                 |
| 16. SECURITY CLASSIFICATION OF:   |  |   | 17. LIMITATION OF ABSTRACT<br><b>Same as Report (SAR)</b> | 18. NUMBER OF PAGES<br><b>21</b> | 19a. NAME OF RESPONSIBLE PERSON |
| a. REPORT<br><b>unclassified</b>  | b. ABSTRACT<br><b>unclassified</b>                 | c. THIS PAGE<br><b>unclassified</b>                 |   |                                  |                                 |

## **ABSTRACT**

AUTHOR: Lieutenant Colonel Timothy M. Clarke  
TITLE: Reserve Retirement for an Operational Reserve  
FORMAT: Strategy Research Project  
DATE: 30 March 2007      WORD COUNT: 6507      PAGES: 22  
KEY TERMS: Benefits, Compensation, Balance, Flexibility, Comparability, Equity  
CLASSIFICATION: Unclassified

Since the early 1990s the frequency and extent of reserve component utilization has increased significantly. The United States no longer goes to war without its reserve components. The Army Reserves has changed from a strategic reserve force, only called up in the event of a World War III scenario, to an operational reserve force utilized anytime active forces are employed across the spectrum of military operations.

Changes to the reserve component retirement benefits are warranted in light of the change in use of the reserves.

This paper examines several of the proposed changes to the reserve components retirement benefits. First, I will review the reserve component military retirement system origin and purpose, and then I will examine what purpose the reserve retirement system serves now. Then I will briefly discuss the proposed changes and examine which system, either the existing system or one of those proposed, is best to meet the current purpose of the reserve component retirement system. For comparison sake reference to active duty benefits and specifically retirement benefits are included to frame the discussion concerning reserve retirement benefits.



## RESERVE RETIREMENT FOR AN OPERATIONAL RESERVE

Since the early 1990s the frequency and extent of reserve component utilization has increased significantly. The United States no longer goes to war without its reserve components. The Army Reserves has changed from a strategic reserve force, only called up in the event of a World War III scenario, to an operational reserve force utilized anytime active forces are employed across the spectrum of military operations.

Changes to the reserve component retirement benefits are warranted in light of the change in use of the reserves. While its overall purpose is much broader, President Bush's guidance to the Secretary of Defense in the Tenth Quadrennial Review of Military Compensation memorandum should result in a review of retirement benefits for the reserve components. The body of this guidance stated, "To continue to recruit and retain highly qualified personnel for the uniformed services as they transform themselves to meet new challenges, the departments concerned must offer, in addition to challenging and rewarding duties, compensation appropriate to the services rendered to the Nation."<sup>1</sup>

This paper examines several of the proposed changes to the reserve components retirement benefits. First, I will review the reserve component military retirement system origin and purpose, and then I will examine what purpose the reserve retirement system serves now. Then I will briefly discuss the proposed changes and examine which system, either the existing system or one of those proposed, is best to meet the current purpose of the reserve component retirement system. Specifically, considering the reserve components change from a strategic reserve to an operational reserve, the value retirement benefits play in terms of recruiting and retention are examined. For comparison sake reference to active duty benefits and specifically retirement benefits are included to frame the discussion concerning reserve retirement benefits. While it is understood that the fiscal realities must be considered, this paper does not examine costs of the different retirement systems, but is informed by the need for our reserves to be effective in the support of the United States National Military Strategy.

### Origin and Purpose

The origin of the retirement system is found in the laws outlining military retirement. The original purpose of the reserve retirement system is found in the Army and Air Force Vitalization and Retirement Equalization Act of 1948. This act covered active and reserve retirement. The purpose of a non-disability retirement system for reserve component personnel, as defined by this law was, "...to provide an incentive for qualified personnel to retain membership and continue training in such components and thereby to provide a pool of skilled, trained, and

readily available manpower to augment active duty forces in times of national emergency.”<sup>2</sup> In order to establish a framework for examining the Reserve retirement benefits and for comparisons used later in this paper, a short review of the evolution of active and reserve retirement benefits is appropriate.

“Except for an 1855 statute that provided for the compulsory retirement of certain Navy officers, there was no legislative authority before 1861 that provided for either the voluntary or involuntary retirement of active-duty members of the Armed Forces from military service.”<sup>3</sup> In August 1861, laws were passed that permitted the President to voluntarily retire regular officers after they had reached 40 years of service.<sup>4</sup> After approximately twenty different Congressional acts between 1861 and 1946 which changed the retirement formula, the retirement age, the permitted time in service, and various other factors related to retirement, the Army and Air Force Vitalization and Retirement Equalization Act of 1948 was passed, creating, for the first time, a uniform retirement policy between the services when it, “...authorized the voluntary retirement of Army and Air Force officers after 20 years of active service...with retired pay computed by the standard 2.5 percent formula.”<sup>5</sup> The initial act in 1855 and many subsequent acts focused on ensuring there was a system in place to separate active component service members that were too old and could no longer perform their military duties properly.

