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Members of the Armed Forces can retire at any age after 20 years of service. The Department of Defense (DOD) justifies this length of service as necessary to retain a young and vigorous force and attract and retain servicemen. DOD uses a competitive promotion system which precludes most military members from serving full careers and must, by law, retire officers who have been passed over for promotion or who reach a certain age. Since their careers could end in the middle of their potential worklife, DOD believes military members need the assurance of early retirement benefits. Findings/Conclusions: In fiscal year 1975, officers retired at an average age of 46 after about 24 years of service, and enlisted personnel retired at an average age of 41 after approximately 21 years of service. Most fiscal year 1975 retirees' career time was spent in occupations not demanding exceptional youth and vigor. In fact, 81% of the enlisted member retirees and 30% of the officers spent their entire careers in non-combat-related occupations. The 20-year retirement provision should be discontinued for many military personnel in occupations not demanding exceptional youth and vigor. Twenty-year retirement, in conjunction with present personnel management policies, is an inefficient means of attracting new members, causes the services to retain more members than are needed up to the 20-year point, provides too strong an incentive for experienced personnel to leave after serving 20 years, and makes it impossible for the vast majority of members to serve full careers. Recommendations: The Congress should: revise the military retirement system length-of-service criterion, based on the type of duty performed; revise the retired pay system to encourage appropriate career lengths, based on duties performed; and provide some form of vesting for members who do not complete full careers. Congress should charge DOD with the responsibility for determining what specific occupational skills require youth and vigor, a more cost-effective force profile that considers longer careers for skills not requiring youth and vigor, and a more efficient

method of retaining required personnel. In computing retired pay, Congress should revise the military retirement system to eliminate the use of constructive service and rounding to the nearest year of service; rounding to the nearest month should be used. (RRS)

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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

The 20-Year Military Retirement System Needs Reform

Members of the Armed Forces can retire at any age after 20 years of service.

The Department of Defense's justification for early retirement is a need to attract and maintain a youthful and vigorous force. However, most servicemen who retired in fiscal year 1975 spent the greatest part of their careers in occupations that did not require exceptionally vigorous duties. Yet, they were eligible to retire under the same criteria as those who served in more demanding combat-type positions.

The retirement system should be altered to encourage more effective lengths of careers and mixtures of first-term and career servicemen, to better attract and retain members, and to improve equity and efficiency.



FPCD-77-81
MARCH 13, 1978



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20540

B-125037

To the President of the Senate and the
Speaker of the House of Representatives

This report discusses the need to determine more effective career lengths for military personnel and design a more cost-effective mix of new recruits and experienced personnel. We initiated this review because of our concern over the economy and efficiency of the various Federal retirement systems, including the military retirement system.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Legislative Reorganization Act of 1970 (Public Law 91-510).

Advance comments from the Department of Defense are incorporated in the report where appropriate.

Copies of this report are being sent to the Acting Director, Office of Management and Budget, and to the Secretaries of Defense, Commerce, Transportation, and Health, Education, and Welfare.

A handwritten signature in black ink, reading "James B. Stacks".

Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

THE 20-YEAR MILITARY
RETIREMENT SYSTEM
NEEDS REFORM

D I G E S T

Eligibility to retire after 20 years of service with immediate unreduced retired pay is not appropriate for most military personnel. Nevertheless, the Department of Defense justifies this length of service as necessary to (1) retain a young and vigorous force and (2) attract and retain servicemen.

To maintain this youth and vigor, Defense uses a highly competitive promotion system which precludes most military members from serving full careers. Defense retains the right to deny reenlistments and must by law retire officers who have been passed over for promotion or who reach a certain age. (See pp. 16 and 17.) Since their careers could end in the midpoint of their potential worklife, Defense believes military members need the assurance of early retirement benefits. (See pp. 6 and 7.)

LONGER CAREERS NEEDED
FOR MANY MILITARY PERSONNEL

In fiscal year 1975, officers retired at an average age of 46 with about 24 years of service, and enlisted personnel retired at an average age of 41 with approximately 21 years of service. (See p. 9.) Many servicemen should serve longer careers. Most fiscal year 1975 retirees' career time was spent in occupations not demanding exceptional youth and vigor:

--81 percent of the enlisted members and 30 percent of the officers spent their entire careers in non-combat-related jobs. (See p. 10.)

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--92 percent of enlisted members' total career time and 66 percent of officers' career time were spent in support-type, non-combat-related jobs. (See p. 9.)

--93 percent of the enlisted members and 66 percent of the officers were working in support-type, non-combat-related jobs when they retired. (See p. 29.)

Some members spent their entire careers in combat occupations, while many never served in these occupations at all.

Also, early retirement is an inefficient means of attracting and retaining personnel.

--It does not provide an incentive to serve in demanding or hazardous duties. All members may receive a lifetime retirement income after only 20 years.

--It causes the services to lose many skills which do not require youth and vigor.

--It does not motivate young members to join the military. Special pay and bonuses can be more effective.

--It may be counterproductive in maintaining the quality force the services desire because retirement incentives are too great after reaching retirement eligibility.

--It creates an arbitrary career length not appropriate for most military members when combined with lack of vesting.

The retirement system should be redesigned to allow Defense to more effectively attract and retain the necessary manpower. This includes reevaluating the mixture of first-term and career members and lengthening military careers. (See pp. 28 to 31.)

GAO recommends that the Congress

--revise the military retirement system length-of-service criterion, based on the type of duty performed,

- revise the retired pay system to encourage appropriate career lengths, based on duties performed, and
- provide some form of vesting for members not completing full careers. (See p. 33.)

GAO recognizes that adjusting career lengths for military personnel will affect present personnel management policies and "objective force profiles"; therefore, to provide efficient long-term solutions, GAO recommends that the Congress:

- Charge Defense with the responsibility of determining (1) what specific occupational skills require youth and vigor, (2) a more cost-effective force profile that considers longer careers for skills not requiring youth and vigor, and (3) a more efficient method of retaining required personnel.
- Require the Secretary of Defense, within 1 year, to submit to the Congress a report addressing the above issues as well as the cost estimates of alternatives evaluated.

