MILITARY RETIREMENT: REFORM FOR THE 21ST CENTURY FORCE

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Military Retirement: Reform for the 21st Century Force

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Defined Benefits, Reform, Modernization, Separation Pay, Bonuses
USAWC STRATEGY RESEARCH PROJECT

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ABSTRACT

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MILITARY RETIREMENT: REFORM FOR THE 21ST CENTURY FORCE

The United States active-duty military force is subject to a retirement system that was established decades ago and clearly requires modernization, and which is also in danger of being adversely affected due to significant financial challenges facing the Department of Defense. Although many points can be brought to bear when discussing the military retirement system and its reform, there are several main areas that rise to the top: vesting, force management, additional financial opportunities, and the adverse impact health care costs will have on any future retirement reform. Due to the current retirement system where vesting begins at 20 years of service (YOS), the United States military continues to lose valuable experience at early points during one’s service.

Additionally, the current military retirement system provides limited flexibility for services to manage their force structure in a manner that guarantees that the highest quality personnel are retained and stay for longer durations, while those who may underperform are separated from the service. The current military retirement system is one that offers few incentives to reach milestones within one’s career. Further, the current system does not offer any finance or investment flexibility, such as a 401K type system, that would allow servicemembers to invest their own money rather than rely on the current ‘all-or-nothing’ retirement benefits package. Lastly, as the military retirement system accounts for a significant portion of the DoD’s budget, major cuts to the budget will unfavorably affect servicemembers and their benefits, and special consideration needs to be paid to any changes to health care benefits, particularly given the current US national health care crisis.
With these topics in mind, it is important to provide perspective as to where the military retirement system is today and how it arrived at this point before evaluating alternatives for the future. This review, however, will not address the entire US military retirement system. Today’s military retirement structure consists of three separate retirement components: regular non-disability, reserve non-disability, and disability. Due to the scope of the challenge of covering all three components, this paper will only address issues related to the regular non-disability retirement system. In addition to providing an analysis of this system and demonstrating a real need for change, this paper will offer several recommendations for a reformed 21st century military retirement system.

Where Are We Today?

Since its establishment in the 1940s, the US military retirement system has remained relatively unchanged despite an obvious need to be modernized to complement the needs of a 21st century military force that is inherently different than it was 70 years ago. What we presently have today, for example, is a system in which a servicemember who chooses to separate after serving a minimum of 20 years will receive an immediate lifetime monthly annuity. The servicemember receives this pension, regardless of age, based on a specific percentage of their retired computation base. This percentage is determined by multiplying 2.5 times the number of years they serve up to 30 YOS, for a maximum of 75%. The pension received by a servicemember, then, is based on taking this percentage of the average of their three highest years of basic pay. Should they be eligible to serve beyond 30 years of service,
this does not increase the percentage used to determine the amount of their retirement pension.

To the contrary, a service member who separates from active duty with less than 20 YOS receives absolutely nothing. It is important to cite that the original intention of non-disability military retirement was compensation for service extending beyond 30 years. However, eligibility for retirement was placed at 20 YOS by Congress due to concerns over maintaining a force structure which reflected an appropriate amount of youth and vigor.

Over the past several decades, the basic system as described above, and especially the standard 20-year retirement option, has been the focus of intense criticism. In addition it has received equally intense support among military members, politicians, and defense manpower analysts.¹ As a result, today’s military retirement system has been scrutinized, targeted, and influenced by numerous panels, commissions, reports, and studies; some of which made their way into public law and some which merit further consider.

**How Did We Get Here?**

To properly set the stage, a review of military retirement reform from 1976 to modern day is necessary. Since the mid-1970s, there have been several panels and commissions launched to review military retirement benefits, resulting in five major studies which addressed military retirement reform:

- The 1976 Defense Manpower Commission
- The 1978 President’s Commission on Military Compensation
- The 1984 Fifth Quadrennial Review of Military Compensation
• The 1988 Sixth Quadrennial Review of Military Compensation
• The 2006 Defense Advisory Commission on Military Compensation.