As mentioned previously the purpose of the act with regards to the reserves was to encourage reservists to continue service so the nation could have a large pool of trained service members to call upon in times of national emergency. “Entitlement to retired pay for reserve service begins at age 60 under the act because that was, at the time of enactment, the minimum age at which federal civil service employees could voluntarily retire.”<sup>6</sup> In a report from the House Armed Services Committee more insight is gained as to the purpose of the reserve retirement program:

The underlying purpose in writing this policy as to Reserve components into law is that the retirement benefits will furnish an incentive that will hold men in the Reserve components for a longer period of time. Almost every witness who testified on this feature of the bill stressed that the most desirable type of Reserve was a reserve of men with accumulated training. It was also pointed out that the direct monetary emoluments payable to Reserve officers and men were so small that in many instances as the men grew older, became married, and took on family obligations, unless an additional incentive were offered them, they would drop their Reserve training. The reason for this policy is that we now realize that in the chaotic, explosive, and small world in which we live we must have a relatively large group of Reserves, well trained, and able to render help at once in the event of an emergency. We are hoping that the provisions offered in this bill, which to many of us seem liberal, will be an incentive well worth working for. The results should be longer periods of service by Reserves and a larger

and better-trained force on M-day, should we be so unfortunate as to have another M-day.<sup>7</sup>

Setting the age at which reservists could receive retirement pay was discussed in 1947 even during the congressional debates leading to the Army and Air Force Vitalization and Retirement Equalization Act of 1948. In a subcommittee hearing to provide for the Selection for Elimination and Retirement of Officers of the Regular Army, for the Equalization of Retirement Benefits for Members of the Army of the United States, and Other Purposes Armed Forces a subcommittee member, Mr. Van Zandt proposed to Mr. Melvin Mass, the President of the Federation of Reserve Officer Associations, the setting of the retirement age at 55 after the service member served 30 years. Once this was offered, Mr. Maas indicated that might be preferable for the reason of enticing workers out of the general work force, "...to make a few more jobs for younger men, when the time comes, which we certainly will face."<sup>8</sup> However, reserve retirement at age 55 with 30 years of service was not selected at that time. "The reserve retirement system has remained largely unchanged since its inception in 1948. Like the active-duty retirement system, it rewards reservists who complete 20 years of service (YOS) with a retirement annuity based on pro rata YOS and basic pay. Unlike active-duty retirees, though, reserve retirees are not eligible to receive this annuity until their sixtieth birthday. Active-duty retirees receive their annuity immediately upon separation."<sup>9</sup>

The validity of the original purpose of the reserve retirement system, to provide an incentive for qualified personnel to retain military membership and continue training to provide a pool of skilled, trained, and readily available manpower to augment active duty forces in times of national emergency does not define national emergency. Over the years the paradigm formed that a national emergency is defined as a World War III scenario. This is not the scenario surrounding the use of the reserves since approximately Desert Shield/Desert Storm.

### Current and Future Purpose

LTG Stultz, the current Chief of the Army Reserve (CAR), published his vision for the Army Reserve shortly after taking over as the CAR. His vision is, "The Army Reserve is a community-based, federal operational force of skill-rich warrior-citizens providing complimentary capabilities for joint-expeditionary and domestic operations."<sup>10</sup> The continued operational use of the Reserve components whether to support combat operations or in preparation for transformation to Army Reserve Expeditionary Forces (AREF) demonstrates the change to the mindset required by members of the reserves. LTG Stultz also stated, "Today's Army Reserve is no longer a strategic reserve. Instead, it is an operational force and an integral part of the

world's greatest Army." and, "Since Sept 11, 2001, more than 162,000 Army Reserve Soldiers – 80 percent of our force- have mobilized to serve in Iraq, Afghanistan, and more than a dozen other countries. About 22,000 soldiers have deployed more than once." <sup>11</sup>

As the Army transforms and changes to meet the challenges of the 21<sup>st</sup> century, the reserve components must transform and change as well. Corresponding to the change of the reserves from a strategic force to an operational force are needed changes in benefits for those serving. A reserve component specific change proposed by numerous groups and members of congress is to reduce the age a reservist becomes eligible to draw a reserve retirement. Each of the proposed changes would decrease the disparity between the Active and the reserve components retirement benefits and presumably would have other benefits. In this section I examine the change in the use of the reserves and propose the current purpose of the retirement benefits for reservists more closely resembles one purpose of the active duty retirement.

Even prior to 9/11, and the resulting increase in usage of the reserve components, Charles Cragin, the then Assistant Secretary of Defense for Reserve Affairs, wrote an article in the *National Guard* magazine titled, "Guard, Reserve Contract Has Changed". In this article he highlighted the increased use of the Guard and Reserve since the call up during Desert Shield/Desert Storm of over 250,000 reservists. His conclusion was valid then, and is further supported by the continued use of the Army Reserves today; the reserves are no longer a bunch of "weekend warriors" and that the contributions of the Guard and Reserves require the United States people to take greater care, "of them, their families and their civilian employers."<sup>12</sup> Additionally, recognizing the need for more predicable schedules for reservists the Army Reserve is transforming to Army Reserve Expeditionary Forces (AREF). This concept includes ten force packages, of which two will be available for deployment each year. "Under the AREF model, a Soldier would expect to mobilize and deploy every five years if needed."<sup>13</sup>

