CONCEPTS FOR MODERNIZING MILITARY RETIREMENT

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Since the time of the Hook Commission of the late 1940's, the structure of military compensation has remained largely unchanged—a system of pays and allowances and a defined benefit retirement plan. Yet over this same period, private sector compensation has evolved, including a notable shift away from defined benefit retirement plans to defined contribution plans. As a result of this growing divergence between the structure of military and civilian compensation, the static structure of the military compensation system has received increased attention as an area for reform. In addition, concerns over the growth in military personnel costs over the past decade combined with increasing pressure to reduce federal spending have resulted in many think tanks and other groups suggesting less costly alternatives to the current military retirement system.

Against such a backdrop, the Department of Defense (DoD) conducted a two-year long review of the military retirement system and examined possible alternatives for change. This paper, issued in the wake of that DoD review, discusses the current military retirement system and examines those alternatives for modernization— with all their complexities. While briefly presenting a number of options, the paper primarily focuses on two specific design concepts, each of which use examples of possible modifications to the system's components, such as introducing a defined benefit component, more closely aligning "reserve" and "regular" retirement, streamlining disability retirement and survivor benefits, and adjusting the method for computing a defined benefit. By employing a range of modifications to the system's variables, the design concepts illustrate the effects and tradeoffs across military force profiles, budgetary savings, and retirement benefits. They also illustrate that a more modern and efficient military retirement system may be devised that sustains the All-Volunteer Force, achieves savings, and provides beneficiaries with a lifetime retirement income comparable to today's.

A set of principles, particular to pay and retirement programs, served as a foundation guiding the examination of retirement options and development of the military retirement design concepts presented in this paper. The set of principles were:

- Maintain force profile, recruiting and retention (including the ability to accommodate different future force profiles or recruiting and retention needs)
- Balance interests of force managers, service members and the American taxpayers
- Consider criticisms others have made of the current system
- Carefully consider impact on the service member and his or her family
- Base any review/examination on rigorous analysis
- Achieve savings
- Improve total force management
- Keep faith with serving members (fully "grandfather" currently serving members and current retirees/survivors)

In addition to adhering to the above principles, the examination was conducted from a holistic perspective, over a considerable period of time, involving extensive analysis. While not endorsing any particular option or design as "the" way to modernize the military retirement system, the outcomes from the examination and the two specific design concepts detailed later in this paper can be instructive. It is absolutely key to clearly understand the entire system—the interactions within the retirement system of its component parts and the interactions between the system and the larger military compensation and personnel systems. It is also key to understand and thoughtfully consider the implications of any change to the various components and levers of the current retirement structure on other parts of the system, on the broader military personnel structure, on the Nation's commitments to those who have served and are serving, and on cost.

This paper will demonstrate that changes can be made to military retirement and still maintain the All-Volunteer Force, but that change comes with tradeoffs. For example, if a primary goal is to generate large up-front savings, it will necessitate a substantial reduction in the retirement benefit, which in turn will translate into less retention and thus requires more up-front costs in the way of retention incentives and bonuses. Conversely, if a primary goal is to provide more robust benefits in retirement, upfront savings will be less, and, depending on the retirement enhancements, could actually result in increased costs. The goal then should be to find the proper balance between all the competing forces that surround the military retirement system and, in creating a new system, to ensure it is designed to produce equilibrium for the entire "military system." This is the complex and difficult task facing the Military Compensation and Retirement Modernization Commission established by the Fiscal Year 2013 National Defense Authorization Act (Pub. L. 112-239).

It is the Department's sincere hope that the Commission finds this paper useful and that it helps shape their deliberations on military retirement modernization. Because the consequences of the Commission's work, especially any retirement reform proposal they might produce, have such significance for the Nation, the Department, and our military, DoD stands ready to assist them wherever, and whenever called, in this most important endeavor.

Background on the Present Retirement System

The retirement benefit is a central element of the military compensation system. The current military retirement system is a non-contributory, cliff vested, defined benefit plan. Military members make no contribution to their retirement and, except in unusual circumstances, they do not qualify for any retired pay until they serve at least 20 qualifying years. At that time, they qualify for a fixed, but inflation protected, lifetime annuity.[1]

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[1] From December 2013 through February 2014, several changes in law resulted in a reduced annual cost-of-living adjustment (COLA) for some military retirees (and their survivors receiving a Survivor Benefit Plan (SBP) annuity). Under the new statutes, which apply prospectively to individuals who enter the Armed Forces on or after January 1, 2014, the annual COLA for retirees under age 62 is to be computed using the annual change in the Consumer Price Index (CPI) under the preexisting method minus one percentage point (but not less than 0). Affected retirees/survivors are to receive a one-time "catch-up" in retired pay in the year the member attains (or would have attained) age 62 with restoration of "full" COLAs for future years. Disability retirees and their survivors in receipt of an SBP annuity, as well as survivors of those who die while on active duty are exempt from the reduced COLA.

The amount of the benefit is defined by a formula of 2½ percent times the effective years of service times the member's retired pay base. The effective years of service for a regular (active duty) retirement are generally the years of active duty performed; the effective years of service for a non-regular (reserve) retirement are the number of points earned over a career divided by 360. Reserve members earn one point for each day on active duty and one point for each drill period (generally two drill periods constitute a full day of duty). Members who entered military service before September 8, 1980, have a retired pay base equal to the rate of basic pay in effect for their grade and longevity at retirement (regular retirement) or at the point of qualification for retired pay (non-regular retirement). Those who entered on or after September 8, 1980, have a retired pay base equal to the average of their highest 36 months of basic pay, this is often referred to as the "High-36 retirement." (See below for a more detailed discussion of the retired pay base for a non-regular retirement, particularly for a "High-36 retirement.")

In addition, there is a reduced retirement program (REDUX) for active duty members who entered a uniformed service on or after August 1, 1986 *and* elected to receive a $30,000 Career Status Bonus (CSB). This CSB/REDUX retirement plan reduces the product of the 2½ percent times effective years of service by one percentage point for each year short of a 30-year career. Thus, instead of 50 percent of the retired pay base at 20 years of service, a CSB/REDUX election would result in 40 percent at 20 years. The CSB/REDUX retired pay is recomputed at age 62, whereby the member is restored to the level they would have had, had they retired under the "High-36 retirement." However, both before and subsequent to age 62, the CSB/REDUX retiree is subject to a one-percentage-point reduction in the annual cost-of-living adjustment percentage applied to his or her retired pay.

Reserve and National Guard members who do not qualify for a regular retirement may receive a non-regular or reserve retirement. In order to qualify, the member must generally have 20 qualifying years; however, the payment of reserve retired pay does not occur until the member turns age 60. This age requirement may be reduced for service performed under recall to active duty although the reduction may not be for greater than 10 years or earlier than age 50. The reserve member who has retired from active reserve participation after 20 years of satisfactory service is said to be in the "gray area" of retirement until they reach the qualifying age for actual payment of retired pay. A reserve member in the gray area continues to accrue longevity in his or her retired pay grade until retired pay begins. When retired pay is first computed, the retired pay base is based on the basic pay table(s) in effect immediately prior to the date of pay computation using the pay cells for all service longevity accrued to that date (several basic pay tables are used to compute a 36-month average for members receiving a "High-36 retirement"), regardless of when the member stopped active reserve participation. Thus, a retired reserve member benefits from all pay raises and pay table longevity increases up to the date that retired pay is actually computed at age 60 or other qualifying age.

Disability retirement is offered to active and reserve component members who become disabled while serving on active duty if they are found unfit for continued military service and, for those with less than 20 years of service, have a military service disability rating of at least 30

percent. These members may choose between a retirement that is 2½ percent times effective years of service times their retired pay base or a retirement that is their Service rated disability percentage times their retired pay base.

All retired military members may participate in the Survivor Benefit Plan (SBP), which provides a lifetime survivor annuity to qualifying spouses and, in some cases, former spouses upon the death of a retired member. The usual premium cost is 6.5 percent of a base amount selected by the member, not to exceed the full retired pay. The survivor annuity is 55 percent of the selected base amount.

In summary, active duty members who reach 20 years of service become vested in the system and receive an immediate payout upon leaving active duty service. Eligible reserve component members also become vested after 20 years of satisfactory service, but generally cannot begin receiving benefits until age 60. Disability retirees may be retired earlier than 20 years of service when found unfit with a Service/DoD disability rating of 30 percent or greater. The retirement system has existed in this basic form for nearly 70 years. The SBP survivor's annuity was added about 40 years ago.

Offsets to and Restorations of Military Retirement

Retired members (active, reserve, or disability) may apply to the Department of Veterans Affairs (VA) for compensation for disabilities incurred during or as a result of military service. The VA evaluates all such disabilities and a combined disability rating is assigned. This rating is different from the permanent one-time rating given by the Services in which only unfitting disabilities are considered. The VA rating covers all disabilities that are found to be service related and the ratings may change over time due to changes in the severity of the disabilities and/or the addition of other disabilities. The combined total VA disability rating directly translates to a table of compensation. There is a dollar-for-dollar offset of retired pay when a retired member receives VA disability compensation. This approach has advantages since VA disability compensation is tax exempt while military retired pay is generally taxable unless it is disability retired pay earned as result of a combat-related disability.

In the early 2000s, two programs were instituted to ameliorate the required offset. These "concurrent receipt programs" are Combat-Related Special Compensation (CRSC) and Concurrent Retirement and Disability Pay (CRDP). Both pays make either partial or full restoration of the amount offset. All military retirees are eligible for CRSC if they have combat-related disabilities and a VA offset. The program pays a special tax-free compensation to members who have combat-related disabilities as determined by a Service CRSC Review Board. The combined disability rating for those items determined to be combat-related is valued using the VA compensation table and members are paid that amount, but not to exceed the offset amount.

A special rule governs military disability retirees which limits the CRSC payment so that, when combined with any military retired pay remaining after offset, the CRSC payment may not exceed the amount of retired pay that would be attributable to a length of service retirement.

All regular active duty and reserve retirees are eligible for CRDP if their combined VA rating is 50 percent or greater. In such case, the total amount of offset retired pay is automatically restored. Military disability retirees must have at least 20 years of service in order to qualify for CRDP. They are also subject to a special rule as for CRSC, whereby retirees may not receive restoration that would be greater than what a member earned towards a longevity retirement. CRDP restoration is, in fact, retired pay not a special pay and therefore is subject to all the same retired pay rules including division of pay under a court order emanating from divorce proceedings. A member may receive either CRSC or CRDP, not both.

Surviving spouses of members whose death is service related as determined by the VA are generally entitled to Dependency and Indemnity Compensation (DIC). Here, as with retired pay, there is a dollar-for-dollar offset when receiving the VA benefit, which again is tax exempt. The offset to SBP also results in a refund of the proportional share of premiums that were paid for the offset portion of the SBP benefit. Again, as with retired pay offset, there is a program for partial restoration. A Special Survivor Indemnity Allowance (SSIA) is payable to those surviving spouses with an offset because of DIC. In 2014, the SSIA is $150 per month while the basic DIC payment is $1,215 per month.

Functions of the Military Retirement System

To be effective, military retired pay must fulfill several purposes. It must ensure that: (1) the choice of career service in the armed forces is competitive with reasonably available alternatives; (2) promotion opportunities are kept open for young and able members; (3) some measure of economic security is made available to members after retirement from career military service; and (4) there is a pool of experienced personnel subject to recall to active duty during time of war or national emergency. Additionally, it must assure members that, if they are ever disabled in the service of their country, they will not be left to cope with the effects of such disabilities on their own. Rather, the government will provide some measure of economic security for personnel whose duties necessarily expose them to the hazards of wartime and career military service.

Critics of the present retirement system note it lacks features that are common to most current civilian retirement plans and available to the pool of potential candidates for which the military is competing. These characteristics include *early vesting* so that members have a higher likelihood of qualifying for at least some retirement benefit; *portability*, as found in defined contribution plans, so that members can transfer their benefit when they leave the military; and some *choice* in how their benefit funds are invested.

Additionally, the system should serve as a force management tool for the military services and have design characteristics to induce members to join and stay at certain career points and induce them to leave at other career points. The retirement system also must work in concert with other force management tools, including other elements of compensation. Finally it must meet the objectives of military compensation, including efficiency, robustness, scalability, and flexibility.

Modernizing the Military Retirement System

Three basic objectives should form the framework for modernizing the retirement system. While not necessarily in opposition to each other, there is a tension among them and reasonable balance among them is critical to success. These objectives are to provide the members who faithfully serve their country a robust retirement; to provide force managers with the tools to maintain and shape the force structure; and to provide the American taxpayers an effective force at a reasonable and affordable cost. Two overarching considerations should shape the discussion on modernization; (1) to protect those already retired and those currently serving through "grandfathering" and (2) to do no harm to the existing force structure and capability of the All-Volunteer Force.

Efforts to modernize military retirement should encompass all the aspects of the retirement system. This includes active and reserve retirement, disability retirement, and the Survivor Benefit Plan, which is an integral adjunct to retirement. It is essential to include both active and reserve retirement, because members separating from active duty often transfer to the reserve component. Thus, changes to active duty retirement would affect the flow of separating members into the reserves. Moreover, changes to the retirement system can result in different retention patterns for the active and reserve components. If active duty retirement benefits decrease, for example, more active members may choose to separate, increasing the pool of potential accessions into the reserve components. If the reserve retirement system remained unchanged under such circumstances, it could become relatively more attractive than the active retirement system, further enticing active duty members to separate.

Thus, it is important to understand how changes to the military retirement system affect both components and ensure that changes will maintain a robust reserve component. Moreover, harmonizing the differences between the active and reserve retirement systems would seem beneficial in view of the greater emphasis on integration of the "total force." In that context, removing the differences would reduce the complexity of maintaining two separate systems, contribute to fair and equitable treatment of both retiree groups, and make transition between the two easier.

Disability retirement is the result of a member incurring a sufficiently severe physical condition that makes him or her unfit to continue in either the active or reserve components. The current system is designed to rely on a DoD disability rating of at least 30 percent in order to qualify for a disability retirement unless the member has completed over 20 years of service. Strong arguments can be made that longer-serving members who have not yet served the required 20 years of service may have demonstrated a propensity to serve a full career. For these members, a service disability that cuts a career short deprives them of an annuity they may have otherwise reasonably obtained. Another aspect to be addressed is the offset required when a retired (longevity or disability) member receives disability payments from the VA. These offsets may be either partially or fully restored under the concurrent receipt programs, CRSC or CRDP. These programs currently apply to disability retirement in an inconsistent fashion, which could

be addressed in a modernized retirement system. Any change to the percentage factor of the retirement multiplier for longevity retirement—currently 2½ percent—should, for consistency, also be applicable to disability retirements.