Defense agreed that retirement reform is needed but suggested that the retirement system not be revised until after the President's Commission on Military Compensation completes its study. Defense believes the evidence presented in the report does not fully support GAO's recommendation. Defense, however, did not respond to many issues which GAO considers important in revising the military retirement system. (See pp. 34 to 38 for Defense comments and GAO's evaluation.)

CONSTRUCTIVE SERVICE AND
ROUNDING TO THE NEAREST YEAR
OF SERVICE SHOULD BE ELIMINATED

GAO also recommends that the Congress, in computing retired pay, revise the military retirement system to eliminate the use of constructive service and rounding to the nearest year of service. Instead, rounding to the nearest month should be used. (See

pp. 43 and 44.) Otherwise members will continue to receive retirement credit for service not actually performed. Defense did not address these issues in its comments.

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ABBREVIATIONS

DMC	Defense Manpower Commission
DOD	Department of Defense
ERISA	Employee Retirement Income Security Act of 1974
GAO	General Accounting Office
MOS	military occupational specialty
RMA	Retirement Modernization Act

CHAPTER 1

INTRODUCTION

Retired U.S. military members are eligible for benefits from three principal sources: the military retirement system, social security, and the Veterans Administration. The program benefits are interrelated. Members contribute part of their pay to the social security system, but not to the military retirement system; their Veterans Administration benefits are offset against benefits from the military retirement system, but their social security benefits are additive.

We reviewed the early retirement provision of the military retirement system because it allows all members to retire with only 20 years of service, and it affects the entire force structure and personnel management policies.

Military retirement costs are increasing sharply. In fiscal year 1965 there were 462,000 military retirees receiving \$1.4 billion. By fiscal year 1978, the military retired population will have more than doubled to 1.2 million members who will receive about \$9 billion. The Congressional Budget Office has estimated that retirement costs will increase to about \$13.8 billion for fiscal year 1983. The Congress makes annual appropriations for retired pay on a "pay as you go" basis. The military retirement system is unfunded.

Some aspects of the present military retirement system are traceable to laws enacted before the Civil War. However, the current system is based primarily on portions of legislation enacted in the late 1940s. Generally, the laws authorizing retirement for members of the uniformed services are codified in titles 10, 14, 33, and 42 of the United States Code.

Participation is automatic for members of the uniformed services, which include the Army, Navy, Air Force, Marine Corps, Coast Guard, and the commissioned officers corps of the Public Health Service and the National Oceanic and Atmospheric Administration. The Department of Defense (DOD) administers the system for the Army, Navy, Air Force, and Marine Corps, while the Coast Guard, Public Health Service, and the National Oceanic and Atmospheric Administration systems are administered by the Department of Transportation,

the Department of Health, Education, and Welfare, and the Department of Commerce, respectively. The system provides for nondisability retirement benefits and disability and survivorship benefits.

The original purpose of nondisability retirement was to provide financial security for superannuated (disqualified by advanced age for active duty) members withdrawing from the Nation's labor force. However, the present purpose is to achieve a physically vigorous force by separating members at an early age, thereby insuring that the military forces are staffed by young members.

Regular and Reserve commissioned officers may be retired upon application and approval by the service Secretary after 20 years of active service, at least 10 of which must be commissioned service. Enlisted members and warrant officers may also request retirement after 20 years of service. Members who leave prior to 20 years of service do not receive retirement benefits, but separation payments are provided officers who are involuntarily separated. Few military members serve beyond 30 years.

Retired pay is computed by multiplying the terminal basic pay of the grade of the retired member by 2.5 percent of the number of years of creditable service, to a maximum of 75 percent of basic pay. The retired grade of the member is usually the grade in which he or she is serving on the date of retirement. Benefits are semiannually adjusted, based on increases in the Consumer Price Index.

Recent data shows that armed services officers, on the average, retire at about age 46 with 24 years of actual active service. Enlisted members, on the average, retire at about age 41 with 21 years of actual active service.

SCOPE OF REVIEW

Our review was directed toward evaluating how well the 20-year retirement provision serves management's needs and the rationale for the provision (particularly its emphasis on youth and vigor). We examined pertinent legislation, policies, and practices and interviewed DOD and service officials. We also reviewed prior military retirement studies made by DOD, the Interagency Committee, the Quadrennial Reviews of Military Compensation, the Defense Manpower Commission (DMC), and current retirement data from various literature.

At the National Personnel Records Center in St. Louis, Missouri, and at the Navy Annex in Washington, D.C., we collected data on the career patterns of a statistical sample of fiscal year 1975 military retirees. We analyzed the data to determine members' occupations (combat or non-combat) and locations of their assignments. The sample included approximately 100 retired officers and 100 retired enlisted members (see app. II) from each of the four military services (800 total). In analyzing the sample data, accepted statistical methods were used in arriving at estimates and the precision of the estimates was at the 95-percent level of confidence. Overall averages were obtained by proper weighting of data by each service. Appendix V contains additional statistical information.

CHAPTER 2

RATIONALE FOR EARLY RETIREMENT

Twenty-year retirement eligibility evolved from a program designed to aid retention of Naval enlisted members to an all-encompassing program for every member of the armed services. Officers and enlisted members of each service were brought under the early retirement umbrella by separate pieces of legislation that spanned the time between 1915 and 1948. According to DOD, there is a need for a young and vigorous force, which it achieves through providing early retirement opportunities for all members. Our legislative research, however, did not show that youth and vigor among enlisted members was the reason the Congress enacted 20-year retirement. The concept of youth and vigor was derived from the legislative debate surrounding the need to eliminate older officers.

LEGISLATIVE HISTORY OF 20-YEAR RETIREMENT

Prior to 1915, enlisted military members were required to serve 30 years before being eligible for retirement. The first law authorizing 20-year retirement was enacted in 1915 for Navy enlisted members. ^{1/} At that time many enlisted members were getting out of the service to pursue civilian careers. The Congress established 20-year retirement to induce more members to remain in the service, thereby reducing costs of recruiting, outfitting, and training new members.

In 1945, 20-year retirement was established for enlisted members of the Army to equalize benefits with those of the Navy and to assist in recruiting replacements for World War II veterans returning to civilian life. ^{2/}

Our legislative research disclosed that youth and vigor were not the reason behind 20-year retirement legislation for enlisted members. However, youth and vigor were discussed when the Congress felt it necessary to eliminate superannuated officers from the service.