In the future the United States will continue employing its military around the world across the full spectrum of military operations and will continue to utilize the reserve components at the same high operations tempo level. In testimony before Congress, General Peter Schoomaker, the Army's Chief of Staff warned that the active duty Army "will break" under the strain of war-zone rotations, and he called for lifting Pentagon restrictions on involuntary call-ups of the Guard and reserve stating, "At this pace, without recurrent access to the reserve components, through remobilization, we will break the active component."<sup>14</sup>

The current relevant thinking concerning military compensation concepts is found in the April 2005 Military Compensation Background Papers. "Any military compensation system

should be based on certain underlying principles that, in aggregate, comprise its theory....Compensation should be designed to foster and maintain the concept of the profession of arms as a dignified, respected, sought after, and honorable career. The emotional and spiritual satisfactions ...should be coupled with compensation sufficient for an individual member to maintain a standard of living commensurate with the carrying out of responsibilities that directly affect the security of the nation. Without basic patriotism ... there could be no Armed Forces. At the same time, in peacetime, patriotism by itself is not an adequate motivation for a service career.”<sup>15</sup> As the use of the reserves changes to meet the needs of the nation, a necessary result is the change of benefits afforded those serving.

One reason for Active duty retirement compensation paid after 20 years of service is to make up for reduced second career earnings. After serving for over 20 years in the military, a person retiring and continuing to work, would start a second career at a disadvantage to his civilian peers whom have worked for the previous 20+ years in the civilian sector. Past studies (Borjas and Welch [1986 and Goldberg and Warner [1987]) found, “that military retirees suffer second-career earnings losses of as much as 25 or 30 percent.”<sup>16</sup> This leads to the conclusion that “retired pay may be needed, in part, to compensate for the cost of transitioning to the civilian sector, especially when the transition occurs well before the age of full withdrawal from the labor force.”<sup>17</sup>. Beth J. Asch, in a RAND technical report to Congress, explains the difference in the need for immediate receipt of retirement pay for active component versus reserve component is that, “The most important difference may be that reservists can have a civilian career while employed in the Reserves.”<sup>18</sup>

If the use of the reserves is becoming more like the use of the active force then the retirement compensation model should be more in line with that of the active force retirement compensation model. The expanded use of the reserves and Department of Defense’s desire to off set reduced second career earnings for those affected results in the conclusion there is a need for a reduced retirement age for reservists. If reservists perform one weekend a month and two weeks annual training a year to prepare for utilization in the case of national emergency then civilian earnings do not suffer due to military requirements. This desire to off set reduced second career earnings is a recruiting and retention tool to offer incentive for high quality citizens to choose the military as a career field.

The retirement benefits for active and reserve forces is a recruiting and retention issue as the desire is to attract quality personnel willing to sacrifice themselves for their country as long as able or as long as they are needed by the Nation. The expected experiences service members have in subsequent careers can influence their satisfaction with their military service.

After serving 20 years, active duty members, make less in their second career than civilians with comparable experience, but when added to their retirement benefits, “the overwhelming majority of retirees have been satisfied with their military careers and satisfied with their civilian life as well.”<sup>19</sup> This insures some number of active duty members serve to at least 20 years of service. This same metric now applies to reservists. As the nation continues to use the reserves, the impact on reservist’s civilian careers is increased. To insure reservists continue to be “satisfied with their military careers and satisfied with their civilian life as well”, so they join and remain in the force, a change to enhance reserve retirement benefits is required. To illustrate this need under the current increased use of reservists we can do a simple comparison of an active component (AC) soldier, an Army Reservist with traditional (AR-T) commitments, whom serves one weekend a month and two weeks of annual training each year, and an Army Reservist with heavy (AR-H) mobilization/deployment commitments during his career.

Under the current retirement system, the AC soldier receives retirement pay upon retiring and pursues a second career. The former AC soldier earns less in his second career than civilians with comparable experience. When this former AC soldier’s Army retirement pay is combined with pay from a second career the former AC soldier is found to be satisfied with both his military and his civilian career.

The AR-T soldier will serve in his civilian career capacity and will serve in the Army Reserves. He will earn more in his civilian career than the AC soldier entering the civilian workforce after his retirement from the military. Combined with his reserve pay he is compensated sufficiently to be satisfied with both careers. After 20 qualifying year in the Reserves the AR-T soldier continues to serve since there is no incentive, in the form of immediate retirement benefits, to retire. He will serve for another 10+ years and will continue to be satisfied with both his military and civilian life. After retiring the AR-T soldier still must wait up to 10+ years before receiving his military retirement pay, but presumably is satisfied with both his civilian and his military careers.