Despite these studies, however, there was very little actual reform; eligibility for retirement remained at 20 YOS minimum, with varying formulas used to compute retired pay. Most of the studies proposed beginning vesting at about 10 YOS, with the exception of the Fifth Quadrennial Review of Military Compensation, which recommended continuing the current vesting at 20 years.² For the purposes of research clarity, two of these studies are reviewed in detail below--The Defense Manpower Commission (DMC) of 1976, as well as the Military Retirement Reform Act of 1986, also known as REDUX. Additionally, the FY2000 National Defense Authorization Act will be briefly discussed and evaluated.

Looking back 35 years, the Defense Manpower Commission (DMC) report of May 1976 seemed determined to modernize an already outdated retirement system, and as such, highlighted three reasons. The first was to provide a military retirement system that supports personnel-management objectives. The second was to remedy inequities that existed amongst service members.³ The last, and arguably the most significant, was to reduce the total cost of the program. From the DMC’s perspective, they believed the early retirement policy was not only costly, but also that it was disruptive in that the military was being deprived of the requisite skills and insight that members developed over the course of many years through participation in operations and specialized skills training. This second point no doubt resonated with the services as they sought to capture valuable lessons from Vietnam and inculcate them throughout the force. Also, in light of spending the previous ten or so years in Vietnam, the DMC
sought a military retirement system that acknowledged and subsequently rewarded a member in an occupation who conducted combat operations versus others that did not, such as those in the technical, administrative, and professional areas.\(^4\)

The DMC had three key features of their proposed reform: retirement eligibility, vesting and severance pay. The commission recommended that personnel in combat professions be allowed to retire at 20 YOS, while personnel in most noncombat professions could retire with an immediate pension after finishing 30 YOS. The number of YOS required to receive an immediate pension would be determined by a system of retirement points where jobs would be assigned a multiplier between 1 and 1.5, with the highest multipliers reserved for combat jobs. The value associated with the multiplier would reflect the youth, vigor, and even difficulty of obtaining enough qualified personnel for certain jobs. To be eligible for retirement with an immediate pension, servicemembers would have to accrue 30 retirement points. Personnel who serve in most non-combat jobs for their entire careers, for example, would therefore have to serve 30 years. Proposals by the DMC for vesting mandated that officers and enlisted members enter a voluntary indefinite status at the 10 YOS point in their career. Should this vested member then request and be granted a voluntary separation they would receive a deferred annuity by receiving payments at age 65. Likewise, a member who was vested and then was involuntarily separated would be given either a separation payment in cash or a deferred pension. Despite several major recommendations to the uniformed services compensation system, no compensation changes resulted from the DMC’s study.\(^5\)
Although there was another commission two years after the DMC, and a Quadrennial Review of Military Compensation from September 1982 - January 1984, the next major reform did not occur until the Military Retirement Reform Act of 1986. This Act, more commonly known as REDUX, endorsed cuts in the retirement pay for future retired military members. There were three significant changes that came about as a result of the REDUX implementation. First, it substantially reduced the benefits for those members who separated at 20 YOS. Instead of servicemembers retiring and receiving a pension that was 50% of their highest three years base pay, they received a maximum of 40% of their base pay at the 20 year mark. Next, it raised the growth in retired pay for each year a member served after the minimum 20 YOS. And lastly, retired pay in an inflationary environment had a reduced actual or “real” value. To a certain extent the passing of REDUX in 1986 represented a success for those who argued that the pre-REDUX system was too generous. However, its repeal in late 1999 by the FY2000 National Defense Authorization Act (NDAA) indicated that mandating such a plan was not well-liked by the military as a whole. What the repeal under the FY2000 NDAA allowed was for those who entered military service post-August 1st 1986 to retire under the pre-REDUX system or to select REDUX and then receive an immediate $30,000 payment in cash.

Interestingly, though, in today’s money the REDUX bonus would need to be $38,500 if it were to equate to 1999 dollars when it was first implemented. Despite this gap between the dollar values, servicemembers are increasingly taking the cash during these hard times, which reverses a steady decline since 2001 (Figure 1). For example, the Air Force enlisted take-rate surpassed 50 percent from 2006-2008 with the officers
at 9 percent, up from 5.6 percent in fiscal 2006. Similarly, through the first four months of fiscal year 2009, 27 percent of Navy enlisted shifted to REDUX, up from 24 percent in 2008.8

![Figure 1: The $30,000 Question. Air Force Times, Friday Dec 19, 2008.]