^{1/}The act of Mar. 3, 1915, ch. 83, 38 Stat. 928, 941.

^{2/}The act of Oct. 6, 1945, ch. 393, §4, 59 Stat. 538, 539.

The elimination of superannuated officers can be traced back as far as 1855. Our discussion will focus on the World War II era.

In 1935 an automatic promotion system was established for Army officers up to the grade of captain. In June 1938, 20-year retirement and a merit promotion system were established for Naval officers, and the requirement that they serve 30 years before retirement was eliminated.

A 1942 act suspended all provisions regarding permanent promotions and retirements for Navy and Marine Corps personnel so that every able-bodied man could be utilized in time of war. As a result of these developments and World War II, the services had an overaged officer corps. For example, Army captains were from 31 to 37 years old, majors from 38 to 49, and lieutenant colonels from 44 to 60.

Consequently, in 1946 the Congress enacted legislation to retire certain officers of the Regular Navy, Regular Marine Corps, and Coast Guard who had served beyond their usefulness. In its consideration of the legislation, the Senate Committee on Naval Affairs stated in its report:

"The recent war has emphasized the necessity for youth and vigor in maintaining the Navy and Marine Corps at peak performance under the strain of combat. * * * The committee are of the opinion that enactment of the present bill is necessary to insure that our postwar Navy be officered with young, alert, and vigorous officers." (S. Rept. No. 701, Nov. 8, 1945, 79th Cong., 1st Sess.)

Also in 1947 Congress enacted legislation to reestablish a permanent promotion system for Armed Forces officers. The congressional intent of this legislation was stated as follows by the Senate Committee on Armed Services (S. Rept. No. 609, July 18, 1947, 80th Cong., 1st Sess.):

"It is believed that this is an improvement over existing law because the last war clearly demonstrated the need for vigor and comparative youth in men holding positions of responsibility in the services."

Twenty-year retirement was established for Army and Air Force officers in 1948 to place Army and Air Force personnel

on a par with Navy and Marine Corps personnel. 1/ Before 1948, Army and Air Force officers could voluntarily apply for retirement after 15 years of service. 2/

OBJECTIVES OF MILITARY RETIREMENT

DOD employs a highly competitive promotion system which precludes most military members from serving full 30-year careers. It retains the right to deny reenlistments to enlisted members and must by law retire officers who have been passed over for promotion or who reach a certain age. DOD officials believe that without the prospect of 20-year retirement, members would not be as willing to accept a military career that could end in the midpoint of their potential worklife. Also they indicated that members would not accept the military way of life for more than 20 years.

Three broad objectives of the present military retirement system are to

- assist in attracting and retaining the kinds and numbers of qualified members required,
- provide a socially acceptable method of removing some members who must be separated to insure maintenance of a young and vigorous force, and
- provide, after many years of faithful service, some degree of financial security that is understood, assured, and protected against the inroads of future inflation.

Much of the debate centering on early retirement in the military concerns perceptions about the rigors of military life, time spent overseas, and combat readiness. According to DOD, 20-year retirement is needed to maintain a young and vigorous force capable of meeting these requirements. Youth and vigor are viewed as a universal requirement for all members regardless of occupational specialty or type of assignment. Retirement eligibility has never been tied

1/The act of June 29, 1948, ch. 708 § 202, 62 Stat. 1084.

2/The act of July 31, 1935, ch. 422 § 5, 49 Stat. 507.
This law established an automatic promotion system for officers of the Army up to the grade of captain.

to the amount of time spent in hazardous or combat occupational specialties or locations, even though these types of assignments are often used as justification for early retirement. DOD officials speak in terms of the "aggregate force" or the "average member." They assume that 20-year retirement is necessary to let a member cut after a reasonable period of time and that all members must be ready to serve in a combat environment.

DOD has no criteria for differentiating between demanding and less demanding duties because it maintains that youth and vigor are needed for all members. Therefore, the privilege of requesting early retirement is granted to all members without regard to the need for youth and vigor in their occupational specialty or location. The youth and vigor concept is used by DOD in administering their "up or out" policy for officers and as part of their rationale for continuing 20-year retirement for all officers and enlisted members.

Basic questions need to be answered: Are youth and vigor required for all members regardless of occupational specialty or type of assignment? Is 20-year retirement an efficient attraction and retention incentive? Should the retirement and personnel management systems be restructured to encourage longer careers?

CHAPTER 3

MILITARY CAREERS SHOULD BE LENGTHENED FOR MANY PERSONNEL

The 20-year retirement provision should be discontinued for many military personnel in occupations not demanding exceptional youth and vigor. Also, 20-year retirement, in conjunction with present personnel management policies, (1) is an inefficient means of attracting new members, (2) causes the services to retain more members than are required up to the 20-year point, (3) provides too strong an incentive for experienced personnel to leave after serving 20 years, and (4) makes it impossible for the vast majority of members to serve full careers.

YOUTH AND VIGOR ARE NOT NEEDED FOR ALL POSITIONS

Since World War II DOD's general concept has been that 20-year retirement coupled with career management policies maintains a young and vigorous force.

DOD's "Officer Personnel Management Study" of May 1973 explained the importance of youth and vigor in the officer corps. It stated:

"* * * the officer personnel management system must produce and sustain a young and vigorous force. The officer structure cannot successfully accommodate the proportion of older men accommodated by most civilian organizations. In wartime the need is obvious. In peacetime, also, the military profession demands youth and vigor. Successful leadership of large numbers of young military men requires that their leaders personally demonstrate high standards of mental and physical ability, enthusiasm, and adaptability. Communication between seniors and juniors must be unhampered by large age differentials. The country cannot afford a lack of youth and vigor in its officer corps."

Supporters of 20-year retirement argue that the unusual hardships inherent in a military career--rigors of combat and combat preparedness--necessitate an early retirement

system for the maintenance of a youthful and vigorous fighting force. It is generally agreed that aged personnel might be unable to tolerate the ardors of physical combat or combat training. However, what constitutes youth and vigor has not been fully explained by DOD. Our sample of military personnel retired in fiscal year 1975 indicated that officers retired at an average age of 46 years with 24 years of actual active service. The enlisted counterpart's average age at retirement was 41 years with 21 years of actual active service. (See app. V, p. 60.) Also, 34 percent of the average officer's career and 41 percent of the average enlisted member's career were spent overseas.