The AR-H soldier will start out in the same situation as the AR-T soldier, but will fall behind the traditional reservist counterpart with regards to civilian compensation because he is absent from his civilian career one year out of every 5 years. After 20 qualifying year in the Reserves the AR-H soldier continues to serve since there is no incentive, in the form of immediate retirement benefits, to retire. He will continue to fall further behind his AR-T soldier counterpart with regards to civilian career progression. Once the AR-H soldier retires, he has another 10+ years remaining before he receives his reserve retirement benefits. This will result in the AR-H soldier being behind both the AR-T soldier and potentially his AC soldier-turned

civilian counterparts. This results in less satisfaction with his civilian career causing a decrease in retention as the AR-H reservists realizes the higher demands of his reserve career, with a long term payoff, is detrimental to his civilian career and the immediate of that time investment.

“The themes of **balance** and **flexibility** are woven throughout the 9<sup>th</sup> Quadrennial Review of Military Compensation analysis.”<sup>20</sup> As one part of the fix to the imbalance caused by the reserves use as an operational reserve, the reserve retirement policy needs to pay reserve retirement benefits earlier or some other method is needed to offset this disparity so long term recruiting and retention does not suffer.

The operational use of the reserves will manifest greater operations tempo in the future as the AREFs continue to mobilize and deploy each five years to support operations across the military spectrum. As more is asked of our reserve forces we must expect to provide more in terms of benefits in order to compensate them properly. The increased use of the reserves results in the purpose of reserve retirement benefits replicating more those of active duty retirement benefits, which are currently paid immediately upon retirement, to off set second career earnings losses.

### Proposed Changes

“A consequence of the more intensive use of the reserve components in national defense in recent years has been greater attention paid to the adequacy and efficiency of the reserve compensation system. A key component of this system is the reserve retirement plan that pays, beginning at age 60, an annuity to qualified reservists who have completed 20 years of creditable service (YCS).”<sup>21</sup>

Since 2003 Congress has introduced various bills with differing language, all with the common theme of reducing the age of receipt of retirement benefits for reservists. Most recently, during the 109<sup>th</sup> Congress both the Senate and the House introduced bills addressing this issue. The stated purpose of Senate bill # 32 was, “to enhance the benefits and protections for members of the reserve components of the Armed Forces who are called or ordered to extended active duty, and for other purposes.”<sup>22</sup> The purpose of Senate bill #337, that would reduce age of receipt of retirement benefits by one year for each two years served past 20 years, was, to change the law by amending “title 10, United States Code, to revise the age and service requirements for eligibility to receive retired pay for non-regular service...”<sup>23</sup> Under this bill, the earliest a reservist could receive retirement pay is age 53 after serving for 34 years (34 years -20 years minimum service = 14 divided by 2 = 7 year reduction from age 60; age 60-7= age 53; earliest age a reservist could receive retirement pay). The House of Representatives

also introduced a bill with language to reduce the age of receipt of retirement benefits for all reservists from age 60 to age 55.<sup>24</sup> None of these provisions became law, but it is expected similar bills will be proposed by members of Congress during this year. The disadvantage of each of these proposals is the increased cost to the government due to the requirement to start paying reserve retirement benefits at an earlier age which results in more monetary outlays per year and for a greater number of years.

One positive aspect is each of these proposals is the resultant higher levels of retention amongst all reservists that would occur. In 2005 the Army Reserve and Army National Guard, “fell substantially short of their goals for those deciding whether to renew their commitment for the first time, creating the potential for long-term imbalances in the force. Of particular concern is the downward trend in Army Reserve end strength. Current authorized end strength is 205,000 personnel, but actual end strength is only about 190,000. The Army Reserve now projects increased losses of personnel, which will make achieving its fiscal 2006 target extremely difficult.”<sup>25</sup>

Each of the Congressional proposals results in increased retention of all reservists with the exception of those individuals whom are over the new age of proposed receipt of retirement benefits. “The deterrent of retirement among those entitled to benefits results in one less year of benefits and so makes no sense.”<sup>26</sup> This is the same phenomenon experienced on active duty when service members reach 20 years of service. Giving the incentive to receive retirement benefits at an earlier age is a tremendous incentive for continued service past 20 years and will result in the greatest draw for the majority of the reserve population to remain in the reserves longer. Currently, the retention of officers drops from around 95% at year nineteen for officer and enlisted to 83% for officers and 73% for enlisted reservists in year twenty.<sup>27</sup>

With a sliding scale retirement remaining in the service past 20 years is given a greater value as benefits could be earned earlier making them more valuable to the reservist. At the same time this sliding scale encourages those that have served their nation extensively to retire. This is beneficial if those individuals are merely remaining in the service because there is no incentive to retire. The sliding scale retirement system by itself will increase moral across the reserves and will be an added inducement for continued service past 20 years. The question that needs to be answered by the reserve leadership is how many of those over age 53 are necessary to the accomplishment of the Army Reserve mission? If a majority is needed then this is not a wise choice. If only a select few are need to meet the reserve mission then this is an outstanding tool for recruiting and retention.

While Congress proposed reducing the reserve retirement age, others advocated changes to the active retirement that ultimately could affect reserve retirement benefits.

The current military pay system is a defined benefit (DB) plan. After serving for 20 years a “defined” benefit is provided the employee. Both the active and the reserve retirement pay plans are DB plans. The advantage of a DB plan is the employee can predict his benefits prior to or during his period of service. The disadvantages are they are more costly for the employer to administer and to fund.