Despite these numbers increasing in recent years, it is a steep price to pay for the career servicemember who plans to stay in for at least 20 YOS. As an example, the Center for Naval Analyses conducted an analysis of retirement plans for the Marine Corps based on Center for Disease Control life expectancy of 77.8 years. They concluded that should E-7s with 20 YOS choose REDUX, they will have their retired pay reduced by $344,434, while O-6s with 26 YOS would lose $339,765.10 Another point to note is that REDUX did not offer any incentives or motivation for pre-20 YOS retention, and the system still suffered the basic force-management challenges such as the requirement for 20 YOS for an immediate annuity which locked in some mid-careerists and also some of the under-performing servicemembers.11
What Needs to Change?

Undoubtedly, if we continue on the same path we have been on for almost 70 years there could be serious consequences for both the force and the servicemember, particularly given our Nation’s financial woes which are not likely to go away any time soon. For example, as we look towards the future and the requirements placed on our Nation, prudent modernization of our defense capabilities must occur in order to maintain dominance and meet national security objectives. However, recapitalizing the force from both a material and non-material perspective will require a significant amount of money, and we must start to realize we cannot have everything the way we want it to be. This is why, as we move forward into the 21st century, real reform of the retirement system is clearly necessary. Any serious attempts at reform must address those areas of the system that are most likely to ensure the reform is successful while maintaining the highest quality force structure for the future. As mentioned earlier in the paper, these areas include vesting of the servicemember, force management within the individual services, and additional financial opportunities for both the military and the servicemember.

One of the reasons why the United States military continues to lose valuable personnel at early points during their service is its policy of vesting personnel at 20 years of service, rather than earlier in their careers. In fact “only about 30 to 40 percent of officer entrants and 10 to 15 percent of enlisted entrants will stay for a full 20-year career and receive benefits”. These are highly trained and qualified servicemembers who elect to separate prior to vesting and are pursuing other opportunities outside of the military. Thereby, they take with them precious human capital required to fight and win
in today’s wars while bridging the gap to tomorrow’s complex challenges. Most of these men and women choose to leave prior to the 10-year point in their careers, perhaps because, so early in their careers, it is difficult for them to fathom serving a full 20 years or more. Those who are motivated to serve at least 10 years, however, are much more likely to continue to serve for several more. In fact, as an officer approaches 10 years of service, the probability that he or she will remain on active duty until retirement eligibility climbs to more than 80 percent. Therefore, if the opportunity to begin vesting at 10 years serves as an incentive to retain highly qualified personnel at least that long, it is likely to also increase their likelihood of serving even longer.

The 20 YOS vesting rule has been the target of debate for many years, in part because it does not provide adequate equitability. Professor Herman Leonard of the Kennedy School of Government stated, during congressional committee hearings on the Redux bill in 1985, that “the system was an historical accident that provided benefits to a select few in an all or nothing manner.” Later in this paper additional recommendations will be provided for consideration, but one way to address this inequity is by providing military members with an option to become vested earlier in their career, thereby providing incentives to serve longer without necessarily staying for 20 years.

Additionally, “some analysts argue that the military should be included in the early vesting requirements of the Employee Retirement Income Security Act (ERISA). ERISA, the federal law requiring private-sector employers to vest employees in their retirement systems after five YOS, in most cases, does not currently apply to the military.” Being governed by ERISA is worth examining, especially if other options that
support vesting are financially more restrictive than what the guidelines under ERISA would have to offer to service members.

Another issue with the current military retirement system is that it provides limited flexibility for services to manage their force structure in a manner that guarantees the highest quality personnel are retained and stay for longer durations, while those who may underperform are separated from the service. Current retirement system guidelines seem to indicate that every service member has the same requirements and that all are equal, when in fact this is far from true. Where this becomes problematic is for those members who are between their 10 and 20 YOS and are unwilling or perhaps reluctant to separate due to an implied contract between themselves and their service. What this creates is what some refer to as a ‘golden handcuff’ that results in a similar profile of retention regardless of their specific occupation.16