To determine where service members spent their time during their careers, all career months in our sample were totaled and apportioned into appropriate job categories. 1/ Our sample indicated that the purported adversities of a military career may be rather hard to discern for a significant number of Armed Forces personnel. Military personnel devoted far more time to support-type activities such as administration, communication, and the like, than to combat-related activities (tactical and infantry operations). 2/

As shown on the chart on page 10, the largest percent of enlisted time was spent in occupations normally considered noncombat. About 92 percent of the enlisted career time of fiscal year 1975 retirees was applicable to noncombat activities--55 percent in the continental United States and 37 percent outside of the continental United States. The remaining 8 percent of enlisted time was devoted to combat-related activities.

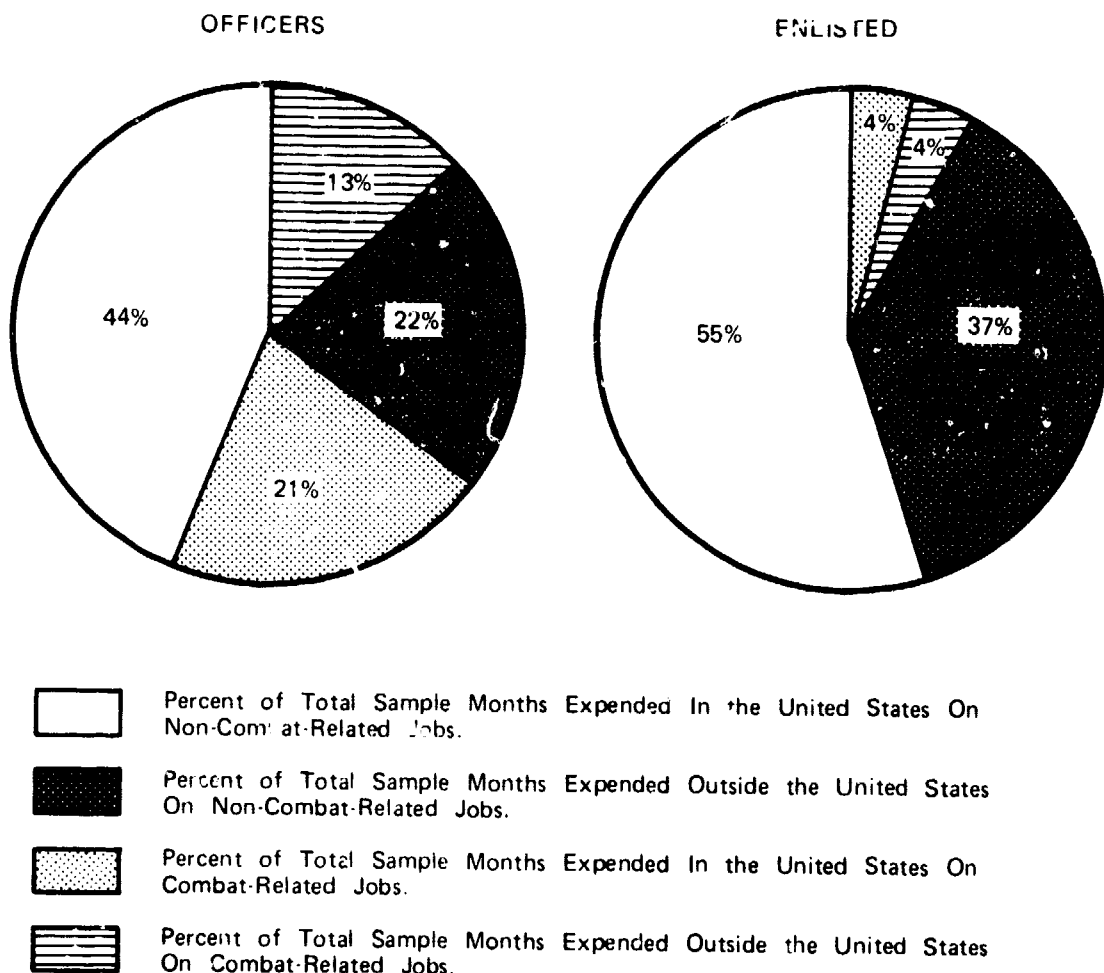
Sixty-six percent of all officer career months were devoted to noncombat activities (44 percent in the continental United States and 22 percent outside of the continental United States) and 34 percent were associated with combat-related jobs.

1/For each service, missing data amounted to no more than approximately 2 percent of the total sample months. Therefore, the impact of missing data on individual percentages was negligible.

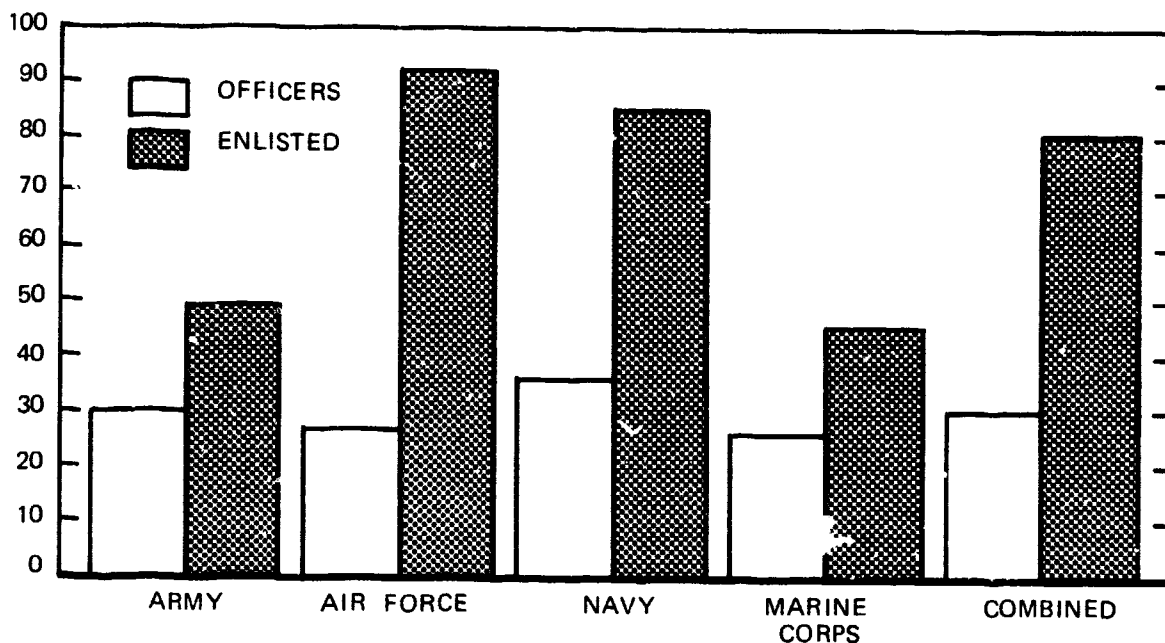
2/See app. III for description of how we classified positions into combat or noncombat categories.