Likewise, any efforts to modernize military retirement must consider the effects and interactions with the survivor benefits portion of retirement in order to mitigate undesirable behavioral changes and unintended consequences. Both the premiums and survivor annuities of the Survivor Benefit Plan are directly based on the military retirement of the member and must be considered in the context of any modernization changes. Here, also, there are offsets when there is concurrent entitlement to VA programs (i.e., Dependency and Indemnity Compensation), which could be addressed in the modernization effort.

The Range of Options

As noted before, the current military retirement system is a defined benefit plan. A significant number of studies have been conducted on reforming military retirement, resulting in a wide variety of reform proposals. In July 2011, the Defense Business Board proposed a military retirement option based solely on a defined contribution plan. In a defined contribution plan, the contributions, which are defined by the percentage of earnings (and/or other criteria such as time in combat), would be made on a regular recurring basis to an investment fund during the working life of the future retiree and then paid out at retirement age in lump sum or as an annuity until all invested funds are expended. In the current defined benefit plan, the retired member receives an inflation-protected annuity, defined by a percentage of earnings and paid out over the lifetime of the member, beginning at retirement.

These two plans are the most common types of retirement in the civilian sector and essentially bookend the spectrum of possibilities. The defined contribution plan places all the risk on the retiree, while the defined benefit plan places all the risk on the employer. The risk to the member associated with defined contribution plans includes living beyond expected mortality, loss of invested capital through poor investment performance or poor investment decisions, and hyperinflation. The risk to the employer with the defined benefit plan is generally limited to loss through poor investment return and hyperinflation, since the employer can mitigate mortality variations through actuarial tools applied to the entire pool of retirees and should be able to make informed investment decisions.

These two plan types can have a myriad of variations or they can be combined into a hybrid plan, with both defined contribution and defined benefit characteristics, which also may have a number of variations. Some discussion of the variations is useful in assessing the field of possibilities. As noted above, a defined contribution plan places risk on the member; however, it gives the member a retirement package that can be portable when the member leaves the military, subject to vesting criteria. It also can give the member an opportunity to control the investment of the future retirement funds. The employer can set the vesting criteria and amount of the employer's contribution, and may or may not require matching employee contributions.

The current defined benefit plan provides the retiree a known annuity payment throughout retirement; however, the current plan generally requires a 20-year vesting period, which less than 15 percent of members achieve. The current defined benefit plan could be modified by changing the 2.5 percent factor in the retirement multiplier, which is applied to the years of service to calculate the percentage of current pay that will determine the retired pay. The current defined benefit plan could also use a vesting point other than 20 years of service, a reduced annual rate of future cost-of-living adjustments (COLA), or a pay base other than the average of the final 36 months of basic pay.

In any case, the desired outcome of any change should be an improvement in the balance between the objectives to: 1) provide the members a robust retirement, 2) provide force managers with the tools to maintain and shape the force structure, and 3) provide the American taxpayers an effective force at a reasonable and affordable cost. Therefore, all alternatives must be assessed in relation to the current system. One large limitation of most proposals has been the inability to estimate the effect of changes in relation to objective 2. However, the RAND Corporation has developed a tool for this purpose and it can be used to assess the effect of changes to the current system on the retention.

A full defined contribution plan, such as proposed by the Defense Business Board, was projected to have a devastating effect on retention, which could only be countered by large increases in current compensation of such magnitude as to make the proposal unviable in relation to objective 3, and would place all retirement risk on the member. Many variations on the current defined benefit plan also exhibit unattractive attributes. An unrestricted reduction of the COLA to a COLA minus 1 percent would take too great a toll on the long-term financial well-being of future retirees. Providing a lump sum payment based on a present value of the current defined benefit plan places too much risk on the individual similar to the straight defined contribution plan, and would have to be such a large sum as to invite intense scrutiny. A simple reduction of the percentage factor in the retirement multiplier below 2.5 percent, or changing the retirement pay base from the high 36 month average to 48 or 60 months would support objective 3, but would not "modernize" the military retirement system in any way. Such a change would likely be perceived by military members as simply a cost reduction measure.

However, two other design concepts, which employ a hybrid plan, offer an approach for developing a modernized military retirement system without the drawbacks of many previously proposed alternatives.

Two Design Concepts

These two concepts have a number of similar or identical aspects. Both would retain a robust defined benefit portion similar to the current system, but this component of the system would be structured differently under each concept. Both would include an identical moderate defined contribution element that would not require member contributions. It is important to note that the defined contribution element compared to the defined benefit is scaled to mitigate premature departure of career-leaning personnel, while providing both a portable benefit for non-career

members and a stock market leveraged benefit substantial enough to accommodate all or most of the scale back in the defined benefit portion for career retirees. Both of the concepts would include supplemental pays in the form of a continuation pay and a retirement transition pay. Both would also incorporate a revised disability retirement benefit and a revised survivor benefit plan. The major characteristics of the two concepts are outlined in Table 1.

Table 1. Two Retirement Reform Concepts

	Concept 1	Concept 2
Defined benefit	**Two-tier retirement benefit** for both active and reserve components • Partial benefit during member's second career years* (for both active and reserve) • Full benefit in old age • Vests at 20 years of service	**Single-tier retirement benefit** with lower multiplier • Active: full benefit during second career years* and in old age • Reserve: benefit starts at age 60 • Vests at 20 years of service
Supplemental pay	**Continuation pay** to sustain the force (multiplier varies by officer/enlisted/ Service with a range from 0-16 months basic pay) Active component **transition pay** upon retirement to ease transition and encourage separation	**Continuation pay** to sustain the force (multiplier varies by officer/enlisted/ Service with a range from 0-19 months basic pay) Active component **transition pay** (with lower multiplier) upon retirement to ease transition and encourage separation
Defined contribution	**Thrift savings plan**: Automatic DoD contributions, early vesting (e.g., after six years of service) with payout available at age 59½	
Disability	Eligibility based on unfitting conditions and minimum years of service; disability retirement payment based on years of service retirement formula, not rating, with no offset for VA compensation	
Survivor benefit	50% annuity for 10% cost or 25% annuity for 5% cost, with no offset for VA compensation	

* Many members establish a second career in the civilian sector after leaving military service.

Defined benefit plan. Under both concepts, the defined benefit plan would vest at 20 years of service with an immediate (full or partial) payout for the active component upon separation as with the current system. The benefit formula would be based, like the current system, on the average of the highest 36 months of monthly pay (high-36), a percentage multiplier factor, and years of service. However, both concepts pay a lower retirement annuity than under the current system, but offset this reduction with the addition of a new defined contribution element and through supplemental pays that would be in addition to existing special and incentive pays—effectively shifting a portion of deferred compensation to current pay. Both of these concepts could have multiple variants. Two variants for each concept were explored; each was simply a change to the percentage multiplier factor used in the defined benefit computation.

Concept 1 is crafted around a two-tiered retirement benefit for *both* the active and reserve components. The design addresses two specific issues attendant to the current retirement system: (1) the propensity for most military retirees to embark upon a second career or continued employment after military retirement and (2) the alignment of active and reserve retirements. Since active duty service members can retire after 20 years of service, many members establish a second career in the civilian sector after leaving military service, but before permanently leaving the labor force. Increases in longevity, the relative youth of early retirees, and the ability to pursue gainful, post-service employment were major drivers for developing a two-tier benefit. The first tier gives a partial retirement benefit during the member's normal employment years. The second tier begins when members are in their early 60s (the age parameters used in our analysis were 62 and 65 years of age) and pays full retirement benefits thereafter.

A notable departure from the current system is that Concept 1 provides reserve component members with a partial benefit during the normal employment years, whereas under the current system, reserve component members generally are eligible to receive benefits only upon reaching age 60. This change was also designed to address the other major objective of a two-tier defined benefit, that of aligning the active and reserve retirement systems into a single retirement system. The amount to be paid in the first tier (i.e., during the working years before full retirement) required a delicate balance to integrate the reserve component. Paying too much in the first tier (i.e., exceeding the reserve member's usual monthly drill pay) could cause an unacceptable loss of reserve members upon reaching 20 qualifying years of service since they would now be entitled to a partial retired pay and not have to wait to age 60. Additionally, it was found that paying too much in the first tier could also skew active duty decisions to retire or stay for additional years of service.

The most effective first tier payment was determined to be one that is based on the member's full retirement multiplier. Currently, if the member is retiring from active duty with 20 years of service, the formula is the retirement percentage factor (2½ percent) times years of service times the high-36 average monthly basic pay. The first two elements of that formula yield a retirement multiplier of 50 percent. So, the first-tier formula would simply use that multiplier a second time; the resulting first-tier retirement computation would be the retirement multiplier times itself times the retired pay base.

Obviously, the total active duty time and reserve points accumulated during a career will greatly affect the first tier retirement percentage. The more duty a reserve retiree completes, the closer his or her retirement will approach that of an active duty retirement. Another notable aspect of Concept 1 is that the tier-one retirement multiplier would be capped at 25 percent. This means that members who serve more than 20 years on active duty will have a first-tier retirement that does not reflect the additional time in service. This is reasonable since these individuals are one year closer to the full second-tier retirement multiplier for each additional year they stay on active duty. Modeling and analysis showed that using a first-tier multiplier above 25 percent, when combined with the defined contribution, could result in a significantly higher lifetime

defined benefit and that a higher percentage was not required to obtain the retention behavior desired.

Concept 1 could also employ a first-tier retirement multiplier factor that is less than the current 2½ percent, for instance a factor of 2.0 percent. A 2.0 percent factor would result in a full second-tier retirement multiplier for a 20-year active duty retiree of 40 percent times the high-36 average and a maximum first-tier retirement multiplier of 16 percent (i.e., 40 percent times 40 percent) times the high-36 average. Following sections will show the effects of using a 2½ percent and a 2.0 percent factor for this concept.

Concept 2 offers a single tier of benefits for both the active and reserve components as is done in the current retirement system; however, the multiplier factor would be less than the 2.5 percent used today. A 2.0 percent and 1.75 percent multiplier factor were analyzed for this concept. As under the current system, eligible reserve component members would not generally begin receiving benefits until age 60. Under this concept, the retirement benefit is a full benefit in all years paid, with no partial benefit in the years before retirees reach their early 60s (or other currently permitted earlier retirement age).

Supplemental pays. Both concepts would offer two types of supplemental pays—transition pay and continuation pay—though the amount of the pays would differ under the two concepts. The purpose of the supplemental pays is to sustain and potentially shape the size and experience mix of the force. Analysis supporting the development of these concepts presumed that any compensation reform must be able to generate the same force in the future as is generated currently, and thus supplemental pays were set at a level that would maintain the size and experience mix of the current force. But supplemental pays could be adjusted to reshape the size and experience mix should that be desired.

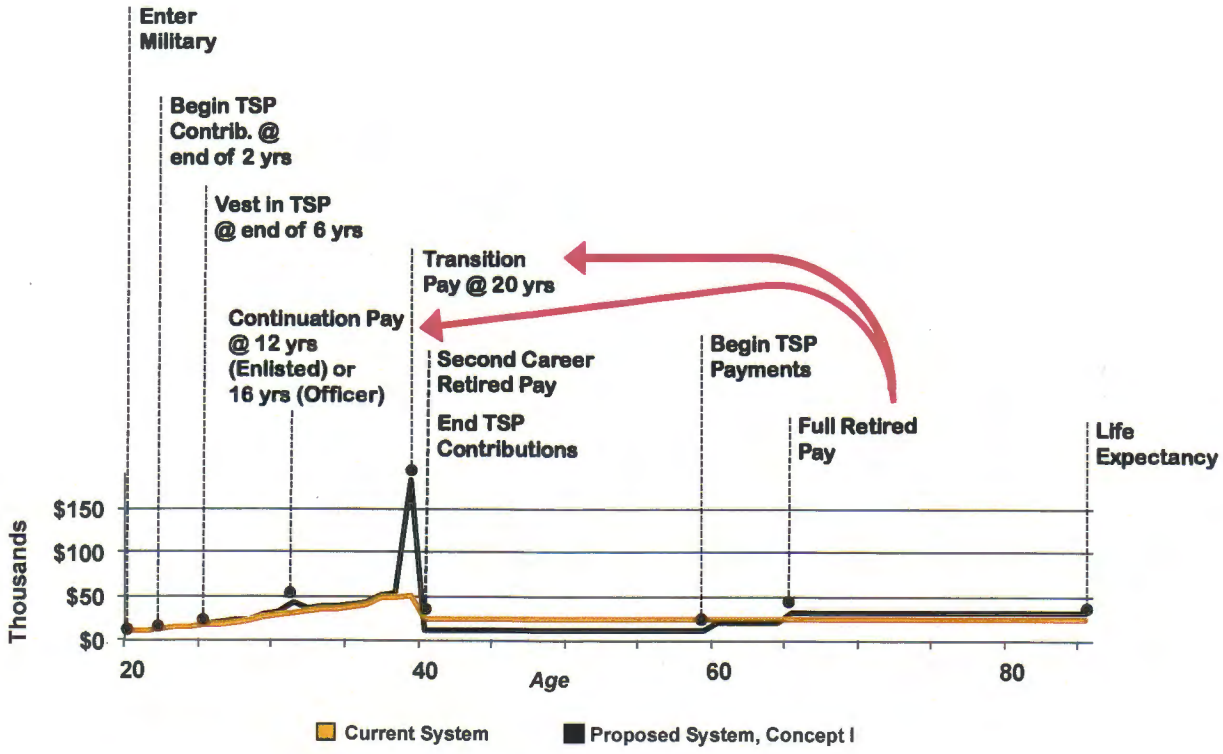
A lump sum separation or *transition pay*—equal to a multiple of final annual basic pay—would be offered upon retirement to those active duty members with at least 20 years of service. To protect the funding for transition pay, the multiplier is set to be the same across Services and across enlisted and officer personnel, though this feature could inhibit the potential role of transition pay in helping the services shape the force size and experience mix, if that is desired. Setting the rate of transition pay in law and making it constant across the Services accommodates including it as a fixed element of the retirement plan and provides the ability to roll it into the retirement accrual charge and pay it from the Military Retirement Trust Fund, which would protect it from the vagaries of annual appropriations. Transition pay would not be payable to members receiving a reserve retirement under the assumption that such members already have civilian employment. Modeling and analysis indicate the payment provided no force management utility in the reserve components. Transition pay is one method to pull deferred retirement pay to a more current period and to increase the value of the retirement package to the retiring member. The transition pay multiplier required to sustain the force is larger under Concept 1 than Concept 2.