Beth J. Asch’s and John Warner identify criticisms of the current 20 year retirement system, in their study, “A Theory of Military Compensation and Personnel Policy” (Rand: 1994):

At one extreme, some critics have wondered why the military needs a retirement system at all under the AVF [All Volunteer Force], and one that is more generous than the typical old-age annuity systems prevalent in the private sector. The argument critics offer is as follows. Under the draft, the retirement system helped the military discriminate between first-termers and career personnel. But under the AVF, when more enlistees want to stay for a career, a large back-end (retirement) pay policy has outlived its usefulness because such discrimination is more difficult. Further, these critics charge that young people (i.e., military personnel) are known to have high personal discount rates, much higher than the government’s, and therefore value a dollar of deferred (retirement) compensation less than it costs the government to provide. Thus, the government could reduce retired pay and maintain retention incentives by increasing active pay by less than the (present value of) the savings to the government, and save money. Taken to its extreme, this argument says that there need be no retirement system at all: The most efficient compensation system is an active-pay-only system. Some advocates of this line of reasoning recognize, of course, that it would be politically infeasible to eliminate the system altogether and therefore recommend a less-generous system that conforms to ERISA [Employee Retirement Income Security Act] guidelines for private-sector pension plans.

Critics further charge that the 20-year system constrains force planning and management in undesirable ways. Under existing procedures, the services determine how many personnel they need in each pay grade according to a variety of factors. They then obtain desired experience distributions of their forces, called program objective forces (POFs), by translating requirements by pay grade into a YOS [Years of Service] distribution. But the POFs are largely based on the experience distribution that can be supported with the retention patterns produced by the current compensation system and not necessarily a system that is most efficient.<sup>28</sup>

One suggested alternative to the 20 year retirement system is proposed by Benjamin A. Atkins, in the 2<sup>nd</sup> place essay of the 2006 Anchoring Sea Enterprise Contest. He suggests a military retirement system that switches from the current (DB) plan to a defined contribution (DC) plan. Under this plan he argues force quality and productively would increase because the services could take the retirement funds currently allocated each year for service members’

retirement and pay the service members higher wages and make deposits into a DC plan. With recurring balance statements to the service member, as with a thrift savings plan, the individual would see their retirement savings grow, resulting in a “sense of ownership and increased appreciation of the benefit. Additionally, the DC structure addresses a more intangible aspect of the recruiting value proposition: a transition to adulthood and self sufficiency.”<sup>29</sup>

DC plans, are the most prevalent type of retirement plan used in the civilian sector. The advantage is they are less costly to the employer in the long term so more immediate compensation is available for the employer to provide the employee. This results in immediate concrete, flexible and individualized rewards for employees enhancing employee motivation and performance according to the expectancy theorist.<sup>30</sup> The disadvantage, for the employee, is the uncertainty as to what future benefits the employee will receive once retired due to the dependence on the investment vehicles made available through the employer’s DC plan.

Other concerns about this type of system are the increase in mobility that results and that could lead to lower retention. In the Army the probability of increased mobility associated with DC plans, with short vesting periods, is compounded during times when other factors such as low unemployment rates, increase competition for high quality recruits by colleges and civilian employers exists and when the stresses of repeated deployments away from family occurs during times of high operations tempo. Additionally, defined contribution plans appear to make the employee relationship more transactional which, when viewed using the psychological contract perspective, may lead employees to develop bad attitudes and poor behaviors towards their employers.<sup>31</sup> Another criticism of DC type retirements is, “Employees in defined contribution plans might not identify as highly with the organization’s strategy, culture, and values as a result of perceptions of a more limited and transactional employment relationship.”<sup>32</sup>

Adversely affecting this balance in the military would be highly detrimental as the foundations of military service are the shared values and the resultant culture experienced when serving with others that hold these values high. Adhering to these values enables the Armed Forces to continue to accomplish all missions; placing service to the nation above interests of well being. While servicemen and women are patriots and serve their country selflessly, they are humans and are influenced, to some degree, by the various theories that are demonstrated to affect their civilian counterparts. The cost of failure caused by changing to a plan that results in the individuals not identifying with those values and culture is higher in the military than for any corporation.

The discussions that surround changing to a defined contribution type of retirement are mainly focused on active component retirements, but would necessarily apply to the reserve

components as well, if adopted, in order to maintain portability between the active component and the reserves, to maintain a level of equity between the active and reserve components and to take advantage of the cost savings and risk reduction to the Department of Defense that such programs provide.

### Which is Best?

Deciding on which method to use to compensate the military and specifically the reserves relates directly to the "...fundamental concepts and principles of our nation's form of government. Compensation should be designed to foster and maintain the concept of the profession of arms as a dignified, respected, sought after, and honorable career"<sup>33</sup>

Of the choices of the current system, a sliding scale system or a defined contribution plan system, the sliding scale system has the most merit. It meets the needs of recognizing the increased requirements being placed on reservists and it will serve as an incentive for recruiting and retention. Additionally, even though it is a change to the current system, it is not one that will reduce individuals identifying with the reserves strategy, culture or values. It will cost more. Analysis of these costs is needed, but when effectiveness of each system must be considered when evaluating potential changes.