The existing structure also affects a service’s ability to manage its force. A 2008 report created by Rand which contributed to the 10th Quadrennial Review Manpower Commission found that “aside from inducing common career lengths, assignment lengths can become compressed, especially for officers and noncommissioned officers, as more assignments are packed into a 20-year career to ensure that members have the right number and mix of assignments to be effective.”17 Currently, for example, it is difficult, if not nearly impossible, for an officer to meet all the wickets associated with a career such as mandatory specialized training, professional military education (PME) and the requisite assignments to attain the breadth and depth required to be both an expert in their service and a Joint qualified officer. What this means is that many servicemembers now have very little time in which to master their
jobs or tasks in any given assignment. A second or third order effect is that this then drives the member to focus on short-term over long-term effects that disregard the long-term costs. An opportunity for a longer career beyond current mandates, especially for members whom the services would like to retain, would then allow for longer assignments and also less frequent rotations.\textsuperscript{18}

Finally, current policies which articulate when a member must retire are counterintuitive to the increased vitality of the workforce today. Consider, for example, an enlisted servicemember who enters the service at 18 years of age and an officer who enters at 22 years of age. Assuming the enlisted member achieves the rank of E-9 and the officer the rank of O-6, and that each serves a full 30 years, they are retiring at 48 and 52 years of age respectively. When the retirement system was first established, these were relatively 'old' ages; in 1940, according to the National Center for Health Statistics, a person’s life expectancy in the United States was roughly 63 years of age.\textsuperscript{19} In 2006, however, data from the United States Census Bureau indicated an increase in life expectancy of over 19 years, meaning that each of these retiring servicemembers has roughly 30 years of life expectancy from the point of retirement.\textsuperscript{20} These numbers are even greater for members who retire at ranks lower than E-9 and O-6, assuming they enter at 18 and 22 years of age, respectively. As a result of military retirees living longer, annual retirement pension costs have skyrocketed and now exceed $200 million. In fact, retiree deaths are decreasing at 2-plus percent a year, a much faster rate than the American public. Additionally, deaths for non-disabled retirees in 2008-2009 were 8 percent lower than found for non-disabled retirees in 2004-2005.\textsuperscript{21} These
statistics indicate that retirement costs are likely to continue to increase dramatically unless significant changes are made to the current system.

A 30 year career is an exemplary accomplishment, but what about the member who is capable of serving beyond 30? United States Code CHAPTER 63, Section 1251 states that regular commissioned officers in grades below general and flag officer grades must retire at age 62. Again using 48 and 52 years of age as common denominators for when servicemembers retire, there is a difference of 10 - 14 years of age between when US Code mandates retirement based on age and when current policy requires retirement based on years of service. In essence, due to outdated policies, the military is missing out on 10+ years of service that servicemembers could be providing based on current US Code. The end result is that both the military and our nation are being denied the services of these highly trained and educated men and women.

Another critique of the current military retirement system is that it does not offer the financial or investment flexibility that would allow military members, if desired, to invest their own money in a 401K type system in which the US government matches funds. Although such a system would induce higher risk and the military member may not realize this money until civilian retirement age, it could also be a more desirable option for many servicemembers. Presently the only investment option available to the military member is the Thrift Saving Plan (TSP).

TSP has offered some financial flexibility, but it varies considerably from a 401K. In fact, the TSP was established by Congress in the Federal Employees’ Retirement System Act of 1986 with the sole purpose of providing retirement income to Federal
civilians. Then, on 30 October 2000, the Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001 was signed into law allowing members of the uniformed services to participate. As the TSP is a defined contribution plan, the retirement income one receives from their TSP account depends upon how much he or she contributed during their working years in addition to any earnings on those contributions. One feature of TSP which makes it unique is that the member can contribute from 1 to 100 percent of their basic pay, but the maximum annual contribution cannot exceed $15,000. Another feature is that members may contribute 100 percent of any incentive pay or special pay up to limits indicated by the Internal Revenue Code. Lastly, TSP offers before-tax savings and tax-deferred investment earnings.  