Continuation pay is a multiple of monthly basic pay. It would be similar to other bonuses used to incentivize retention and could be targeted to specific years of service or specific

communities or specialties. Continuation pay would vary by Service, by whether personnel are officers or enlisted, between active and reserve component, and possibly by occupational area. Because continuation pay is discretionary and would vary by Service, it would be funded by annual Service appropriations and not be part of the retirement accrual. As such, it would be subject to annual congressional review and action. In the analysis conducted during this review, continuation pay was not varied by occupation (but was allowed to vary along the other dimensions); for the purposes of modeling the force-wide effects, the pay was targeted to enlisted personnel at 12 years of service and officers at 16 years of service.

It is a well-documented precept that current compensation is more highly valued by members than deferred compensation (i.e. retirement). The timing of these pays, in conjunction with the defined benefit and defined contribution elements of the proposed retirement plan, is shown in Figure 1, which illustrates the shift from deferred compensation (retired pay) to current compensation (continuation pay and transition pay) in the retirement benefit.

Figure 1. Notional Timeline of Retired Pays, Concept 1 versus Current System



Defined contribution plan. Both concepts include a defined contribution plan, specifically the Thrift Savings Plan (TSP), which is similar to a civilian 401(k) plan. Today, service members can volunteer to participate in the TSP. The Services have the option of contributing on behalf of members, but currently no Service exercises this option. Under this retirement concept, DoD would be required to make automatic contributions on behalf of military members beginning at the completion of two years of service. The contributions would be equal to a percentage of the member's annual basic pay and would be mandatory; members would not be required to make a matching contribution. Members would vest by continuing to serve after completing six years of service, and benefits could payout as early as age 59 ½.

Members could manage their TSP accounts and allocate their funds across the various investment options offered by the Federal Thrift Savings Board. This element of the new system means that members who leave the military after serving more than six years, but fewer than twenty years, will leave with some retirement benefit—a significant change from the current system. This change could aid the Department in recruiting since prospective members not looking for a 20-year military career would no longer be disadvantaged in comparison to their peers in the civilian workforce who have defined contribution retirement plans. Vesting was established at six years and one day as a result of Service desires to provide the entitlement only to members who have completed at least their initial enlisted service obligation and embarked upon a second. Additionally, Service contributions end once the member completes 20 years of service. Modeling and analysis showed that contributing past 20 years of service was not required to obtain desired retention behavior.

Disability retirement benefit. A streamlined disability retirement benefit is part of both retirement concepts. DoD disability compensation has multiple purposes, including compensation for the served portion of a potential military career cut short by unplanned disability. Analysis shows that the current interaction between DoD and VA disability benefits does not fully compensate for the time spent in uniform and the loss of one's expected remaining future military career. The proposed disability benefit attempts to close the gap for a greater number of disabled service members.

Under the proposed system, members deemed unfit and with a DoD disability rating of at least 30 percent, or with at least 12 years of service, qualify for the benefit. The addition of the new criteria of using 12 years of service acknowledges the volunteer career choices the member has made to that point in their service, and provides a retirement when disability causes premature end to the ability to complete the career. However, the amount of the benefit is based solely on years of service, not on the disability rating as under the current system. The benefit equals the average of the highest 36 months of basic pay times years of service times a multiplier. (The benefit under Concept 1 is the full retirement benefit, not the reduced, partial benefit during the second career period—that is, there is no reduction during the first tier period.) The DoD disability benefit would no longer be offset for receipt of VA disability compensation, and the defined contribution element of the plan would vest immediately. Eliminating the offset also obviates the need for CRSC or CRDP, used today to restore the VA offset.

Members placed on the Interim Disability Retirement List (IDRL) would receive a benefit with a floor of 70 percent for the disability rating, which compares with a floor of 50 percent in the existing Temporary Disability Retirement List (TDRL) method. Currently, a member must have a DoD disability rating of at least 30 percent and be determined to have a disability that is not permanent and stable in order to be placed on the TDRL. Under the proposed concept, the member could be placed on the IRDL if determined to have an unfitting disability that is not permanent and stable or for which a disability rating has been delayed. Members found unfit for service, but with a DoD disability rating of less than 30 percent or with fewer than 12 years of service, would receive a lump-sum disability severance payment computed as under the current system. The formula for severance pay would remain at 2 times years of service times the current monthly basic pay, with a floor of either three or six years of service depending on whether the disability was combat related.

A comparison of the features of the current disability benefit and the proposed benefit are captured in Table 2. The proposed benefit would result in increased costs, but savings achieved in other elements of the proposed retirement system more than cover these costs.

Table 2. Current and Proposed Disability Retirement Benefit

Element	Current Disability Retirement Benefit	Proposed Disability Retirement Benefit
Qualification	Medical unfit determination and DoD rating at least 30%	Medical unfit determination and either: (1) DoD rating at least 30% or (2) 12 years of service
Retired pay computation	DoD rating percentage times high-36, or Years of service x 2.5% times high-36	Only for years of service x 2.5% (or other multiplier) times high-36 No cap during second career
Retirement list	Temporary Disability Retirement List • Not permanent/stable • Disability benefit: 50% floor	Interim Disability Retirement List • Not permanent/stable or while awaiting rating • Disability benefit: 70% floor
Offsets	VA Disability Compensation, $ for $	None
Restoration	Concurrent Retirement and Disability Pay or Combat-Related Special Compensation	None needed

Survivor Benefit Plan. The survivor benefit plan (SBP) is also streamlined. Under this program, retired members could choose the level of coverage—an annuity that would provide a benefit of either 50 percent of retired pay or 25 percent of retired pay. The monthly premium would be 10 percent of retired pay for the 50 percent annuity, or 5 percent of retired pay for the 25 percent annuity. The monthly premium for SBP is heavily subsidized by DoD and is currently 6.5 percent. The increase in premium from 6.5 percent to 10 percent and decrease in annuity from 55 percent to 50 percent makes the program more cost neutral than the current program.

This revised program would also accommodate elimination of the offset for receipt of VA Dependency and Indemnity Compensation and, consequently, the need for partial restoration using the Special Survivor Indemnity Allowance. The somewhat reduced annuity is augmented by the new defined contribution component of the program that would go to the member's survivor and, in many cases, would provide a total survivor benefit that is greater than under the current system. Table 3 details the differences in features between the current and proposed survivor benefit program. This streamlined program would reduce costs and contribute to the overall savings of the new retirement system.

Table 3. Current and Proposed Survivor Benefit Program

Element	Current Survivor Benefit Program	Proposed Survivor Benefit Program
Cost (premiums)	6.5% of base amount (monthly)	10% of base amount (monthly)
Coverage	55% of base amount	50% of base amount
Base amount	≥ $300; ≤ full retired pay	Choice between full and half of retired pay No cap for second career period
Offsets	VA Dependency Indemnity Compensation	None
Restoration	Special Supplemental Indemnity Allowance	None needed

Assessing the Two Concepts

Both concepts were evaluated in terms of the effects on force management, specifically active and reserve retention; the cost savings to the Services and DoD; the effects on payouts to the member; and the change in Treasury outlays. These assessments were conducted for each Service, for officers and enlisted personnel, and for the active and reserve components.[2] In the examples that follow, specific results for Army enlisted personnel are presented to demonstrate the nature of the information and analysis used to evaluate the concepts presented.[3]

Table 4 contains the specific parameters used to evaluate the two retirement concepts. In reading the table, each example must be evaluated as a set package, including both active and reserve components. For example, for Concept 1, two defined benefit multipliers were evaluated. For the active component, with a 2.5% defined benefit multiplier, the combined set of assumptions is as follows:

[2] The analysis describe here was conducted by RAND using their dynamic retention model.

[3] A complete set of results for officers and enlisted personnel, the four DoD military services, and active and reserve components is contained in the background paper, *Toward Meaningful Compensation Reform: Research in Support of the DoD Working Group on Compensation, 2011–2013.*

1. A 2.5% defined benefit multiplier, capped at 25% of high-3 basic pay until age 65, with full retired pay beginning at age 65
2. A 5% contribution to the TSP beginning at the start of the 3rd year of service and ending upon completion of 20 years of service
3. Members must serve until 20 years to vest in the defined benefit plan but only serve 6 years to vest in the defined contribution plan (TSP)
4. A retention bonus for active duty members varying by Service ranging between 0 and 2 months for enlisted members and 5 and 8 months for officers
5. A transition payment upon retirement of 2.5 years of basic pay

Under these assumptions, the lifetime retired income to an E-7 who retires at 20 years of service would be $1.2 million and for an O-5 who retires at 20 years of service would be $2.3 million.

For Concept 1, the following alternative assumptions were also evaluated: a 2.0% defined benefit multiplier, capped at 16% of high-3 basic pay until age 62, with the same TSP contributions and vesting criteria, retention bonuses for active duty members varying by Service ranging between 0 and 2 months for enlisted members and 7 and 16 months for officers, and a transition payment of 3.0 years of basic pay. Under this alternative, lifetime income to an E-7 who retires at 20 years of service would be $1.0 million and for an O-5 who retires at 20 years of service would be $2.0 million. Similarly, for Concept 2 a 2.0% and a 1.75% defined benefit multiplier were evaluated.

Effects on Force Size and Shape

The structure, size and experience mix of the existing active force was used as the desired outcome in evaluating the two design concepts, meaning that any change to retirement should ideally be able to replicate the current active force. In the case of the reserve forces, there continually exists a difference between the desired force structure, size and experience mix on the one hand; and the actual inventory of reserve component personnel on the other. Nevertheless, it was determined that the proposed retirement concept should be able to replicate the current reserve force structure as well. To the extent a Service may want a different force mix in any component, an additional goal was to develop a retirement system that, through modifications of various elements, would provide flexibility advantageous to moving to a different force end state.

Table 4. Assumptions Used for Evaluating Retirement Concepts

			CONCEPT 1				CONCEPT 2			
	Current		2.5% Multiplier		2.0% Multiplier		2.0% Multiplier		1.75% Multiplier	
Element	**Active**	**Reserve**	**Active**	**Reserve**	**Active**	**Reserve**	**Active**	**Reserve**	**Active**	**Reserve**
Defined benefit multiplier	2.5%	2.5%	2.5%	2.5%	2.0%	2.0%	2.0%	2.0%	1.75%	1.75%
Defined benefit before full retirement age	Full	None	Capped @ 25% of High-3 until age 65	Capped @ 25% of High-3 until age 65	Capped @ 16% of High-3 until age 62	Capped @ 16% of High-3 until age 62	Full	None until age 60	Full	None until age 60
Defined benefit during full retirement age	Full	Full at age 60	Full at age 65	Full at age 65	Full at age 62	Full at age 62	Full	Full – age 60	Full	Full – age 60
TSP percentage/years of service	NA	NA	5% / 3-20	5% / 3-20	5% / 3-20	5% / 3-20	5% / 3-20	5% / 3-20	5% / 3-20	5% / 3-20
Vesting, defined benefit (years of service)	20	20	20	20	20	20	20	20	20	20
Vesting, defined contribution (years of service)	NA	NA	6	6	6	6	6	6	6	6
Retention bonus multiplier (months of basic pay)(fixed)	NA	NA	E=0-2 O=5-8	E=0-1 O=0-1	E=0-2 O=7-16	E=0-1 O=3-6 (Air Force Rated O=15)	E=0-1 O=7-11	E=0-1 O=0-3	E=1-3 O=14-19	E=0-1 O=0-6
Transition payment multiplier (years high-3 basic pay)(fixed)	NA	NA	2.5	NA	3.0	NA	0.5	NA	0.75	NA
Lifetime retired income (E-7/O-5)*	$1.1M $2.1M	$520K $910K	$1.2M $2.3M	$580K $1.1M	$1.0M $2.0M	$480K $940K	$1.1M $2.1M	$430K $830K	$1.0M $1.9M	$390K $750K

The analyses of the effects of the two concepts show that both retirement Concepts 1 and 2 can closely sustain the size and experience mix of the Services' active components. Indeed, the continuation pay multipliers are optimized at a level to achieve this outcome—though they can be adjusted if a different force size and experience mix is desired. As Figure 2 illustrates using the Army enlisted force, only minor differences occur between the retention profiles under the current compensation system and either Concept 1 or Concept 2. In both concepts, current compensation and existing special and incentive pays and allowances remain at baseline levels—only elements of the retirement system change.

The concepts differ, however, in the effect on reserve component participation by *prior* active service members, as shown in Figure 3, due to the difference in the structure of the defined benefit element of the program. Concept 1 would provide an immediate partial annuity to eligible reserve component members during the second career phase of their career. The immediate benefit would result in higher participation among reserve members in the midcareer years prior to 20 years of service than is the case under the current system (Figure 3, left panel). This occurs because the attraction of receiving a partial annuity immediately is greater than waiting until age 60 for a full annuity, as is currently the case. After 20 years of service, participation would be lower than under the current system, as more members leave to claim the partial annuity in the second career.

Supplemental pay in the form of continuation pay for reservists does not fully offset the change in experience mix that would occur under Concept 1. These changes would result in a somewhat younger reserve force that aligns a bit more closely to the active force than the current reserve force. In contrast, Concept 2 maintains the current reserve retirement structure in the defined benefit element and generally begins payout at age 60 (Figure 3, right panel). Consequently, under Concept 2, the size and experience mix of the reserve component force is generally sustained with an appropriate level of continuation pay.