Regardless of the system chosen education is essential for the personnel compensated under the chosen system. American culture is more of an instant gratification oriented society and this focus on instant gratification and lack of long term thinking has found its way to the military. The value of retirement benefits are examined by those determining the cost of manpower, but minimal attention is given to educating soldiers about the value of the benefits. Service members will respond to proper education efforts, and these efforts will serve to enhance recruiting and retention as the value of retirement benefits is explained.

A success story concerning long term thinking on the part of Army recruits is found in Montgomery GI Bill (MGIB) benefits. The MGIB provides funds for soldiers to use to pay for college. Typically, soldiers use these benefits after military service. The signing up for these benefits, which are typically not used until years later, is a demonstration of successful use of delayed gratification and long term thinking as in 1990, "188,598 recruits enrolled in the Montgomery GI Bill. Enrollments fell to 136,051 in FY96 primarily because of the drawdown"<sup>34</sup> Those recruits electing to participate in the MGIB withdraws, presumably with the intent on utilizing those funds to pay for college either while in service or afterwards, equals about 68% of the recruits in each year group.

These numbers represent about 68% of the new recruits in each of these years were performing long term planning with regards to benefits. They demonstrated the same delayed gratification thought process necessary to benefit from deferred compensation (retirement pension/benefits) although, to a lesser degree. On the other hand, based on the expectation to receive college benefits within a short time period (1-10 years) of signing up for the MGIB, the argument could be made that the percentage thinking 20-30 years in the future to retirement benefits would be significantly smaller, thus making changes to retirement benefits less important to recruiting and retention than other incentives like enlistment and re-enlistment bonuses.

Lastly, it is highly important that a change to a new system does not lead service members to perceive the rules were changed unfavorably after they began service. This concept is recognized and written into the compensation background papers and reflected in one sentence; "As you know, the effect on moral is most adverse when individuals who have entered service with expectancy of a permanent rate of compensation are constantly exposed to unfavorable ex post facto adjustments."<sup>35</sup>

A case study on this relative to military retirement benefits is the changes made in the mid-1980s and the subsequent backlash that resulted in Congress making some changes to attempt to alleviate service members concerns. A couple of acts designed to protect the limited funding resources the Congress controls were pass in 1985 and 1986. They interacted to reduce budgetary outlays, but the results demonstrated they adversely affected recruiting and retention and measures were taken to correct this deficiency. In 1985 the method of funding the Department of Defense Military Retirement Fund changed. Prior to 1985 the amount of retirement pay due in any year had to be appropriated that year. In 1985 a revised accounting system was put into place. Basically, "...until fiscal year 1985, the Department of Defense had to pay for retirement benefits earned in the past but due in the present; now the department must pay for retirement benefits as they are earned."<sup>36</sup> Congress immediately acted to take advantage of this new accounting method. In 1986 Congress set out to save \$2.9 billion by changing the calculations retirement benefits were based on and they passed the Military Retirement Reform Act.<sup>37</sup> This act implemented three different retirement calculations depending on when a soldier entered military service. First, those that entered service prior to 8 September 1980 would receive retired pay based on the formula of 2.5% x the number of years of service over 20, up to a maximum of 75% at 30 years of service, multiplied by the final basic pay earned by the service member just prior to retiring.

The next calculation, the “high three” calculation, applicable to those that entered service after 8 September 1980, but before 1 August 1986, was a similar equation except the 2.5% x number of years of service was multiplied by the average of the final three years of basic pay earned.

The final group, the REDUX group, consists of those that joined on or after 1 August 1986. Their calculation is the same as the previous group except that, for each year served less than 30, the percentage is reduced by 1 percent. This multiplier stays in effect until the serviceman turns 62, at which time it will return to the original multiplier. For example REDUX member who retires with 25 years of service would have a multiplier of 57.5% (25 years of service x 2.5% - 5% REDUX= 57.5%). At age 62 the multiplier would return to 62.5%. Additionally, this group’s cost-of-living adjustment lags the other two groups by one point each year until age 62, at which time there is a one time readjustment to the value it would have been under the other systems. It then continues to lag the other group’s cost-of-living adjustment by one each year for the rest of the retiree’s life.<sup>38</sup>

The REDUX change in retirement benefits had negative effects as evidenced in 1990; “The perception of an inadequate retirement program consistently surfaces as a primary cause of our recruiting and retention problems. Survey results combined with feedback gathered by leaders from all the Services, convinced Congress....that long-term retention is not well served by the REDUX retirement plan.”<sup>39</sup> The backlash against the REDUX retirement system occurred prior to anyone retiring under that system indicating a strong response by those that disagreed with the fairness of this change in retirement benefits. Congress responded by including in the “National Defense Authorization Act for Fiscal Year 2000 ... a set of expanded retirement options for members completing 15 years of active duty. Upon reaching the 15-year service anniversary, a member can choose to have retirement calculated according to the high-three formula ...used only for members who entered service between 1980 and 1986. Alternatively, the member can enter the Redux retirement...the lower multipliers of that system are counterbalanced by a Career Status Bonus of \$30,000...”<sup>40</sup> The reaction to REDUX demonstrates the impact changes to benefits have on service members.