However, TSP is lacking in the area of US government matching contributions; they were supposed to be offered but presently they are not. TSP law that covers uniformed services does allow service secretaries to designate critical specialties for matching contributions. Members with designated critical specialties, who agree to serve on active duty for six years, would be eligible for matching contributions during that six year period. Further, if a servicemember is eligible to receive matching contributions, their service will match their basic pay contributions dollar-for-dollar on the first 3 percent of pay the servicemember contributes and 50 cents per dollar on the next 2 percent of pay per period. Nevertheless, despite this guidance, none of the service secretaries have decided to match the funds of servicemembers; this is no doubt due to concerns over the potential considerable financial cost to the services.
Where Do We Seem To Be Heading?

In recent years there have been several formal and informal reviews of the military retirement system. Most notable was a formal review as a part of the Tenth Quadrennial Review of Military Compensation (QRMC). The QRMC Volume II, dated July 2008, highlights Deferred and Noncash Compensation to the military servicemember while addressing the challenges required to modernize today’s military retirement system. The QRMC focused concerns into three areas by identifying the current retirement system as inequitable, inflexible, and inefficient.25

The QRMC indicates that a lack of equitability arises from the fact that the system does not vest until 20 YOS. In addition, the Review also points out that the current system offers a one-size-fits-all approach that is rigid and offers little flexibility for services to shape their force based on needs. Their point is that personnel who reach 10+ YOS have a strong incentive to remain for 20, but the Services are reluctant to separate members after they reach 15 YOS, even if they are relatively poor performers, knowing that these servicemembers will not receive a retirement benefit. Lastly, the QRMC believes that because the current military retirement system is made up entirely of deferred compensation, it is less efficient than cash. They feel this deferred compensation costs the government more to provide than its value to many military personnel. This is primarily due to the relatively young population in the uniformed services, who may value cash in hand over future compensation.26

What the QRMC proposal suggests is retirement reform that is more flexible, cost-effective, and equitable across the board. Their underlying philosophy was to replace some of the current system’s deferred benefits, such as the pension, with cash
compensation. They mention that this would improve cost-effectiveness and introduce flexibility. Furthermore, the basis for their proposal would be a defined benefit plan and a defined contribution plan, as well as earlier vesting. Lastly, cash compensation would play a major role, thus helping force managers to achieve different retention patterns.²⁷

Some of the key elements of the QRMC retirement plan are:

- A defined benefit plan, where vesting begins at 10 years, that would provide retirement pay equal to 2.5 percent of high-3 annual basic pay multiplied by the number of YOS. The benefit would be payable at age 57 for those with 20 years of service and at 60 for those with fewer than 20 years.
- Members who opt to receive the defined benefit immediately upon retirement would receive a reduced benefit.
- A defined contribution plan under which DOD would annually contribute up to 5 percent of basic pay (the precise contribution would vary based on years of service). This plan would vest at 10 years of service and begin paying benefits at age 60.
- Gate pays payable at specified year-of-service milestones. For example, gate pays could be offered at years of service that would encourage longer careers in occupational areas where experience and expertise are important, such as technical professions.²⁸
- Separation pay provided to members upon departure from the military. For example, separation pay could be made available to personnel in combat arms to encourage them to stay beyond two terms of service but voluntarily leave before 20 years of service.²⁹
The QRMC proposal cites the defined benefit and defined contribution elements would be the same across the Uniformed Services but requirements for gate and separation pay are expected to vary across the Services and across occupations within each service, depending upon requirements. Furthermore, they indicate that their proposed system offers benefits to both the servicemember and the government. Most notably, they feel vesting the retirement benefit at 10 years of service would significantly expand the number of personnel eligible for a retirement benefit. Earlier vesting, gate pays, and separation pays facilitate force managers abilities to attain more variation in career lengths, while enabling servicemen to choose career length. Such elements infuse flexibility into the system and would enable force managers to change the retention patterns that have long dominated the shape of the force. Lastly, the QRMC believes that a combination of both current and deferred elements leads to greater efficiency and lower cost to the government. This is because they judge their proposal includes more efficient cash pays as well as deferred benefits, and their proposal can replicate the current system’s force-shaping results for less cost, while at the same time enhancing management flexibility and increasing a servicemember’s access to retirement benefits.