Figure 2. Active Component Army Enlisted Force Profile Under Two Retirement Concepts

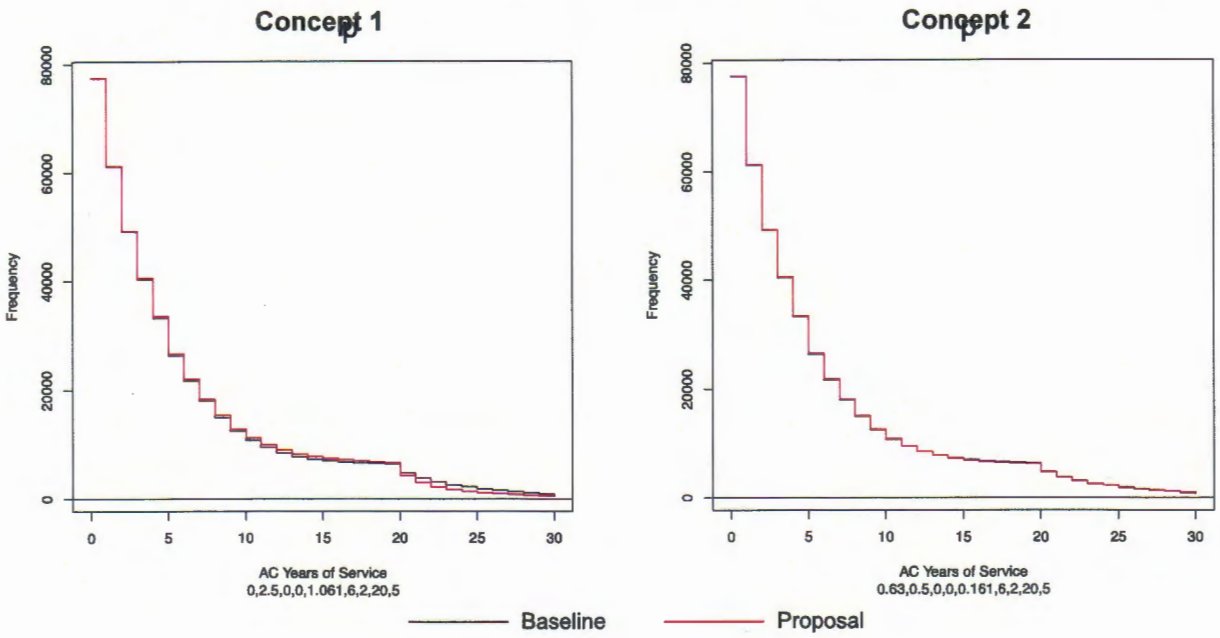
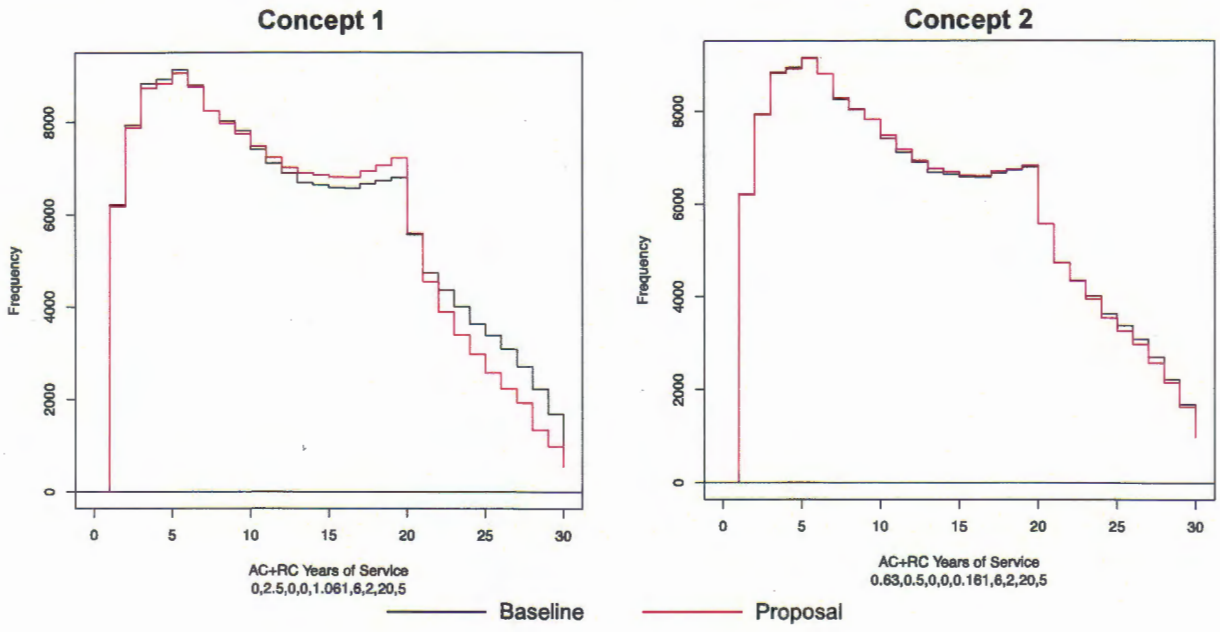


Figure 3. Reserve Component Army Enlisted Force Profile Under Two Retirement Concepts



Cost Savings to DoD and the Treasury

Cost savings can have different meanings and measures. They may take the form of cost savings from current appropriations from which accrual payments and unfunded liability payments go into the Military Retirement Trust Fund (MRF) or the form of reduced outlays when retired members and survivors are paid their annuities. The MRF is an accrual fund that is comprised of assets taken from current funding to pay for future benefits. Both DoD and Treasury contribute to the MRF, which invests its assets in Treasury securities earning returns that also increase the fund's value.

Accrual Savings

DoD and Treasury contributions to the fund and the investment returns are intragovernmental transfers, while payments to entitled retirees and survivors are outlays. Savings on contributions reduce DoD's obligations from current appropriations and Treasury transfers. Savings on outlays reduce the government's need for cash (taxes and borrowing). Typically, the Congressional Budget Office (CBO) scores outlays in five and 10-year increments.[4]

Both concepts would achieve cost savings to DoD and the Treasury. Although costs increase with the introduction of continuation and transition pay and the defined contribution plan, both concepts reduce the defined benefit element of the retirement package, and thus the accrual charge paid by DoD[5] and the Treasury—with the net effect being overall savings. Because service members on average value deferred benefits less than the actual cost to the government to provide those benefits, it is possible to generate cost savings and sustain retention by altering the mix of current and deferred benefits. The amount of the cost savings would depend on how much deferred benefits are decreased and how much pay is moved forward into current compensation. The cost savings are greater under each concept when the retirement multiplier is lower and the transition pay multipliers are higher (Figure 4).

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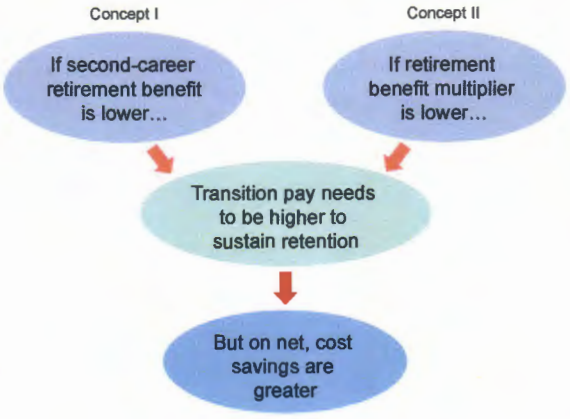
[4] Congress is constrained from increasing outlays by the general requirement to find offsetting decreases over the timeframe scored by the CBO.

[5] The current military retirement system is funded by an entry-age normal cost method. The entry-age normal cost percentage, or accrual charge, is the percentage of basic pay that must be contributed over the entire career of a typical group of new entrants to pay for all future retirement and survivor benefits for that group. The accrual charge is applied to the basic pay bill for the entire force. In contrast to a pay-as-you-go method, this approach means that future retirement costs are incorporated into the computations of the current personnel costs of the force, but are not current outlays. Under the current retirement system, the accrual charge that is applicable to the federal government (including both the DoD and the Treasury) includes the liability associated with the current defined benefit plan and is equal to 43.3 percent. Under the new system, the accrual charge would include all the liabilities associated with the revised defined benefit component of compensation, the Thrift Savings Plan contributions, and the transition payment. Although the transition payment increases current compensation, it would be funded through the accrual charge. Only the retention bonus would not be a component of the MRF, it would be paid from annual appropriations. Accrual savings are net of the costs of including the TSP contribution, the retention and transition payments, and changes to disability retirement and survivor benefits.

Figure 4. Steady-State Cost Savings Depend on Parameters



Depending on the specific parameters chosen, the steady state cost savings to the military services would range from $0.5 to $2.7 billion per year for the active component and from a cost of $0.3 billion to a savings of $0.2 billion per year for the reserve component (Table 5).[6] The combined savings to DoD and the Treasury would range from $1.7 to $3.9 billion per year for the active component and from a cost of $0.3 billion per year to a savings of $0.2 billion per year for the reserve component. Steady state occurs when all service members are receiving retirement benefits under one of the proposed retirement concepts.

How quickly cost savings are realized by the DoD and Treasury would depend on how the transition to the new system is implemented. A premise of this concept is that all serving members would be fully grandfathered. In this case, the cost savings would emerge as new personnel covered by the new (lower-cost) system enter the force and existing personnel covered by the current (higher-cost) system leave the military.

Table 5. Net Steady State Savings Under Alternate Defined Benefit Multipliers

Element	Concept 1 Active		Concept 1 Reserve		Concept 2 Active		Concept 2 Reserve	
Defined benefit multiplier	2.5%	2.0%	2.5%	2.0%	2.0%	1.75%	2.0%	1.75%
DoD and Treasury	$1.7	$3.9	$0.1	$0.2	$1.7	$3.6	($0.3)	$0.1
DoD only	$0.5	$1.6	$0.1	$0.2	$0.9	$2.7	($0.3)	$0.1

However, if currently serving members were permitted to participate or opt into the new system, which DoD believes should be an option, savings to the Department and the Treasury would emerge more quickly. The greater the number of existing members who opt-in, the faster the full cost savings of the change would be realized. While there would be some immediate

[6] The results from the analysis of different multipliers are contained in the background paper, *Toward Meaningful Compensation Reform: Research in Support of the DoD Working Group on Compensation, 2011–2013.*

increase in outlays to pay for the Department's contributions to the defined contribution plan as well as for continuation and transition pays for those who opt-in, as mentioned previously, net cost savings are achieved before steady state is reached.

Figure 5 illustrates the change in costs for Concept 1 when current members do not opt-in (left panel) and when they do (right panel). The cost of the current system (red line) is equal to the DoD and Treasury retirement accrual costs or $25.118 billion (in 2013 dollars). The cost of the Concept 1 (blue line) is equal to the DoD and Treasury retirement accrual costs as well as the cost of continuation pay. If all current members are grandfathered into the existing retirement system (no opt-in), in the first year after the policy change, costs drop by $61 million.[7]

Costs fall for several years, but then stop declining in mid-career. This cost pattern occurs for two reasons. First, retention is slightly higher in mid-career under Concept 1; second, continuation pays are targeted at those in the 12th year of service for enlisted personnel. In this analysis, half the continuation payment was made at the end of 12 years of service, with the remaining half paid over the next three anniversaries from years of service 13 through 15. Similarly, costs decrease more rapidly after 20 years of service because retention is slightly lower after 20 years of service under Concept 1 and the first tier retired pay is less than the full retired pay in the second tier.[8]

When currently serving members are permitted to participate in the new system (Figure 5, right panel), cost savings emerge more rapidly. For example, cost savings one year after the policy change are $1.22 billion, far more than the $61 million when there is no option for current members to opt-in. The amount of the drop and how quickly full cost savings are attained depends on the extent to which currently serving members choose to opt-in. The analysis conducted for this review suggests that a large fraction of personnel would opt-in to the new system.

A similar pattern of savings is predicted for Concept 2, as shown in Figure 6. Larger savings are realized sooner when members can opt-in (right panel). In the absence of the opt-in feature, cost-savings are $62 million in the first year after the policy change occurs. With the opt-in feature, cost savings are $619 million in the first year. This means that when currently serving members can opt into the new system about half of the ultimate steady state cost savings are achieved in the first year. Under Concept 2, relatively fewer members choose to opt-in, compared to Concept 1, though the opt-in rates vary by service and for officers and enlisted personnel under both concepts. Nonetheless, the number of members who choose to participate in a new system would be sufficient to generate considerable cost savings in the initial years after the system is implemented (Table 6).

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[7] The cost savings figures reflect the minor differences that occur between the retention profile under the current compensation system and the new system, whether Concept 1 or Concept 2, and illustrated in Figures 2 and 3. The cost savings figures in the text and in Tables 5 and 6 ignore the small changes in retention.

[8] The cost savings figures are for specific details of Concept 1 and Concept 2. These details can be varied within each concept and doing so affects the cost savings estimate. Variants of Concepts 1 and 2 could result in even larger cost savings than illustrated in Figures 5 and 6.