A majority of reservists have continued to answer the call of their nation despite the reserves increased operations tempo in the 1990s, the stated change to an operational reserve and the continued use across the full spectrum of military operations. We should expect them to understand that a change to a sliding scale retirement system is beneficial to the service member, the services and the nation.

## Final Thoughts

When examining what the right answer is for compensation and specifically retirement benefits many theories and variables come into play and are used by various researchers depending on their hypothesis. The proposal to offer retirement earlier based on length of additional service past 20 years would not adversely affect service of first second term soldiers, and with proper education of potential recruits and soldiers concerning the value of retirement benefits could enhance recruiting and retention. Lastly, it would encourage continued service of career soldiers past 20 years of service. The most likely outcome is the career soldiers staying longer in order to receive retirement benefits earlier. The first term soldiers and mid-career soldiers may elect to remain longer in order to qualify for the earlier retirement benefits.

Recruiting and retention will benefit from payment of retirement benefits earlier as more service members are drawn to serve longer in order to receive those benefits earlier. The extent of the increase in recruiting and retention of those desiring to obtain retirement benefits is impacted by many variables including the effectiveness of educational efforts used by the services to show the value of retirement benefits.

The reduction of the age of receipt of retirement benefits increases the sense of equity with active component soldiers, especially in light of the increased use of the reserves since the 1990s and continuing today and projected to continue indefinitely into the future. Reducing the age for receipt of retirement benefits for every year served past 20 will permit sooner receipt of the retirement benefits for those that served the longest and presumably “suffered” the most loss in wages at their civilian career. This will reinstitute balance in the reserve retirement compensation system lost as the reserves shifted from a strategic to an operational reserve.

The “one weekend a month and two weeks in the summer” paradigm is gone. The frequency and extent of reserve component utilization has increased significantly and will continue at to meet current operational requirements and into the future to meet the AREF concept. Changes to the reserve component retirement benefits are necessary in light of these changes that make the reserve commitment appear more and more like that of an active commitment. This will return balance to what is asked of our citizen-soldiers and what is provided is returned and the nation demonstrates a continued commitment to the citizen-soldiers who are needed for the accomplishing of the National Military Strategy.

## Endnotes

<sup>1</sup> President George W. Bush, “Tenth Quadrennial Review of Military Compensation,” memorandum for Secretary of Defense, Washington D.C., 2 August 2005.

<sup>2</sup> Department of Defense, *Military Compensation Papers: Compensation Elements and Related Manpower Cost Items; Their Purposes and Legislative Backgrounds* (Washington, D.C.: Department of Defense, 2005), 722

<sup>3</sup> *Ibid.*, 684.

<sup>4</sup> *Ibid.*, 685.

<sup>5</sup> *Ibid.*, 692.

<sup>6</sup> *Ibid.*, 715.

<sup>7</sup> House Report No. 816 (Committee on Armed Services), p. 11, accompanying H.R. 2744, 80<sup>th</sup> Congress, 1<sup>st</sup> Session (1947). quoted in Department of Defense, *Military Compensation Papers: Compensation Elements and Related Manpower Cost Items; Their Purposes and Legislative Backgrounds* (Washington, D.C.: Department of Defense, 2005), 722

<sup>8</sup> Subcommittee Hearings on H.R. 2744 to Provide for the Selection for Elimination and Retirement of Officers of the Regular Army, for the Equalization of Retirement Benefits for Members of the Army of the United States, and for Other Purposes: Hearings on H.R. 2744 before Subcommittee No. 7, Retirement, House Committee on Armed Services, printed in Hearings before the Committee on Armed Services of the House of Representatives on Sundry Legislation Affecting the Naval and Military Establishments, p. 3363, 80<sup>th</sup> Congress, 1<sup>st</sup> Session (1947); quoted in Department of Defense, *Military Compensation Papers: Compensation Elements and Related Manpower Cost Items; Their Purposes and Legislative Backgrounds* (Washington, D.C.: Department of Defense, 2005), 726

<sup>9</sup> Beth J. Asch, James Hosek and David S. Loughran, *Reserve Retirement Reform; A Viewpoint on Recent Congressional Proposals* (Santa Monica, CA: RAND Corporation, 2006), 1.

<sup>10</sup> LTG Jack Stultz, "Vision for the Army Reserves," 26 June 2006, linked from *The United States Army Reserve Home Page* at "Word from the Top," available from <http://www.armyreserve.army.mil/ARWEB/NEWS/WORD/20060628.htm>; Internet; accessed 28 March 2007.

<sup>11</sup> Lt. Gen. Jack C. Stultz, "One Weekend a Month, Two Weeks in Summer No Longer Meet Nation's Needs", *The Officer*, (December 2006): 22, linked from obtained from The United States Army Reserve Home Page at "Word from the Top," available from <http://www.armyreserve.army.mil/ARWEB>; Internet; accessed 12 Dec 2006.