Future Considerations and Challenges

All recommendations must consider the economic dire straits the United States is in at present time. The National debt is now over $14 trillion and defense cuts have become a reality due to a global economic recession and domestic pressure within the United States to curb spending. In fact, Defense Secretary Gates has stated that due to the nation’s extreme fiscal duress the White House has required him to downsize both
the Army and Marine Corps. As a result, over the next five years the Department of Defense is being told their budget will be reduced by $78B, not including the cost of combat operations.  

Another area of great interest being considered by Secretary Gates that impacts military servicemembers is health care, more specifically TRICARE. Secretary Gates has stated that to make ends meet he would seek to recoup billions of dollars by increasing fees paid by retired veterans under 65. These increases in fees would require Congressional approval and have been rejected before, but Secretary Gates still plans to pursue a TRICARE fee increase. This proposal will pit Secretary Gates against those in Congress — and veterans’ groups — who say retired military personnel already have paid up front with service in uniform. In the context of military retirement reform, health care must be considered due to its sheer cost. As an example, ten years ago health care cost the Pentagon $19 billion; today, it tops $50 billion, and in 2015 it is projected to cost $65 billion. Of additional consideration, TRICARE fees have not increased since 1995, another of the reasons why Secretary Gates is expected to push for increasing the cost of health insurance premiums and fees only for working-age retirees and their families. His proposal would not include those on active duty or those 65 and older, and if implemented, it would save $7 billion over five years.  

As health care is being considered, it is only a matter of time before military retirement reform is targeted as part of a way to reduce national debt. Viable recommendations considered now can lead to a methodical and thoughtful approach to reforming military retirement.
Recommendations for the Way Ahead

Innovative reform to the military retirement system must include benefits that the servicemember selects and can carry with them for the duration of their career—no matter what the length of their career may be. Some examples and recommendations of these benefits include: a) a defined benefit plan, b) rewarding servicemembers for service in combat, c) an option for a defined contribution plan, d) bonuses targeted at yearly service milestones in one’s career, e) separation pay with concessions made to allow the service member, and their benefits, to continue to seamlessly transfer to the Guard or Reserve, and lastly modifying Health Care toward a defined contribution plan and away from a defined benefit plan where servicemembers are able build personal health care programs that could then accompany them from active duty to reserve duty or into employment in the civilian sector. Additionally, governance of military pension by an ERISA type construct would be helpful in order to advocate member savings, adopt portable retirement benefits, allow for earlier vesting, and lastly expand survivorship benefits.

As mentioned earlier, the future military retirement system should also be governed under a structure similar to that of the Employee Retirement Income Security Act (ERISA). Although the uniformed services are currently exempt from ERISA, the Department of Defense should adopt this or a similar program for multiple reasons. Since ERISA was enacted in 1974 it has protected the assets of millions of Americans such that funds placed in retirement plans during their working lives will be available to them when they retire. It is a federal law that sets minimum standards for pension plans in private industry but does not require any employer to establish a pension plan. In
that, ERISA only requires that those who establish plans must meet certain minimum standards. Further, the law generally does not specify how much money a participant must be paid as a benefit. As an example, if an employer within the private sector maintains a pension plan, ERISA specifies: when an employee must be allowed to become a participant, how long they have to work before they have a nonforfeitable interest in their pension, how long a participant can be away from their job before it might affect their benefit, and whether their spouse has a right to part of their pension in the event of their death.\textsuperscript{34}

Within the framework of ERISA, the following items should be main characteristics of innovative military reform: advocate member savings, adopt portable retirement benefits, allow for earlier vesting, and lastly expand survivorship benefits. First, to advocate savings should be the goal for the military services as it is for private-sector employers governed by ERISA regulations.\textsuperscript{35} Although the long term benefits of any retirement system generally are not on the minds of many young enlisted and officers, they need to be. Next, the DoD should work to adopt portable retirement benefits such that if a military member either separates or retires from the force, they are able to transfer their benefits to their private employer. Should a 401K type system be available to military members, this would allow them to continue their tax-advantaged investments. This feature of transferring benefits within the private sector is a large advantage and one that the uniformed services should provide for the servicemember. Additionally, vesting within private companies occurs at a much earlier point than 20 years. What earlier vesting would enable is greater force management and also equitability to the private sector. No longer would service members perceive the military
as an all or nothing opportunity, but rather would feel a sense of ownership at a much earlier point in their career. Lastly, ERISA type provisions allow flexibility for someone to pass on their benefits to a person or people of their choosing. At present, a servicemember’s only option is the Survivor Benefit Plan election. This can typically only be passed to a servicemember’s spouse or children and only if the servicemember permanently elects to pay the premium when they retire. Characteristics such as the ones aforementioned must be considered as part of a new military retirement system for the 21st century force.