Figure 5. DoD and Treasury Cost Savings Speed Up When Current Members Opt-in, Concept 1

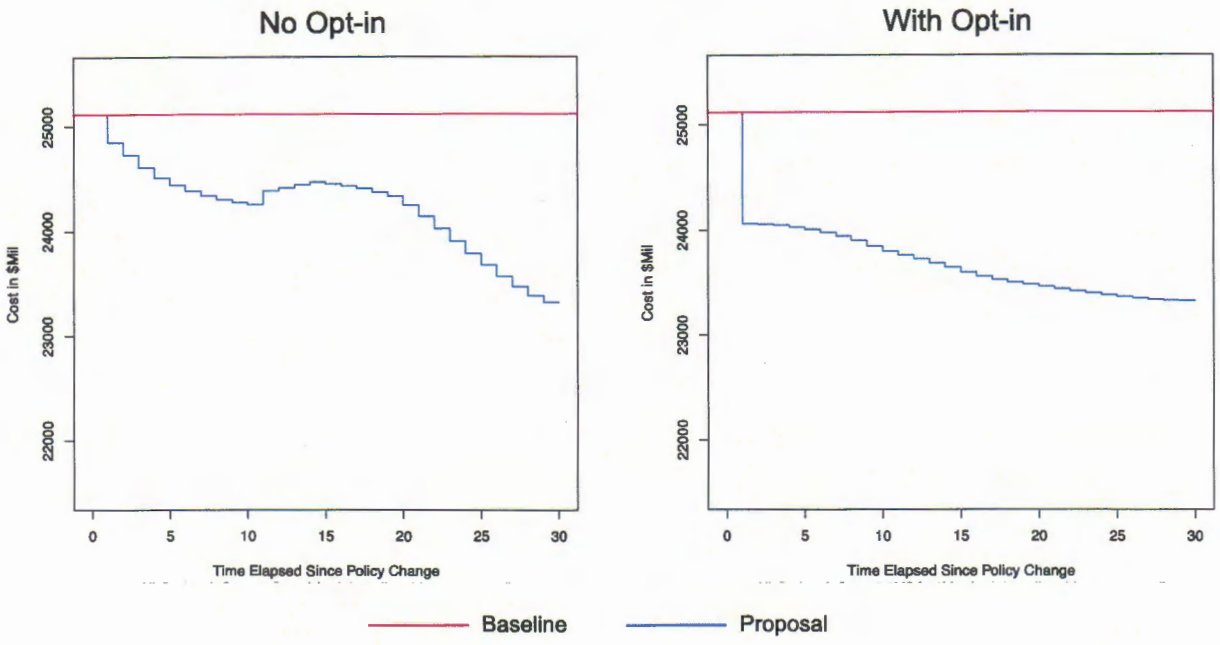


Figure 6. DoD and Treasury Cost Savings Speed Up When Current Members Opt-in, Concept 2

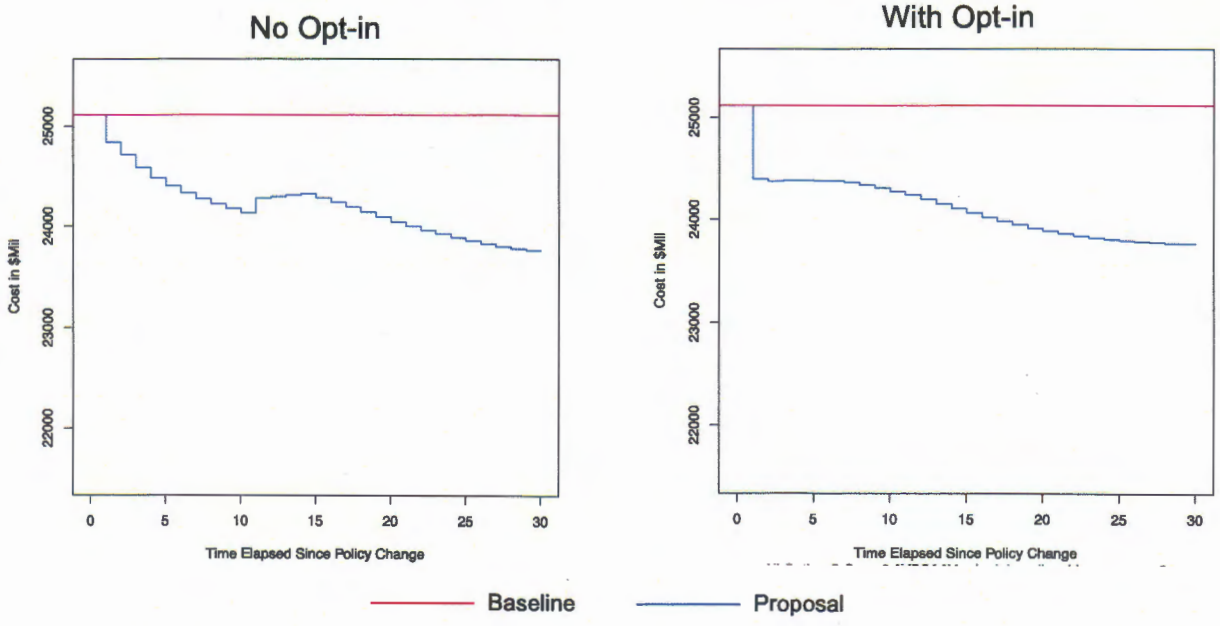


Table 6. Net Savings for DoD and Treasury, Active and Reserve Component

Time	Concept 1 2.5% Multiplier		Concept 1 2.0% Multiplier		Concept 2 2.0% Multiplier		Concept 2 1.75% Multiplier	
	Opt-In	Grandfather	Opt-In	Grandfather	Opt-In	Grandfather	Opt-In	Grandfather
Steady state	(1.78)	(1.78)	(4.11)	(4.11)	(1.37)	(1.37)	(3.77)	(3.77)
Year 1	(1.22)	(0.06)	(2.24)	(0.13)	(0.62)	(0.06)	(1.31)	(0.13)
Year 2	(1.28)	(0.17)	(2.40)	(0.37)	(0.71)	(0.16)	(1.50)	(0.36)
Year 3	(1.34)	(0.27)	(2.57)	(0.60)	(0.79)	(0.26)	(1.69)	(0.58)
Year 4	(1.41)	(0.38)	(2.73)	(0.84)	(0.87)	(0.37)	(1.87)	(0.82)
Year 5	(1.47)	(0.50)	(2.88)	(1.09)	(0.95)	(0.48)	(2.05)	(1.05)
Year 6	(1.52)	(0.58)	(3.02)	(1.28)	(1.02)	(0.56)	(2.20)	(1.24)
Year 7	(1.57)	(0.68)	(3.15)	(1.48)	(1.08)	(0.65)	(2.34)	(1.43)
Year 8	(1.62)	(0.77)	(3.27)	(1.69)	(1.14)	(0.74)	(2.48)	(1.63)
Year 9	(1.65)	(0.86)	(3.39)	(1.88)	(1.19)	(0.82)	(2.61)	(1.82)
Year 10	(1.67)	(0.94)	(3.50)	(2.06)	(1.22)	(0.90)	(2.72)	(2.00)

Note: Net savings in billions of dollars per year. Savings include costs for retention bonuses.

Outlay Savings

Outlays from the Treasury would also change under both concepts, ultimately leading to long-run savings. Initially, however, outlays are projected to increase because of contributions made to the TSP on behalf of service members. Outlays also increase when continuation payments and transition payments are made. However, total outlays decline when members under the new system begin to retire because of the lower retirement annuity. As with savings to DoD, the pattern of outlays is affected by whether existing service members are able to participate in the new system. When existing members opt-in, initial outlays would increase more, as some existing members may begin to receive continuation and transition pay. But it also means that the drop in outlays that occurs after members retire would occur sooner.

As noted previously, OMB scores all legislative changes for cost over a 10-year period—a potential cause for concern in seeking support for these concepts. However, the perpetual nature of the steady state savings beyond the 10 years that will be scored should be considered when evaluating these concepts. Exemption or exception from such short-term scoring should be a viable strategy to achieve the perpetual savings in the offing. Additionally, the increase in outlays from instituting the defined contribution element can be mitigated for the first six years, if the government contributions are held in the MRF and not transferred to individual TSP accounts until after vesting.

While in the MRF, these contributions could earn returns equal to earnings on the fund's corpus or pegged to returns for the TSP Government Securities Fund. During this pre-vesting period, members would not be able to direct investment of the funds or take any type of loan against the funds. Outlays would occur when the member vests at six years and the funds are released to the control of the member for investment in the TSP. An added benefit of this method is to avoid having to negotiate with the TSP governing board about disposition of funds for members who do not serve long enough to vest. Currently, the government contribution to accounts of civil service participants who do not vest are swept up by the TSP and applied to operating costs, not returned to the contributing agency.

Figure 7 illustrates how Treasury payments change for Concept 1 when members are grandfathered into the old system as compared to when members are given the option to opt into the proposed retirement system. Baseline outlays on behalf of retirees under the current system (red line) are estimated to be about $48 billion in fiscal year 2013. In the absence of the opt-in feature (left panel), outlays increase under Concept 1 when DoD contributes to the TSP, first beginning when members have at least two years of service and two years in the new plan (unless the funds are retained in the MRF). Outlays further increase 12 years after the plan's inception, when members reach 12 years of service and begin receiving continuation pay. After 20 years, outlays increase because members receive transition pay, but there is also a countervailing decrease because retirees receive a lower retirement annuity compared to the current system. As time passes, those members under the more costly existing retirement system flow out of service and eventually stop receiving annuities, and are replaced by members under the new system, which is less costly. As shown in the figure, outlays continue to decline until the new steady state is reached.

When currently serving members can opt-in, the pattern of outlays changes (right panel). Outlays are higher in the early years, as compared to outlays when there is no opt-in feature, but they also decrease sooner. The rise in initial outlays is because more members will receive TSP contributions and additional continuation pay (for members who opt-in at 12 years of service) and some will be much closer to retirement with attendant transition pay. But because the retirement annuity is lower under the new system than the existing system, outlays fall sooner relative to the baseline—beginning 10 years after the plan would be implemented, compared to 23 years in the absence of opt-in.

For Concept 2, the pattern of outlays is similar, but less dramatic, as shown in Figure 8. Because fewer members opt-in under this concept, the differences between the opt-in case and the no opt-in case are more subtle (Table 7). That said, the decrease in outlays still occurs sooner when existing service members can opt-in, after 22 years, rather than after 18 years in the absence of the opt-in feature.

Figure 7. Savings to the Treasury Speed Up When Current Members Opt-in, Concept 1

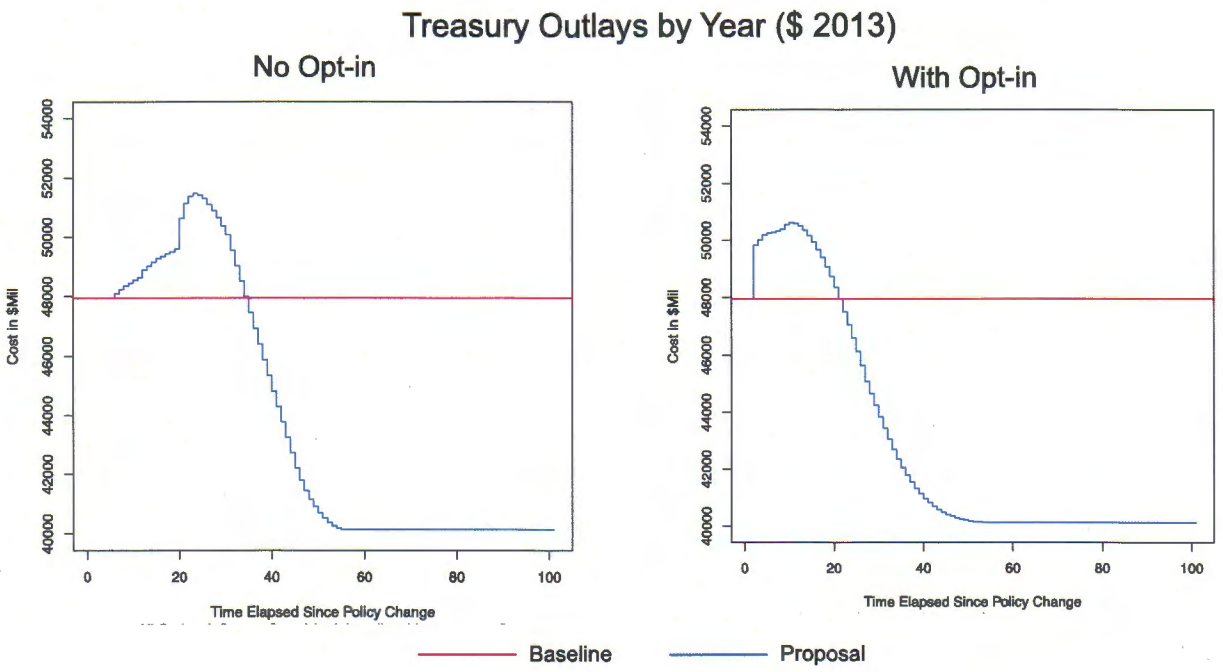


Figure 8. Savings to the Treasury Speed Up When Current Members Opt-in, Concept 2

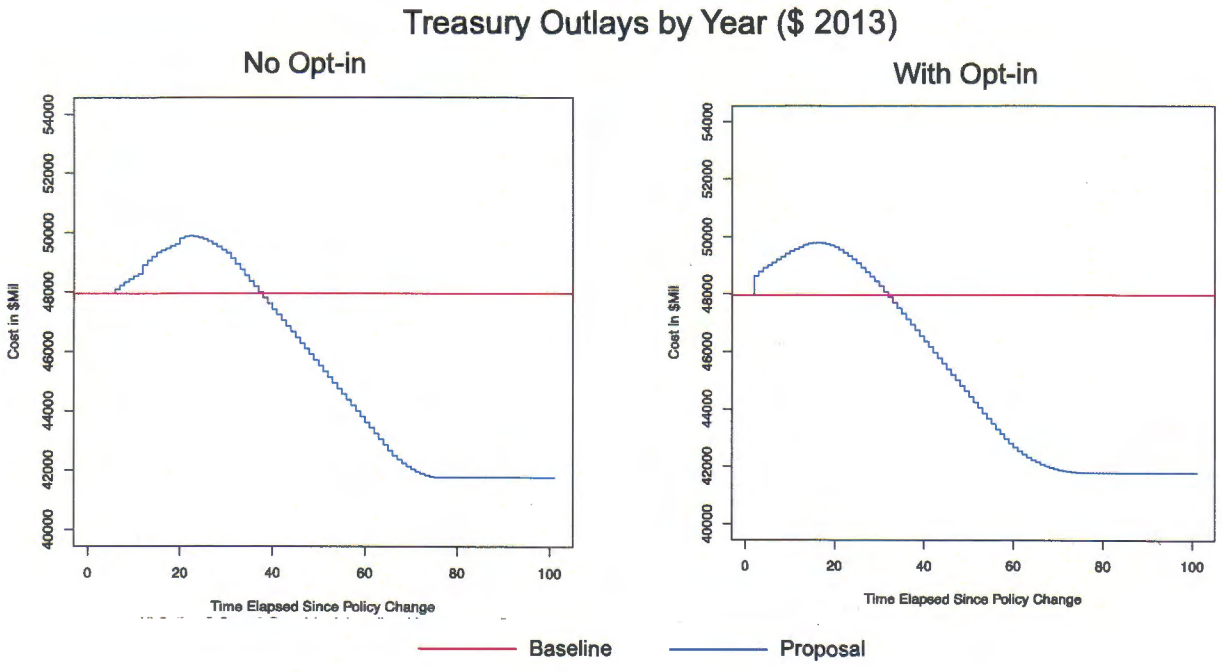


Table 7. Net Savings for the Treasury Under Alternate Multipliers and Implementation Strategies

Time	Concept 1 2.5% Multiplier		Concept 1 2.0% Multiplier		Concept 2 2.0% Multiplier		Concept 2 1.75% Multiplier	
	Opt-In	Grandfather	Opt-In	Grandfather	Opt-In	Grandfather	Opt-In	Grandfather
Steady state	(7.92)	(7.92)	(5.46)	(5.46)	(6.47)	(6.47)	(10.19)	(10.19)
Year 1-10 Total	19.60	1.97	16.68	1.95	5.91	1.94	5.73	1.94
Year 1	1.67	-	1.10	-	0.20	-	0.18	-
Year 2	1.83	-	1.38	-	0.28	-	0.25	-
Year 3	1.94	-	1.56	-	0.37	-	0.32	-
Year 4	1.98	-	1.68	-	0.45	-	0.40	-
Year 5	1.98	-	1.75	-	0.54	-	0.51	-
Year 6	2.00	0.15	1.79	0.15	0.64	0.15	0.62	0.15
Year 7	2.04	0.29	1.83	0.29	0.73	0.29	0.72	0.29
Year 8	2.09	0.41	1.86	0.40	0.82	0.40	0.82	0.40
Year 9	2.06	0.51	1.86	0.51	0.90	0.51	0.91	0.51
Year 10	1.99	0.61	1.85	0.50	0.98	0.60	1.00	0.60

Note: Net savings are in billions of dollars and reflect increases/(decreases) relative to current outlays.