<sup>12</sup> Charles Cragin, "Guard, Reserve contract has changed," *National Guard* 54, no. 9 (Sept 2000): 11 [database online]; available from ProQuest; accessed 28 March 2007.

<sup>13</sup> LTG Jack Stultz, "Chief, Army Reserve Weighs in on Transformation," *Army Reserve Magazine*, (Summer 2006): 33

<sup>14</sup> Ann Scott Tyson, "General Says Army Will Need to Grow," *Washington Post*, 15 December 2006), 1, linked from the *Army Knowledge Online Website* at "Early Bird," available

from <https://www.us.army.mil/suite/earlybird/Dec2006/e20061215474012.html>; Internet, accessed 15 Dec 2006.

<sup>15</sup> Department of Defense, *Military Compensation Papers: Compensation Elements and Related Manpower Cost Items; Their Purposes and Legislative Backgrounds* (Washington, D.C.: Department of Defense, 2005), 2

<sup>16</sup> Beth J. Asch and John T. Warner, *A Theory of Military Compensation and Personnel Policy* (Santa Monica, CA: RAND Corporation, 1994), 25

<sup>17</sup> Ibid.

<sup>18</sup> Asch, *Reserve Retirement Reform, A Viewpoint on Recent Congressional Proposals*, 10.

<sup>19</sup> Department of Defense, *9<sup>th</sup> Quadrennial Review of Military Compensation Volume I* (Washington D.C.: Department of Defense, n.d.), xxxiii linked from the QRMC homepage at "QRMC," available from <http://www.dod.mil/prhome/qrmc/>; Internet; accessed 28 March 2007.

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

<sup>21</sup> Asch, *Reserve Retirement Reform; A Viewpoint on Recent Congressional Proposals*, iii.

<sup>22</sup> Senate bill # 32, "National Guard and Reserve Bill of Rights Act of 2005," available from <http://capwiz.com/moaa/issues/bills/?bill=6915026&size=full>; Internet; accessed 31 Aug 2006. This bill addresses many other issues such as periods of deployments of reserves overseas, improved educational assistance benefits for members of the selected reserve, and military pay oversight to oversee fixes to pay problems of activated reserve component personnel.

<sup>23</sup> Senate bill # 337, "Guard and Reserve Readiness and Retention Act of 2005", available from <http://capwiz.com/moaa/issues/bills/?bill=6948156&size=full>; Internet; accessed 31 Aug 2006. This bill had a sliding scale permitting receipt of reserve retirement pay at age 53 with 34 years of service to age 60 with 20 years of service; effectively for every 2 years over 20 YOS the reservist could receive retirement benefits one year earlier.

<sup>24</sup> House of Representatives bill # 783, "Age 55 Reserve Retirement", available from <http://capwiz.com/moaa/issues/bills/?bill=7271241>; Internet; accessed 31 Aug 2006.

<sup>25</sup> William J. Perry and Michele A. Flournoy. "The U.S. Military: Under Strain and at Risk", *National Defense* 90 (May 2006): 14.

<sup>26</sup> Asch, *Reserve Retirement Reform; A Viewpoint on Recent Congressional Proposals*, 35.

<sup>27</sup> Ibid., 25.

<sup>28</sup> Asch, *A Theory of Military Compensation and Personnel Policy*, 19-20

<sup>29</sup> Ben Atkins, "Retire the Twenty-Year System", 2006 Sea Enterprise Contest 2<sup>nd</sup> place winner, (n.d.): 4 linked from The United States Naval Institute web page "Contests Winners," available from <http://www.usni.org/contests/seaenterpriseessay/winners.htm>; Internet; accessed 28 March 2007.

<sup>30</sup> James W. Westerman and Jim Sundali, "The transformation of employee pensions in the United States: through the looking glass of organizational behavior, *Journal of Organizational Behavior*, 26 (2005), 99, [database on-line]; available from ProQuest; accessed 15 Dec 2006.

<sup>31</sup> Ibid., 100.

<sup>32</sup> Ibid., 101.

<sup>33</sup> Department of Defense, *Military Compensation Papers: Compensation Elements and Related Manpower Cost Items; Their Purposes and Legislative Backgrounds* (Washington, D.C.: Department of Defense, 2005), 2

<sup>34</sup> Beth J. Asch and M. Rebecca Kilburn and Jacob A. Klerman, *Attracting College-Bound Youth into the Military: Toward the development of new recruiting policy options*. (Santa Monica, CA: Rand Corporation: 1999): 23

<sup>35</sup> Department of Defense, *Military Compensation Papers: Compensation Elements and Related Manpower Cost Items; Their Purposes and Legislative Backgrounds* (Washington, D.C.: Department of Defense, 2005), 3

<sup>36</sup> Ibid., 706.

<sup>37</sup> Ibid., 707.

<sup>38</sup> Ibid., 702-704

<sup>39</sup> Ibid., 707.

<sup>40</sup> Ibid., 708.