Additionally, the revised retirement system must include benefits to the servicemember that take into account some of the challenges previously mentioned, such as personnel costs. These should be benefits that the servicemembers select and can carry with them for the duration of their careers—no matter what the length of their careers may be. Not only would this provide servicemembers with greater control over their benefits, such as military retirement and health care, but it would be a critical recruiting tool and possible aid in retaining a trained and ready all-volunteer military. In the future, the armed forces will likely be in a position where they find themselves competing to an even greater degree with the private sector for America’s talent. If the US military offers benefits that are appealing to both Nation and servicemember, it could be a tool which recruits the right people while also bringing down the spiraling personnel costs of servicemen and women. There are two major areas to address in this regard: military retirement system options and healthcare, both of which should be portable and follow the servicemember wherever they go.
The creation of a more flexible military retirement system, coupled with health care considerations, should be the first order of business. As mentioned earlier, personnel that are separated from active service before 20 years receive no retirement benefits whatsoever. This is just one example where the current military system falls short. With this in mind, some ideas worth considering for future refinement of a holistic military retirement system and its associated benefits are:

- Commensurate with the recent QRMC recommendation, establish a defined benefit plan, where vesting begins at 10 years, that would provide retirement pay equal to 2.5 percent of high-3 annual basic pay multiplied by the number of YOS.\(^{38}\)

- A slight difference to the QRMC’s recommendation would be that for anyone who serves a minimum of 30 years, the benefit would be paid immediately.

- Personnel other than General or Flag officers would have the opportunity to serve beyond 30 years, requiring modification to United States Code. This recommendation takes into account the limitations of mandatory retirement based on high year tenure articulated earlier in the paper.

- Servicemembers who serve less than 30 years, but for a minimum of 20, would begin receiving payment at 55 years of age. This is another deviation from the QRMC, which recommended payment at 57 years of age based on a graduated scale of receiving benefits. 55 years of age is perhaps more appropriate in that payment of a defined benefit at this age considers two main points. First, the current prime working age of adults tops out at 55.\(^ {39}\) Second, providing benefits at 55 years of age may serve as an incentive to stay until 20
years of service or beyond. Waiting until age 57, like the QRMC suggests, moves the availability of benefits closer to age 60, which is the option provided to servicemembers who separate after 10 YOS.\textsuperscript{40}

- With regards to the above recommendation, DoD and Congress should weight years of combat experience when calculating the point at which a servicemember can retire and begin receiving a pension. Those servicemembers who participate in what their Services deem combat operations should be rewarded for this unique and demanding service. Time spent in combat is vastly different than time spent in garrison; it is more taxing on the servicemember both emotionally and physically, while also requiring youth and vigor, to a certain degree. As a result, service in combat should be calculated by adding a multiplier—recommend 1.5—to time served in a specified combat zone. As an example, if a servicemember serves for 12 months in combat, then this time will count as 18 months towards their retirement. This would allow someone to retire and receive their pension and associated benefits prior to having physically served 30 YOS.

- Also in light of the recent QRMC recommendation, provide the servicemember with the option of selecting either the current defined benefit plan or a defined contribution plan under which DoD would annually match servicemembers’ contributions up to 5 percent of their basic pay. The precise contribution would vary based on years of service: zero percent of annual basic pay for those with less than a year of service; two percent for members with up to 2 years of service; three percent for those with more than 2 but less than 4 years of
service; four percent for personnel with 4 but less than 5 years of service; and five percent for those with 5 or more years of service.\textsuperscript{41} This plan would vest at 10 years of service and begin paying benefits at age 60, rather than immediately after retirement as in the current system.\textsuperscript{42}

- Establish bonuses targeted at service milestones in one’s career in order to provide an additional incentive to stay in the military for longer durations. These bonuses would be available not just to specific career fields, but to the entire military force. In order to receive this type bonus the servicemember must meet or exceed standards as determined by their Service.