Effects on Payout to the Member

Understanding how the new system would affect the payout to service members is an important criterion for evaluating the alternatives. As mentioned previously, both concepts change the timing and amounts of some elements of the compensation package—moving some retirement-related pay forward in the career. Service members would receive higher current compensation in the form of continuation pay and a transition payment upon retirement, but a lower retirement annuity upon leaving service. In addition, early vesting of the TSP (after serving more than six years) means that the percentage of personnel leaving the military with a retirement benefit will increase.

The analysis described here assumed an average life span of 85 for retirees and a return on investment in the TSP of 5 percent until full retirement age and a more conservative 4 percent thereafter. The TSP was annuitized between full retirement age and the member's life expectancy of 85. The transition bonus at retirement was annuitized over the period between retirement from the military and the date the member reaches full retirement age. Tables 8 to 15 show the annual payments and lifetime income under each concept with different multipliers for both the active and reserve components. The tables do not include the value of continuation pay as those payments may vary by Service and/or career field. Corresponding Figures 9 through 16

show the lifetime income stream under each concept/multiplier combination for both active and reserve components.

Moving compensation forward from deferred compensation into current compensation creates one source of value under each concept. Another source of value comes from leveraging the growth of TSP accounts to augment the retirement package. The value of the military career is certainly affected by the total payout of dollars received over a career, but it is also determined by the timing of the payout. When compensation is paid out sooner, it is more valuable to the typical member who is assessing whether to continue in the military. Another source of value is the early vesting in the defined contribution element of the retirement package, which provides certainty to members who serve beyond six years that they will receive some retirement compensation in recognition of their years of service. An overarching point to keep in mind is that although the payouts differ between Concept 1 and Concept 2, both concepts are able to create a steady state force level and experience mix that are the equivalent of the current force, as shown in Figures 2 and 3.

As discussed previously, both concepts provide additional continuation pay at twelve years of service, a transition payment upon retirement, and a TSP accumulation for those who stay past 6 years of service, for the active component. The transition payment is larger under Concept 1. Under the current system, the retirement annuity begins at 20 years of service and remains a constant payment for the remainder of the individual's life. Under Concept 1, a partial annuity is paid from the time a member retires until the member reaches his or her early 60s, at which time a full annuity payment begins. In Concept 1 with a 2.5% multiplier, the full annuity would be the same as under the current system, but less than under the current system with a 2.0% multiplier. Under Concept 2, the annuity during the second career is the same as in old age, but the annuity is specifically designed to be less for the lifetime of the member than under the current system and would use either a 2.0% multiplier or a 1.75% multiplier. Though the total amount paid to the member as retired pay under both concepts is lower than the benefit in the current system, the addition of continuation pay, transition pay, and the TSP operate to offset this difference and sustain retention.

Table 8. Active Component, Concept 1 with 2.5% Multiplier

		Annual Payments	
Grade	**Current**	**2.5%**	**Difference**
E7/20 Second career (pre-65)	$24,643	$20,209*	($4,435)
E7/20 Old age (65+)	24,643	33,742**	$9,099
O5/20 Second career (pre-65)	46,748	38,066*	($8,682)
O5/20 Old age (65+)	46,748	65,142**	$18,394
		Lifetime Income	
E7/20	$1,133,578	$1,213,795	$ 80,217
O5/20	2,150,408	2,319,632	169,224

* Defined benefit plus transition pay
** Defined benefit plus TSP
NOTE: Transition pay is annuitized over the second-career period at a 4% rate. TSP is assumed to grow at a 5% annual rate and is annuitized over the old-age period at a 4% rate.

Figure 9. Lifetime Earnings, Active Component, Concept 1 with 2.5% Multiplier

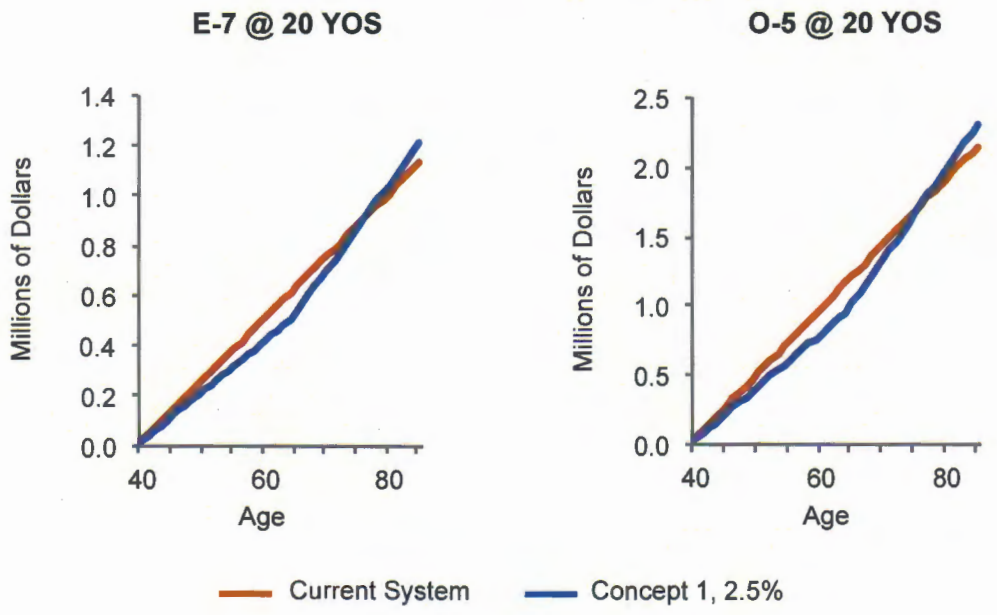


Table 9. Active Component, Concept 1 with 2.0% Multiplier

	Annual Payments		
Grade	**Current**	**2.0%**	**Difference**
E7/20 Second career (pre-62)	$24,643	$18,117*	($6,526)
E7/20 Old age (62+)	24,643	26,946**	$2,303
O5/20 Second career (pre-62)	46,748	34,369*	($12,379)
O5/20 Old age (62+)	46,748	52,020**	$5,272
	Lifetime Income		
E7/20	$1,133,578	$1,045,278	($88,300)
O5/20	2,150,408	2,004,598	($145,810)

* Defined benefit plus transition pay
** Defined benefit plus TSP
NOTE: Transition pay is annuitized over the second-career period at a 4% rate. TSP is assumed to grow at a 5% annual rate and is annuitized over the old-age period at a 4% rate.

Figure 10. Lifetime Earnings, Active Component, Concept 1 with 2.0% Multiplier

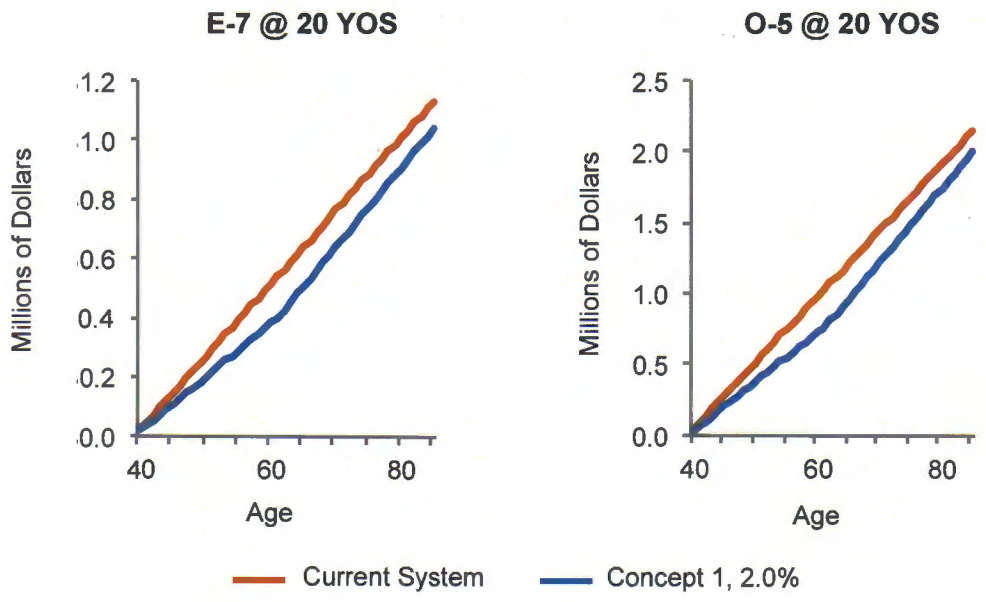


Table 10. Active Component, Concept 2 with 2.0% Multiplier

		Annual Payments	
Grade	**Current**	**2.0%**	**Difference**
E7/20 Second career (pre-62)	$24,643	$21,527*	($3,116)
E7/20 Old age (62+)	24,643	25,972**	$1,329
O5/20 Second career (pre-62)	46,748	40,839*	($5,909)
O5/20 Old age (62+)	46,748	50,050**	$3,302
		Lifetime Income	
E7/20	$1,133,578	$1,105,812	($27,766)
O5/20	2,150,408	2,118,080	($32,328)

* Defined benefit plus transition pay
** Defined benefit plus TSP
NOTE: Transition pay is annuitized over the second-career period at a 4% rate. TSP is assumed to grow at a 5% annual rate and is annuitized over the old-age period at a 4% rate.

Figure 11. Lifetime Earnings, Active Component, Concept 2 with 2.0% Multiplier

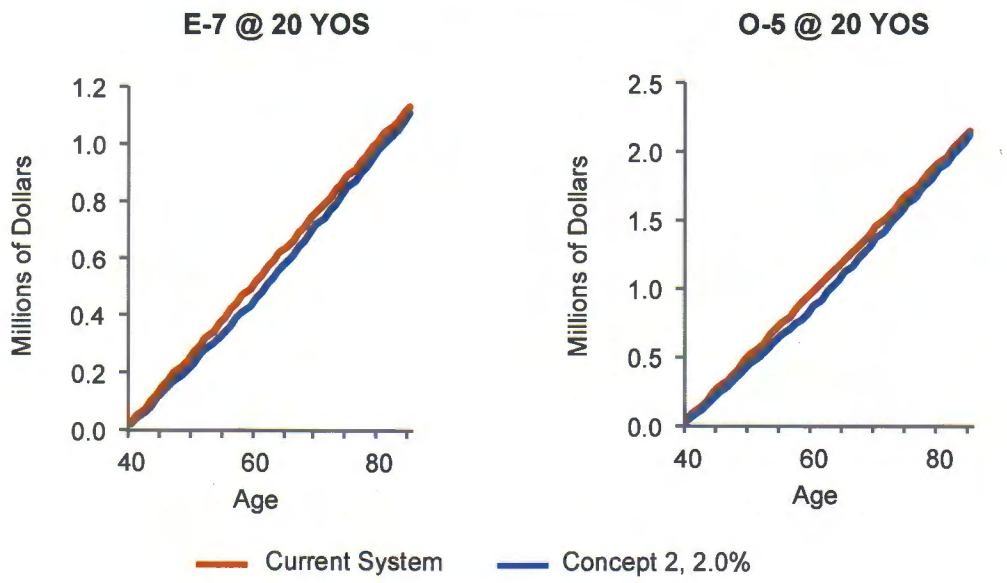


Table 11. Active Component, Concept 2 with 1.75% Multiplier

	Annual Payments		
Grade	**Current**	**1.75%**	**Difference**
E7/20 Second career (pre-62)	$24,643	$19,970*	($4,673)
E7/20 Old age (62+)	24,643	23,508**	($1,135)
O5/20 Second career (pre-62)	46,748	37,884*	($8,864)
O5/20 Old age (62+)	46,748	45,375**	($1,373)
	Lifetime Income		
E7/20	$1,133,578	$1,010,608	($122,970)
O5/20	2,150,408	1,937,430	($212,978)

* Defined benefit plus transition pay
** Defined benefit plus TSP
NOTE: Transition pay is annuitized over the second-career period at a 4% rate. TSP is assumed to grow at a 5% annual rate and is annuitized over the old-age period at a 4% rate.