The sample also showed, as reflected in the chart on page 11, that 81 percent of the enlisted members and 30 percent of the officers were not assigned to combat-related jobs during their careers. However, 8 percent of the enlisted members and 40 percent of the officers spent more than 10.5 years in combat-related jobs. If the total months spent in combat-related jobs were distributed equally, each enlisted member would have spent 20 months on such jobs and each officer would have spent 96 months.

**FISCAL YEAR 1975
WHERE AND HOW RETIRED MEMBERS SPENT THEIR CAREERS
(Accounting Of All Months In Sample)**



PERCENT OF MEMBERS WHO NEVER SERVED
IN A COMBAT OCCUPATION



Enlisted members as a group never spent more than 8 percent of their total months in combat occupations during the first third, second third, or last third of their careers. Thus, it would appear that most of the enlisted members' time was spent in duties demanding something less than exceptional youth and vigor. We also noted that during the last third of the officers' careers, close to 50 percent of their total months were devoted to administration, supply, and engineering functions. Combat-type occupations are generally held by younger military members. Currently, 68 percent of the enlisted members with less than 4 years of service are assigned to combat positions.

Our review indicated that there was no "typical" career pattern. We found variances in members' overseas experience and the length of time spent in combat-related occupations. But all members are provided the opportunity of retiring with only 20 years of service since DOD has no criteria for differentiating between demanding and less demanding duties. Members serving substantial amounts of time in combat occupations are treated the same for retirement as members serving in less demanding positions.

Establishing retirement age and length of service

Retirement in the private sector is most often set at the age at which employees are expected to withdraw from the labor force. The benefit structures of private plans are directed toward providing a retirement income for the employees' nonworking years and generally require that the employee meet a length-of-service requirement and age criteria.

The overwhelming majority of retirement plans in the private sector specify age 65 for normal retirement benefits and employ various adjustments for retirement at an earlier age. Age 65 coincides with the retirees' eligibility for unreduced social security benefits. Whether age 65 is the proper retirement age is subject to much debate. There is growing recognition that employees age at different rates, that the physical and mental requirements of a job are related to the aging process, and that any single age criterion will be satisfactory to some and unsatisfactory to others.

When we say the uniformed services have early retirement it is only with reference to the retirement practices of other employers in the public and private sector. What separates early retirement in the uniformed services and early retirement in other private sector and Government systems is the years of service required for eligibility and the lack of any age restriction or benefit reduction at the point of retirement.

The rationale for early retirement in policemen and firemen's retirement systems closely parallels the rationale for 20-year retirement in the military nondisability retirement system. For example, Federal law enforcement and firefighter personnel can retire earlier with fewer years of service and at higher annuities than most civil service personnel. These benefits are provided to encourage early retirement so that a young and vigorous work force can be maintained. Such employees are eligible to retire at age 50 after 20 years of covered service with an annuity of 50 percent of average pay (average high 3 years' pay). Additionally, they receive 2 percent of average pay for each year of service thereafter. The purpose of the special retirement law was to improve the quality of law enforcement and firefighting services by helping to maintain a young, vigorous work force.

We recently issued a report concerning the Federal law enforcement and firefighter personnel retirement system, "Special Retirement Policy For Federal Law Enforcement And Firefighter Personnel Needs Reevaluation" (FPCD-76-97, Feb. 24, 1977). We commented that the present retirement eligibility criteria do not address the need for vigorous incumbents in determining coverage. Many individuals received coverage even though the primary duties of their positions did not require extraordinary vigor. To more fully meet the law's objective, we stated that the eligibility criteria should be based on the need for extraordinarily vigorous employees in assignments in which lapses in performance significantly and immediately inhibit accomplishment of the agency's mission and the duties of the position require

--extraordinary physical stamina and continual mental alertness over long periods or

--frequent short-term, extraordinary physical exertion under environmentally adverse conditions.

We also found that many older employees continued to perform satisfactorily and were reluctant to retire when first eligible. Based on these observations and others

specifically related to Federal law enforcement and fire-fighter personnel, we questioned the continued need for these special benefits. Covered employees were not retiring much earlier than employees under regular civil service retirement provisions. Even though personnel served longer careers, they continued to perform satisfactorily. Alternatives such as better management of personnel, other civil service retirement programs, and special pay rates, if needed for recruitment and retention purposes, could be used in lieu of special retirement.

Our review of policemen and firemen's retirement benefits in 12 major cities showed the following for retirement eligibility:

- 8 had years of service and minimum-age criteria, with ages ranging from 50 to 55 years.
- 25 years of service was the mode.
- Only 3 permitted retirement after 20 years of service without a minimum age.

Managers of these systems apparently believe that most policemen and firemen can effectively perform their duties longer than 20 years.

In our opinion, granting early retirement to everyone is an inefficient means of compensating members whose duties are exceptionally demanding or hazardous. Many members now retiring before serving a full career could continue to perform their duties effectively after 20 years of service. It has been observed that retirees who are not young and vigorous enough for the military begin second careers. Often, early retirement is just a matter of changing jobs.

ATTRACTING AND RETAINING QUALIFIED PERSONNEL

Attraction and retention

DOD contends that 20-year retirement is needed to attract and retain members. In a highly competitive environment, it believes members need the assurance of early retirement benefits since their careers could end in the midpoint of their potential worklife.

There is considerable doubt, however, that early retirement is an effective means of attracting and retaining young

members. In a recent DOD personnel survey, most enlisted members in grades E-1 through E-5 did not view the retirement system as having a strong influence on their career plans.