- Provide separation pay to members who are either forced to depart the military as a result of force reduction requirements, or who leave on their accord, after having served at least 10 years and prior to reaching 20 years. This pay could be used as a tool by the military to adjust force levels depending upon the needs of the Nation, as it has been in the past. Further, someone in a service combat arms profession could elect to separate and receive benefits both immediately and in the future.

- Concessions should be made to allow servicemembers who depart prior to 20 YOS to continue to serve by seamlessly transferring to the Guard or Reserve, depending upon specific requirements. In particular, their benefits, such as investments (TSP, 401K, etc.) and health care, should be portable and not be extinguished when they leave active duty.\textsuperscript{43}

The above recommendations are potential ways to address much needed military retirement reform and its associated benefits. Granted, there are probably numerous
other ideas, but any recommendations must take into account the spiraling costs of the defense budget and National debt. Imperative to this, though, is that the DoD takes a very active lead based on significant input and feedback from the Services. It would be foolish to wait until we reach a breaking point and the Services are forced to accept a plan that adversely affects recruiting and retention.

Further, before implementing any significant changes to the current retirement system, a reform proposal test should be conducted. Once a package of reforms has been decided upon, the DoD should conduct a multiyear demonstration project prior to implementing the new system force wide. This project would be launched to better determine the new system’s actual effects on the force—effects on retention, costs, member vesting, and other critical elements of force management. Any test must include a representative sample of enlisted personnel and officers who will substitute the new retirement system for the current system. In order to determine the effectiveness of the test, it should run for a minimum of 10 years. This would allow for more accurately assessing the potential impact that changes, and in particular that of vesting at 10 years, may have on servicemembers and the Services as a whole. It is essential that participation in this test be voluntary, and that the test includes representatives from all four DoD Services, as well as from diverse occupational areas within each Service in which different career lengths are desired. A test along these lines would enable the DoD to determine whether the proposed system is sufficiently flexible to achieve an assortment of different retention patterns and career lengths.44
Conclusion

The United States active-duty military force is subject to a retirement system that clearly requires modernization, and that is also in danger of being affected due to considerable financial challenges facing the Department of Defense. Under the current system, our military services are losing large numbers of skilled personnel at early points in their service. These men and women take with them precious corporate knowledge required to fight and win in today’s wars while bridging the gap to tomorrow’s complex challenges. The current system does not provide the incentives or the flexibility necessary for services to effectively manage their force structure in order to retain the highest quality personnel. Additionally, as the military retirement system accounts for a significant portion of the DoD’s budget each year, pending major cuts to the budget will undoubtedly adversely affect servicemembers and the benefits they have worked so hard to earn. Among those benefits is retiree health care, which is experiencing significant cost increases in recent years. TRICARE, the military’s primary health care plan for retirees, is under attack for a variety of reasons, most of which are intricately linked to exorbitant health care costs. Thus, it is critical that sound recommendations are crafted and advocated on behalf of the servicemembers by both DoD and Congressional leadership.

This paper has provided a number of such recommendations. If appropriate attention is given to these recommendations, then our military will lead responsible retirement reform across the Nation. No longer will the DoD lag the corporate world and lose our top performers to perceived better opportunities. More importantly, the DoD will have the type of system that provides real-time achievement incentives,
manageable force management policies, and enduring force knowledge and experience, as well as reducing long term costs to diminishing military budgets. Military servicemembers deserve better, and our Nation as a result will reap the benefits of an even stronger, more viable, and motivated defense force well into the future.

Endnotes


2 Ibid., 70.

3 Ibid., 14.

4 Ibid., 15.

5 Ibid., 17.

6 Ibid., 9.


9 Ibid.


12 Ibid., 1.


16 Ibid., 112.

17 Ibid.

18 Ibid.


24 Ibid.


26 Ibid. 3.

27 Ibid., xiv.

28 Ibid, 30.

29 Ibid., 30.

30 Ibid., xiv.

31 Ibid., 4.


33 Ibid.


36 Ibid., 17.


40 Ibid.

41 Ibid., 29.

42 Ibid.

43 Ibid.