Figure 12. Lifetime Earnings, Active Component, Concept 2 with 1.75% Multiplier

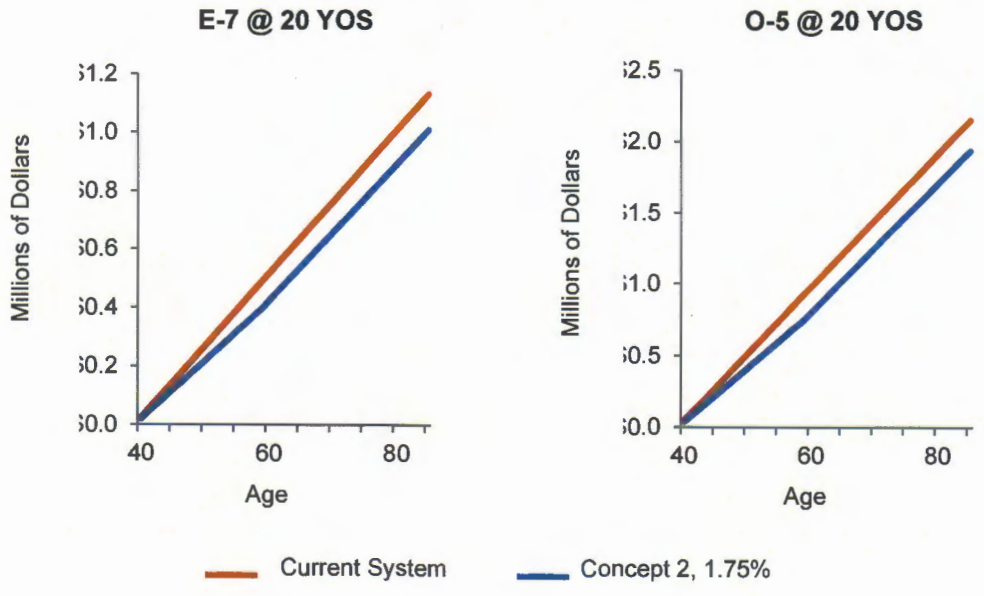


Table 12. Reserve Component, Concept 1 with 2.5% Multiplier

	Annual Payments					
	12 Active + 8 Reserve			0 Active + 20 Reserve		
Grade	Current (age 60)	2.5% (age 65)	Difference	Current (age 60)	2.5% (age 65)	Difference
E7/20 Pre-65	$0	$5,932	$5,932	$0	$564	$564
E7/20 Age 65+	20,050	22,309*	2,259	6,180	6,787*	607
O5/20 Pre-65	0	11,254	11,254	0	1,069	1,069
O5/20 Age 65+	35,164	43,203*	8,039	10,839	13,065*	2,226
	Lifetime Income					
E7/20	$521,300	$616,789	$95,489	$160,680	$156,627	($4,053)
O5/20	914,264	1,188,613	274,349	281,814	301,090	19,276

* Defined benefit plus TSP
NOTE: TSP is assumed to grow at a 5% annual rate and is annuitized over the post-age-65 period at a 4% rate.

Figure 13. Lifetime Earnings, Reserve Component, Concept 1 with 2.5% Multiplier

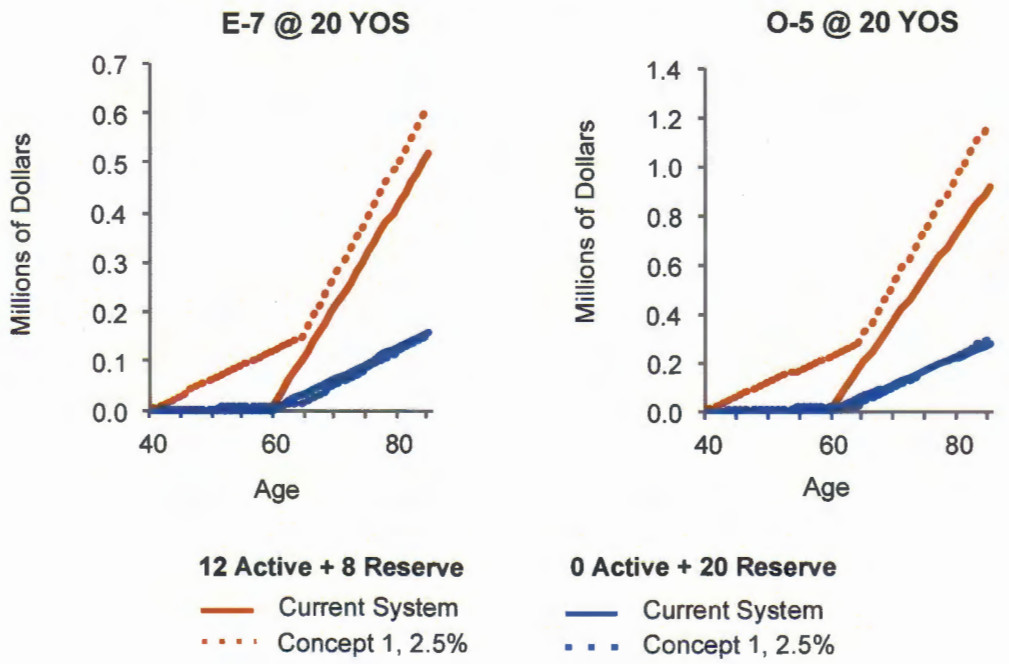


Table 13. Reserve Component, Concept 1 with 2.0% Multiplier

	Annual Payments					
	12 Active + 8 Reserve			0 Active + 20 Reserve		
Grade	Current (age 60)	2.0% (age 62)	Difference	Current (age 60)	2.0% (age 62)	Difference
E7/20 Pre-62	$0	$3,797	$3,797	$0	$361	$361
E7/20 Age 62+	20,050	17,820*	(2,230)	6,180	5,422*	(758)
O5/20 Pre-62	0	7,203	7,203	0	684	684
O5/20 Age 62+	35,164	34,508*	(656)	10,839	10,436*	(403)
	Lifetime Income					
E7/20	$521,300	$511,214	($10,086)	$160,680	$138,070	($22,610)
O5/20	914,264	986,658	72,394	281,814	265,512	(16,302)

* Defined benefit plus TSP
NOTE: TSP is assumed to grow at a 5% annual rate and is annuitized over the post-age-62 period at a 4% rate.

Figure 14. Lifetime Earnings, Reserve Component, Concept 1 with 2.0% Multiplier

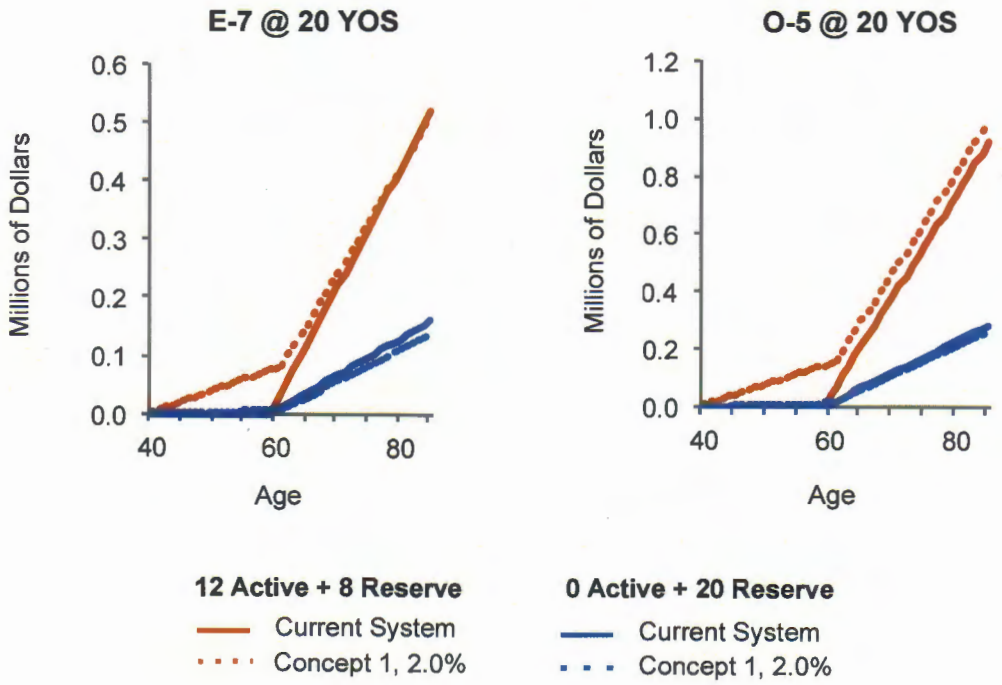


Table 14. Reserve Component, Concept 2 with 2.0% Multiplier

	Annual Payments					
	12 Active + 8 Reserve			0 Active + 20 Reserve		
Grade	Current (age 60)	2.0% (age 60)	Difference	Current (age 60)	2.0% (age 60)	Difference
E7/20 Pre-60	$0	$0	$0	$0	$0	$0
E7/20 Age 60+	20,050	17,262*	(2,788)	6,180	5,260*	(920)
O5/20 Pre-60	0	0	$0	0	0	0
O5/20 Age 60+	35,164	33,355*	(1,809)	10,839	10,107*	(732)
	Lifetime Income					
E7/20	$521,300	$448,812	($72,488)	$160,680	$136,760	($23,920)
O5/20	914,264	867,230	(47,034)	281,814	262,782	(19,032)

* Defined benefit plus TSP
NOTE: TSP is assumed to grow at a 5% annual rate and is annuitized over the post-age-62 period at a 4% rate.

Figure 15. Lifetime Earnings, Reserve Component, Concept 2 with 2.0% Multiplier

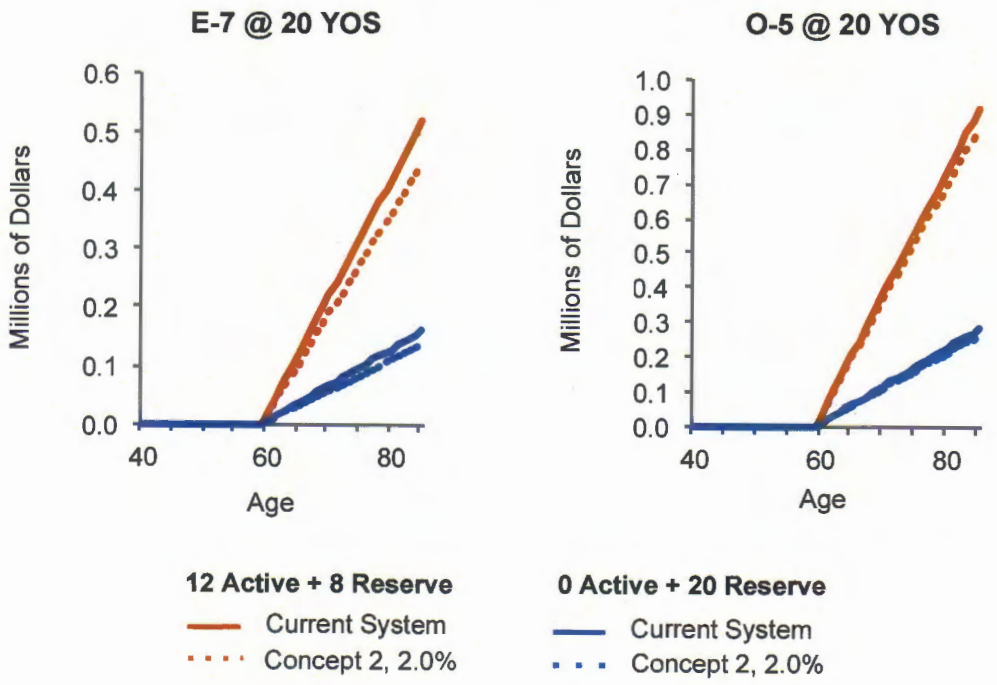
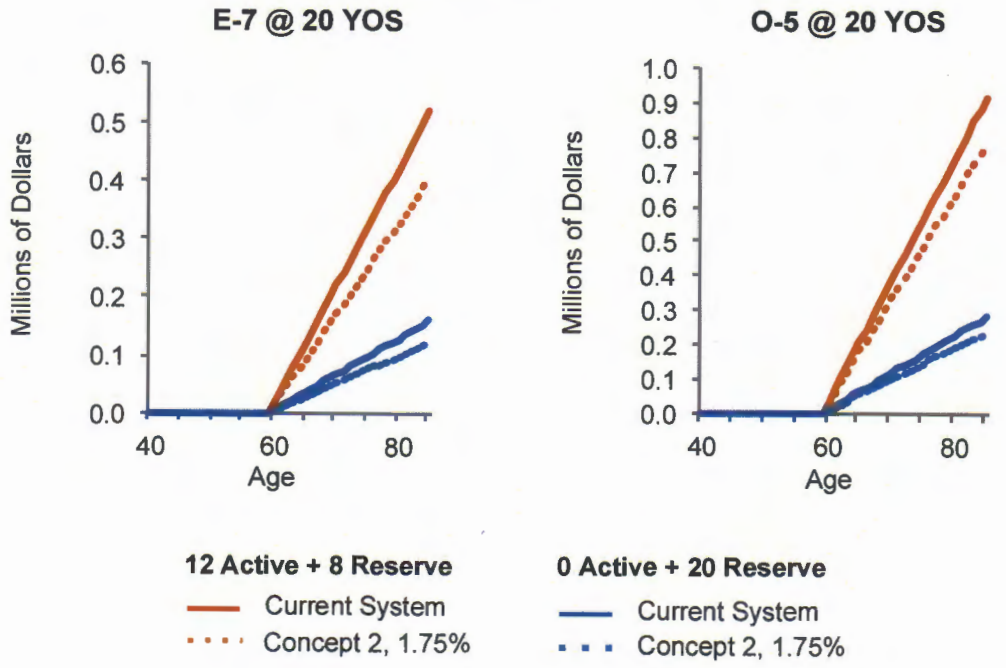


Table 15. Reserve Component, Concept 2 with 1.75% Multiplier

	Annual Payments					
	12 Active + 8 Reserve			0 Active + 20 Reserve		
Grade	Current (age 60)	1.75% (age 60)	Difference	Current (age 60)	1.75% (age 60)	Difference
E7/20 Pre-60	$0	$0	$0	$0	$0	$0
E7/20 Age 60+	20,050	15,552*	(4,498)	6,180	4,733*	(1,447)
O5/20 Pre-60	0	0	0	0	0	0
O5/20 Age 60+	35,164	30,111*	(5,053)	10,839	9,107*	(1,732)
	Lifetime Income					
E7/20	$521,300	$404,352	($116,948)	$160,680	$123,058	($37,622)
O5/20	914,264	782,886	(131,378)	281,814	236,782	(45,032)

* Defined benefit plus TSP
NOTE: TSP is assumed to grow at a 5% annual rate and is annuitized over the post-age-62 period at a 4% rate.

Figure 16. Lifetime Earnings, Reserve Component, Concept 2 with 1.75% Multiplier



Like the active component, reserve component members would receive additional continuation pay as well as a TSP benefit under both concepts. The continuation pay multiplier differs from the active component, and the TSP benefit differs, reflecting differences in contribution amounts for time spent in the active component versus the reserve component. However, unlike the active component, reserve component members do not receive transition pay. Another departure from the current retirement system that occurs under Concept 1 is that reserve component members who retire with 20 or more years of service would receive a partial retirement benefit (first tier) immediately and a full benefit (second tier) when they reach their early 60s. (Similar to the design of Concept 1 for the active component, the initial or first-tier annuity for reserve members is less than the full retirement or second-tier annuity which under the current system is not received until age 60.) The full or second-tier retirement would not begin until some point after age 60 and would be the same age as for the active component retirees.