Fewer than 13 percent of those entering service will ever receive retirement benefits. Rapid turnover of both enlisted men and officers in the early years of service is the rule in the military. In most industries, as well as in the military, the employer's highest rate of turnover occurs among employees who have been with the firm for a relatively short period of time. In the military almost 80 percent of all enlisted recruits leave before completing 5 years of service. Compensation practices generally set a minimum service requirement for retirement plans so that only those persons who have been employed beyond this period will be eligible. The young member may value a cash incentive far more than the promise of a retirement income 20 or 30 years hence. The retirement system lacks flexibility to respond to short-term fluctuations in personnel needs because retirement benefits are paid out after members' services are needed. For example, special pay or bonuses which can be initiated within a short time may be more suitable to attract members.

Older members with more years of military service place a great deal of emphasis on military retirement benefits. The majority of members in the E-6 through E-9 grades said retirement had a strong influence on their career plans. Early retirement definitely causes some of these members to stay 20 years, but the retention aspect creates personnel management problems. It causes the services to retain more members than are required up to the 20-year point, and it provides a strong incentive to leave after serving only 20 years.

DOD's Retirement Study Group of 1972 found that a

"review of loss rates during the years prior to the completion of 20 years of service reveals a strong pull to the 20 year point: the time at which management can first separate an individual with any vested rights. Loss rates also indicate that at 20 years of service, the incentive value of the retirement system for continued service rapidly decreases. Particularly for those with marketable skills, the combination of military

retired pay and second career income will be greater than what the individual can expect to receive as active duty compensation. The result of this pull-push phenomenon is that the manager loses some personnel that he would prefer to retain."

A retirement system tailored to the needs of the military services should serve to retain members where they need to be retained and make it possible to separate members without causing undue hardship. That is, at some point there should be a normal retirement age at which the level of benefits encourages retirement. For earlier ages, the benefit levels should represent a balance between making retirement possible and leaving sufficient incentive for remaining on the job.

Retaining employees past the point where they are able and willing to fulfill the duties of their respective jobs can be very expensive in terms of efficiency and the ability to meet an employer's mission. Conversely, there can be substantial and perhaps enormous costs associated with retiring employees too early. If early retirement benefits are so good that an employee retires before he has lost the ability and inclination to do a good job, then the organization has not received full value from its investment in training and experience.

"Up or out" policy

The competitive promotion system precludes most members from serving full careers. DOD can deny reenlistments to enlisted members and must by law retire officers who have been passed over for promotion or who reach a certain age. For those not selected to continue a military career, the services use early retirement as a socially acceptable method of separation.

Since members not promoted are induced to retire earlier than normal or are eventually selected out, longer years of service are associated with higher grades. Of 100 newly commissioned officers, for example, 41 will reach the grade of lieutenant colonel (15 to 26 years of service) and only 18 will reach the grade of colonel (21 to 30 years of service). Although 30 years is regarded as a full career in the military, DOD's "objective force profiles" and promotions are designed around 20-year retirement.

In other words, soon after reaching retirement eligibility many members will have attained their maximum grade. Recognizing that the opportunities for further advancement are limited and that continued service really amounts to working for half pay, many members choose to retire at the earliest possible date. The combination of outside job opportunities and retired pay exerts a strong influence on the members' decision to retire early.

The "up or out" system is not concerned with an individual's ability to perform effectively, but with the member's relative standing among his peers. DOD's force structure policies do not permit members who are passed over for promotion but are still capable of performing effectively to complete full careers. The retention of personnel should be guided by service requirements and the ability of each individual to perform his or her duties effectively.

Previous study groups say improvements
are needed in the personnel
management and retirement systems

Several study groups have indicated that the present military personnel management and retirement systems are inefficient tools to attract and retain required military personnel. They have maintained that many highly qualified members retire at the first opportunity since they can command higher salaries on the outside (retired pay and second income). Because the incentives to leave the service are so strong after retirement eligibility is attained, the services lose the selectivity they want in deciding who should remain in service.

In March 1971 an Interagency Committee was appointed by the President to study military retirement. The Committee identified numerous management effectiveness defects in the system, such as these: the retirement system provides little or no incentive for a member to remain for a full career of 30 or more years and the value of social security benefits from the uniformed services is not fully recognized by the members.

After the Interagency Committee submitted its report, the Secretary of Defense, on January 28, 1972, established a DOD retirement study group to review the recommendations of the Committee and to provide additional information and perspectives before a final Defense recommendation was forwarded to the President.

In May 1972 the study group made several recommendations to revise the nondisability retirement systems, which were eventually submitted to the Congress as the Uniformed Services Retirement Modernization Act (RMA), introduced in the 93d Congress and reintroduced in the 94th Congress. 1/ It was an attempt by DOD to construct a better compensation system to meet its desired force profiles. Our discussions with DOD officials indicated that the need for youth and vigor and 20-year retirement for all members remained a basic assumption in the construction of these force profiles.

The proposed RMA tried to encourage longer careers by increasing the retired pay multiplier for service beyond 25 years and reducing the benefit payable at 20 years. Also, members would have vesting privileges before 20 years of service. The proposed RMA would reduce the retired pay for members until the time the member would have reached 30 years of service.

A major point of divergence between the 1972 DOD retirement study group and the 1971 Interagency Committee was the handling of early retirement benefits. The Committee proposed to reduce retired pay of younger, shorter-service retirees by applying age and length-of-service criteria. 2/ The DOD retirement study group proposed a straight percentage reduction (15 percent) to the retirement multiplier when years of service were less than 30. The reduction would be lifted when the member would have had 30 years of service. The amount of the proposed reduction and the time when full retired pay begins were significantly different for the two study groups. The different approaches taken by the DOD and Interagency Committee study groups could be attributed to the differing objectives each of the groups were guided by. The Committee sought a retirement system which would offer military retirees benefits competitive with those found

1/DOD does not plan to resubmit the RMA proposal or other alternatives until the President's Commission on Military Compensation completes its study.

2/ Those members having less than 25 years of service would have their retired pay reduced by 2 percent a year for each year the retiree was under age 60. The reduction would be lifted at age 60. Retired pay of members with more than 25 years of service would be reduced by 2 percent each year the retiree was under age 55. The reduction would be lifted at age 55.

within the Federal Government and within the society. The DOD Study Group, on the other hand, sought to correct deficiencies it saw in the present system without departing too far from past retirement concepts.

The Defense Manpower Commission report of April 1976 stated there was need to continue present personnel management policies and early retirement. DMC reviewed past findings by DOD and the Interagency Committee and stated,

"the system motivates early retirement and lacks proper incentive to serve on active duty beyond 20 years of service."

DMC characterized the "up or out" policy as "failure oriented." It found it

"inconceivable that a Service member who has been screened many times during his Service life by other promotion boards, by Service schools and other selection boards, and by other evaluations is suddenly of no further value to his Service simply because the Service does not have enough promotions to go around."

DMC believed that a method of managing entry into the career force was preferable to exit management. If and when "selection out" was necessary, it recommended screening career force members for effective performance. Members who do not demonstrate the promise they showed when selected for entry into the career force would be separated. DMC stated this process should be separate from the promotion process and should not operate on a quota or percentage basis. It should review a person on the basis of effective performance, not on his relative standing with his contemporaries.

The present system makes full careers, currently 30 years, impossible for the vast majority of military members regardless of ability or performance. It may also be counter-productive to maintaining the "quality force" the services desire by encouraging members to retire after 20 years of service and mandatorily retiring those who are passed over for promotion.

The DMC report also stated that early retirement for noncombat personnel was not necessary. It chose to differentiate the career force into combat, technical, administrative, and professional categories. It reasoned that combat jobs require younger men than do other jobs. In noncombat jobs, it felt that the maturity, experience, and judgment gained through longer service were more valuable than physical stamina and agility. It stated:

"A longer maximum career is feasible for Service members in noncombat jobs, particularly for those in technical and professional jobs. A person in these jobs could normally serve effectively until age 60. Service until this age would imply a maximum number of years of service * * * of 35 to 42."

In keeping with this concept it recommended the following course of action:

"The normal years of service required for retirement should be 30 years. Only personnel serving in combat jobs or jobs demanding extraordinary physical exertion or indefinite unaccompanied duty should be allowed to retire at less than 30 years * * *.

"Extension of the period of service beyond the normal retirement point should also be considered, especially for individuals in technical and professional jobs, and the retirement system should be modified to encourage retirement at the higher years of service ranges.

"The career force should be distributed over the years of service range (11-30 or more years) in a manner that minimizes the flow of personnel onto the retirement rolls and provides a reasonable promotion flow."

According to one source

"plan provisions frequently make early retirement attractive not for the purpose of binding up the wounds and exhaustion of an arduous life, but for the purpose of seeking another job at comparable pay with an additional advantage of receiving a 'retirement' income at the same time." 1/

Military retirement policy does not take into account that retirement at early ages simply means retirement for another job. In many instances, the services would like to retain some of the lost skills, but the early retirement provision, plus a second career, makes it financially less rewarding for a member to complete a full service career.

1/William C. Greenough and Francis P. King, "Pension Plans and Public Policy," pp. 204-205.

In a recent report entitled "Military Manpower and the All-Volunteer Force," the following point on careers in the military services is presented: 2/

"* * * In short, the 20-year career is both too long and too short. On the one hand, it clearly would be desirable to retain more personnel beyond the 20-year point, in fact beyond the 30-year point; on the other hand, it would also be desirable to separate more personnel with less than 20-years of service, both to encourage more to remain past the initial obligation and to eliminate much of the hanging on that occurs during the last 5 to 10 years of the marginal performer's career. Thus, whereas the 20-year career is in many ways an outgrowth of the emphasis on the combat soldier, a more flexible set of policies to encourage a wider spectrum of career lengths is needed to effectively manage a post-draft military in which 90 percent of all personnel are in noncombat assignments. * * *"

In January 1978, the Congressional Budget Office issued a budget issue paper for fiscal year 1979 entitled, "The Military Retirement System: Options For Change." The paper discussed the pros and cons of early retirement and problems to be considered during change, and determined the costs of five alternative retirement systems, including the current system. The alternatives, issues, and costs involved are included in appendix VI.

The Presidential Commission on Military Compensation, appointed in June 1977, will submit its report to the Secretary of Defense and the President on March 15, 1978. The report will address the full spectrum of military compensation and will cover the issue of how the military retirement system should be restructured.

Recent testimony before the Commission by the service Secretaries, the Assistant Secretary of Defense (MRA&L) and by the Chairman, Joint Chiefs of Staff, indicated that there are mixed emotions about changing the retirement system. The Secretary of the Army stated that for management reasons.

2/Richard V. L. Cooper, Rand Corp., Santa Monica, Calif., pp. 350-351.

20-year retirement should not be changed. The Secretary of the Navy and the Chairman, Joint Chiefs of Staff, stated that 20-year retirement could be changed, but there should be a "grandfather clause" for some members.

FAIR TREATMENT OF MILITARY MEMBERS

For those who reach retirement eligibility, the military retirement system offers benefits virtually unmatched in any other system. A flaw in the system is that members must meet the criterion of 20 years' active service before they are eligible for benefits from the retirement system. For example, members who either resign or do not complete 20 years of service receive no retirement benefits from their military service. However, other provisions of the retirement system could be classified as overly generous when compared to most pension plans, such as receiving retired pay after serving 20 years without an actuarial reduction for early retirement.

Vesting privileges 1/

Military members must serve 20 years before they are eligible for nondisability retirement benefits. The lack of vesting is not only inequitable to members who are unable to meet retirement eligibility, but it causes some members to stay in the service longer than they wish to, waiting until they are eligible to retire. A review of loss rates for years prior to completion of 20 years of service reveals a strong pull to the 20-year point, the time at which management can first separate an individual with any vested rights.

The situation is mitigated somewhat by the ability of some members to use their years of military service to qualify for State or Federal retirement benefits. The Employee Retirement Income Security Act of 1974 (ERISA), also called the Pension Reform Act, protects employees in private plans by requiring the plans to meet one of three vesting standards: (1) Full vesting after 10 years' service, (2) 25-percent vesting after 5 years' service, with 5 percent added for each of the next 5 years and 10 percent added each year thereafter until 100-percent vesting is achieved after 15 years, or (3) 50-percent vesting when age plus credited service totals 45, with an additional 10-percent vesting for each of the next 5 years thereafter. In addition, benefits derived from an employee's own contributions must be nonforfeitable.