The scenarios modeled used a retirement age of 65 for the multiplier of 2.5 percent and a retirement age of 62 for the multiplier of 2.0 percent. The delay in paying the full or second-tier retirement benefit beyond age 60, especially in the case of the 2.5 multiplier, helps offset the added cost of paying the immediate, first-tier retirement pay to reserve retirees. Additionally, the delay for both active and reserve retirements is consistent with the increasing longevity of retired members and the qualifying age for social security and Medicare. Under Concept 2, reserve component members who retire with 20 or more years of service do not begin receiving their retirement benefit until age 60 as in the current retirement system, with no immediate partial annuity. Because the retirement multiplier is reduced, the annuity they receive would be less than under the current system.

Effects on Disability Compensation

The current DoD disability benefit does not fully compensate service members for the expected value of a lost military career for either enlisted personnel or officers. The concept for redesign of disability compensation helps to close this gap. The basis for this analysis is an estimate of the value of a lost military career—a calculation that depends on both financial and non-financial factors including the length of a military career, whether a member stays in the military long enough to qualify for retirement benefits, whether an individual plans to retire from the military and enter a civilian career, and various similar concerns.[9] The value of being able to continue a military career changes over the course of a member's career, increasing the closer a member gets to 20 years of service and retirement eligibility, and also depends on whether the member is an officer or enlisted.

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[9] The background paper, *Toward Meaningful Compensation Reform: Research in Support of the DoD Working Group on Compensation, 2011–2013*, provides further detail how the value of a military career was estimated.

Figure 17 compares the expected value of a lost military career to the value of the current DoD disability benefit[10] and to the proposed DoD disability benefit under Concept 1 and Concept 2. As the figure shows, the new disability benefit under Concept 1 (top left and top right panels) at a DoD disability rating of 50 percent would be greater than the current benefit for both officers and enlisted personnel. Thus, the new system would be a clear improvement under Concept 1, due primarily to eliminating the VA offset. (The disability benefit under the current system (green line) is shown to be negative after 20 years of service because the disability benefit is less that the benefit the member with 20 or more years of service would have had, had the member's career not been cut short.)

Under Concept 2 (lower left and lower right panels), the value of a lost career is slightly lower because the military retirement multiplier is lower. The new disability benefit under Concept 2 is also lower. For enlisted members, the new disability benefit at a DoD disability rating of 50 percent would still exceed the current disability benefit, but would fall short of the value of a lost career. For officers, the new disability benefit would equal what is currently offered under the existing disability system for officers with fewer than 20 years of service, but would exceed the existing benefit for those with more than 20 years of service.

A major change from the current system under either of the two concepts is elimination of the dollar-for-dollar offset required when a member receiving military retired pay also receives disability compensation administered by the VA. DoD would pay only for years of service while the VA would pay for the severity of the disability without offset. This construct would also eliminate, for military disability retirees, the need for either of the concurrent receipt programs developed to restore or partially restore the offset.

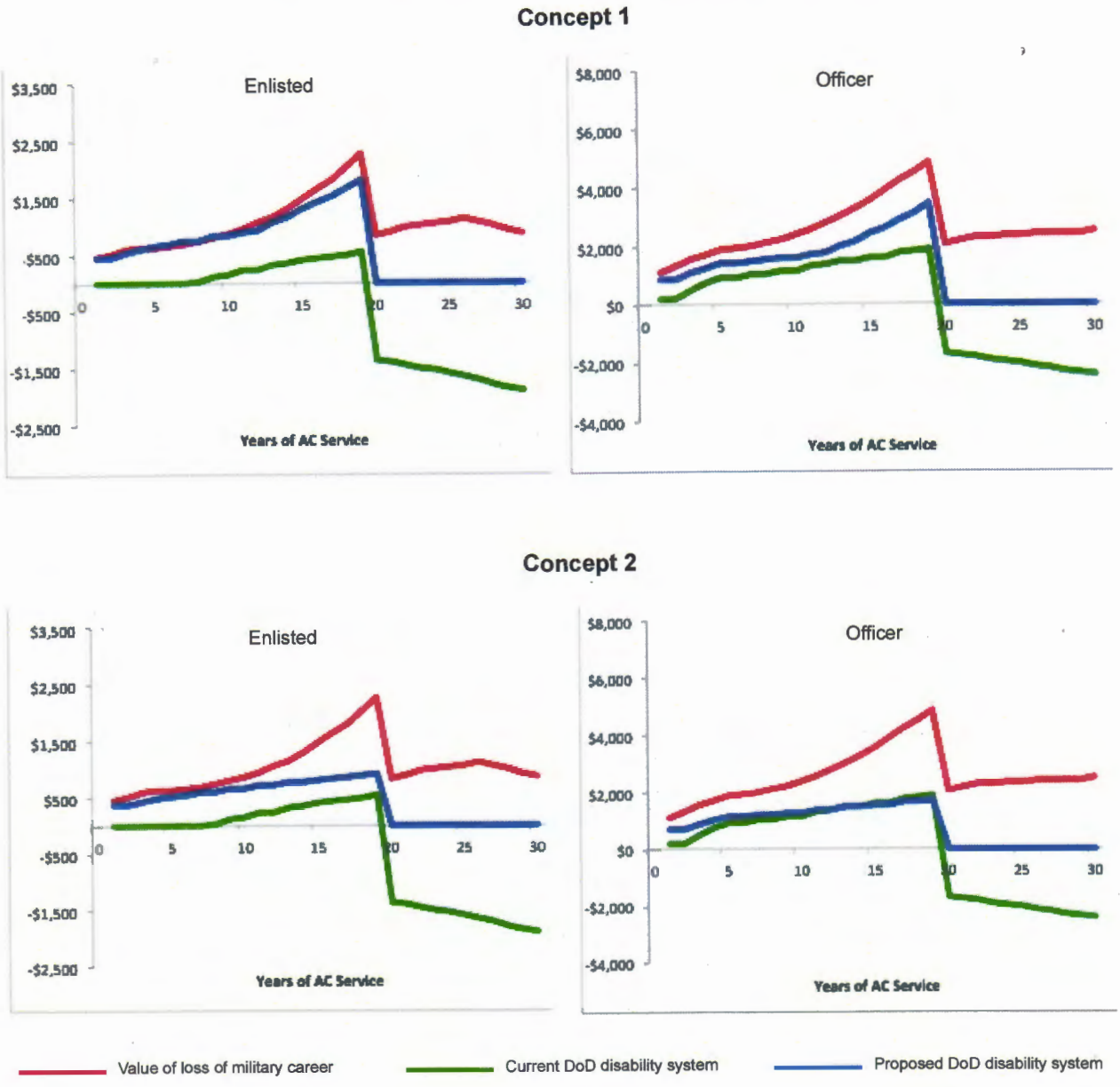
Effects on Survivor Benefits

Both concepts include changes to the survivor benefit element of the retirement package. It is important to note that the TSP element of the new retirement options includes a survivorship aspect by which the surviving spouse would receive the unexpended funds in the TSP account. These funds in combination with a modestly reduced Survivor Benefit Plan annuity of 50 percent versus the current 55 percent should give most surviving spouses a significantly enhanced survivor benefit. The increase in the premium charge from 6.5 percent to 10 percent provides a more cost neutral plan and enables the costly elimination of offset when the surviving spouse also qualifies for Dependency and Indemnity Compensation from the VA. Eliminating this offset has been a longstanding, yet unfulfilled goal of a number of military and survivor organizations and members of Congress. The present Special Survivors Indemnity Allowance was enacted to partially overcome this offset, but remains significantly underfunded. Currently, this allowance

[10] The value of the current DoD disability benefit depends on a number of factors including DoD rating, whether CRSC relevant, and whether there is an offset to the VA benefit—although the difference by years of service when these factors vary are generally not large. The analysis here assumes no CRSC offset.

restores only $150 of the monthly $1,215 VA offset. The proposed change as part of a modernized retirement system would eliminate the offset and consequently the need for this restoration program.

Figure 17. Disability Proposal Increases Disability Compensation



Considerations for Reserve Compensation

The effects of the design concepts were also assessed under two different approaches to reserve component current compensation. The first approach, used in the analyses reported in the previous sections, leaves the method for computing current compensation for reserve members unchanged. Under the current system, a reserve component member earns one point towards retirement for each day on active duty or each drill period. Typically, there are two drill periods in a day. While serving on active duty for 30 days or more, reserve members receive the same pay and allowances as any other active duty member. While performing inactive duty drills, they receive one day of basic pay for each drill period (i.e. two days basic pay for one full day of drill), but no allowance for housing or subsistence.

The second approach adopts the method recommended by the 11th Quadrennial Review of Military Compensation (QRMC). The 11th QRMC proposed a total force approach (also sometimes referred to as the regular military compensation [RMC] approach), whereby the method for computing reserve component pay and the housing and subsistence allowances would be the same as used for the active component. Under the RMC approach, each day of duty would yield one day of regular military compensation and one retirement point, regardless of duty status (active or inactive). Although the RMC approach to current compensation for reserve component members was not included in this evaluation, that approach could be made viable in conjunction with retirement reform if certain accommodations are included.[11] Such accommodations would require a reduction in the number of points required for completing a satisfactory year of service counting toward the 20 years of service required for retirement, a higher continuation pay, the possibility of paying compensation for participation points, and/or changing the number of participation points given. The continuation pays required to sustain the size of the reserve force using the point per day/RMC approach are larger than under the current system of reserve pay.

Summary

This paper discusses concepts for **a hybrid military retirement system** that would include a defined benefit plan component similar to the current system, the addition of a defined contribution component similar to a civilian 401(k), and supplemental pays—fundamentally restructuring the military retirement system. The system also incorporates a revised disability retirement benefit and survivor benefit plan. Supplemental pays are structured to sustain the size and experience mix of the force. The system includes characteristics that are common to most current civilian retirement plans and available to the potential pool of candidates for which the military is competing. It provides a reasonable retirement for disability or longevity. The system

[11] The background paper, *Toward Meaningful Compensation Reform: Research in Support of the DoD Working Group on Compensation, 2011–2013*, contains results of assessments using the RMC pay approach.

also has characteristics that will allow the Services to effectively manage their force and works in concert with other force management tools.

The concepts described in this paper would indeed modernize the military compensation and retirement system in a way that better meets the needs of the nation's uniformed services. While these concepts do realize savings, they are about more than achieving efficiencies or fiscal savings. These design concepts look to the future to help ensure that military service remains attractive to today's youth and tomorrow's service member. At the same time, they reflect the importance of balancing the needs of the member, the taxpayer, and the uniformed services. We believe the framework represented by these concepts will sustain the All-Volunteer Force, foster recruiting and retention, ensure an appropriate standard of living for our members, and maintain fiscal sustainability—as set forth in the guiding principles established at the outset of this paper.

Modernizing the military retirement system will require a significant investment in time and resources, and the potential benefits may not be realized for many years. It is a complex system, so evaluating implementation alternatives must be approached with care. These concepts were designed using a systems approach and must be examined as such. For example, adjustments to one part of the retirement benefit, such as introducing portability, yielded savings that could be used to improve the disability and survivor benefits to make them more robust. Yet, complexity should not be allowed to stand in the way of progress. Change is possible.

CHAIRMAN OF THE JOINT CHIEFS OF STAFF
WASHINGTON, DC 20318-9999

CM-0032-14
6 February 2014

INFO MEMO

FOR: SECRETARY OF DEFENSE

FROM: General Martin E. Dempsey, CJCS

SUBJECT: Recommendations to the Military Compensation and Retirement Modernization Commission

The Chiefs and I offer the following tenets for consideration by the Military Compensation and Retirement Modernization Commission:

- The Commission needs to recognize the unique contributions and sacrifices required by military service when considering changes to the retirement system. The Commission should consider a wide range of options using the elements under consideration (defined benefits, defined contributions, supplemental pay, disability, and survivor benefits), as well as accounting for cost of living adjustments. However, we do not support a retirement system consisting of 100 percent defined contribution, which was a recommendation of the Defense Business Board.

- Any new retirement system should include a "grandfathering clause" of the existing retirement system to cover all military personnel currently serving and retirees at time of enactment.

- While retired pay may be phased differently under the new system, any change must maintain a lifetime benefit nearly equivalent to that which is currently available—at neutral cost or savings to the Services. Also, when considering providing some benefits to those serving less than 20 years, the lifetime benefit of those serving more than 20 years must be preserved to allow the Services to properly shape the force.

- All Commission options should be analyzed for propensity to enlist, as well as impacts on accession, retention, force management, and cost implications prior to making final recommendations. It must also ensure that any changes made do not affect the Services' ability to compete for talent in the labor market. We ask that final analysis be provided to the Services for input prior to making final recommendations.

- Retirement should be considered in a perspective of the total compensation package and the effects on the Service Member whether Active or Reserve Component. Consideration must be given to their sacrifices such as:

  - The inability to sustain consistent spouse employment;

  - The ramifications of changing a child's school (to include total education costs,

transportation to appropriate schooling, and personal education requirements at either end of the academic spectrum when appropriate schooling—i.e., at the correct age and education level—is not immediately available to the Service Member);

- The difficulty of gaining equity in purchased homes; and
- Limitations on pay in relation to responsibility and not just educational equivalency of civilian counterparts. This must be weighed against educational benefits (Veterans Administration and tuition assistance) for members and dependents; medical care; tax-free housing allowances; and retirement benefits as deferred compensation.

- We reserve opinion on Survivor Benefits and Disability Pay pending clarity on the defined-benefit/defined-contribution options and recommend looking at post-20 years of service and post-retirement Group Life Insurance-type insurance (with members co-pays) as possible alternatives and additions.
- Outliers such as dishonorable or other-than-honorable discharges should be addressed.
- The Commission should conduct a survey of the force on the desirability of retirement reform options, and solicit periodic interaction and feedback from the Joint Chiefs of Staff.

COORDINATION: NONE

cc:
USD(C)
USD(P&R)
Director, CAPE