Prior to the passage of the Pension Reform Act critics of private pension plans emphasized the need to

1/Vesting represents the right of an employee to part or all of the benefits of a pension plan due to him or her on leaving.

protect employees' accrued pension benefits through early vesting standards. Special attention was directed to aged individuals who had lost their pension rights by not meeting the employers' vesting requirements.

A 1975 Bankers Trust Company study of corporate pension plans noted that all conventional plans in their study provided some form of vesting, and 50 percent provided full vesting by age 40 and 10 years' service. Most Federal retirement plans provide some form of vesting, with the exception of the military retirement system.

Pension benefits are no longer considered charity by employers. According to Greenough and King (see footnote, p. 20),

"Statements by employers about pensions today frequently express the thought that an employee earns the benefits credited to him by the employer during the time he works for that employer, and that benefits are definitely a part of compensation even though quite properly dedicated to specific benefit purposes."

The Bankers Trust study disclosed a strong trend toward early vesting and ERISA brings almost all private plans within its minimum vesting standards.

Our legislative research did not disclose the reason for lack of vesting for the military retirement system, but recent retirement studies have recommended some type of vesting for military members. For example, the DOD retirement study group of May 31, 1972, commented as follows:

"The present system has no value to the individual unless he serves at least 20 years. This feature is not competitive with provisions of the Federal civil service retirement system or of many other liberal systems within our society. This aspect may represent a significant disincentive for personnel who might otherwise serve for a substantial period but less than 20 years. Further, it can be viewed as a penalty to individuals who serve many years but for any number of reasons do not or cannot complete 20 years of service."

In our opinion, resolution of the vesting issue is a critical step in successfully changing the career patterns of military members. Many of the Federal retirement systems

provide vesting after 5 years of service, which entitles employees to a deferred annuity at age 62. We see no reason why military members should not receive comparable treatment. Vesting procedures can and should be implemented when the retirement and personnel management systems are restructured, requiring longer careers for most military members.

Retirement income

When the current military retired pay formula was adopted, it was decided that members would receive 2.5 percent of terminal basic pay for each year of service. The 2.5 percent was determined by extrapolation--that is, since members used to receive 75 percent of terminal basic pay for 30 years of service, members should receive 50 percent of basic pay for 20 years of service. Maximum retired pay is 75 percent of basic pay (2.5 percent times 30 years of service); but military members also receive social security benefits that are totally additive to their military retired pay. In addition, retired pay is automatically adjusted semiannually to reflect increases in the Consumer Price Index. Adjustments are effective in March and September of each year.

Most retirement plans base retirement benefits on employees' salary and years of service. Setting benefits on the employees' service to the employer is considered an objective way of providing consistency, uniformity, and equity to individual employees. The level of benefits the employer provides is based on some presumed general level of income needed in retirement. Therefore, a retirement plan's income objective will vary from employer to employer.

There is no agreement on what constitutes adequate retirement income, but ERISA does not permit favorable tax treatment for plans which provide benefits in excess of the lesser of \$75,000 or 100 percent of "high-3" average compensation unless the defined benefit is \$10,000 or less. Few plans provide for the continuation of 100 percent of pre-retirement earnings.

One study found that the combined retirement benefits for public employees (inclusive of the primary social security benefit) exceeded composite benefits for private industry employees by 2 to 7 percent of pay at the \$5,000 level and by 12 to 25 percent of pay at the \$14,000 level.

Accordingly, this study believed the most significant comparison was for the

"hypothetical employee who retires at 65 after 30 years of service with a final salary of \$10,000. If he was covered by the average pension plan in private industry, his combined benefits (with Social Security), would be roughly half of his final pay. However, if he was employed by state or local government, his combined benefits would be about two-thirds of his final pay. This is an advantage of about one-third in favor of the public employee." 1/ (One third of \$5,000 (half of final pay), or \$1,666.)

Another more recent study found that a pension of half salary (including social security) after a full career of 35 years was frequently assumed as a retirement income goal. 2/ Some employers have a higher income replacement goal for employees who earn less than the social security earnings base and a lower income replacement goal for employees with earnings exceeding the social security earnings base. It is sometimes considered desirable to provide a higher wage replacement ratio for lower paid employees in order to provide an income adequate to meet their basic requirements. The author believes the half-salary replacement goal assumes an ideal situation in which a worker experiences no significant periods of unemployment, has been covered under private pension plans, and has not changed jobs or been laid off before attaining vested status under private pension coverage.

The 1971 White House Conference on Aging recommended "a total cash income in accordance with the 'American standard of living.'" As a minimum standard of income adequacy, the conference recommended the Bureau of Labor Statistics' "intermediate budget" for an elderly couple.

The Bankers Trust study showed that the median benefit levels for an employee retiring on January 1, 1975, after 30 years of service, who earned \$9,000 in 1974, received from the median plan a benefit equal to 29 percent of his

1/Robert Tilove, "Public Employee Pension Funds," Twentieth Century Fund report, p. 57.

2/Greenough and King, p. 212.

percent of salary from the median plan and 8 percent from social security, for a total benefit of 46 percent. Under the civil service retirement system both employees would receive the same percentage of "high-3" average earnings for 30 years of service--56.25 percent--and would not receive any social security benefits based on Federal employment under the Civil Service Retirement System.

The standards here provide ideas of an appropriate level of income in the employees' nonworking years and are quite different than what is received by military retirees.

Because military members retire much earlier than employees in industry, it is more difficult to determine what constitutes just treatment of military members based on their retired pay. Replacement rates, which are the percent relationships between retirement benefits and preretirement earnings, are sometimes used as a tool for evaluating the adequacy of retirement benefits and for comparing the benefits of one plan against another plan. As of 1972, the median replacement rate for a worker aged 65 with final salary of \$14,000 and 20 years of service was 17 percent. Employees in the private sector and members of the uniformed services will receive social security benefits in addition to the benefits provided by their employer's plan. Since military members retire at such an early age, they may also accumulate pension rights under another retirement plan, often with the Federal Government. The present benefit structure is such that a member who divides most of his working life between military service and another job will ultimately have retirement income greater than that of the employee who stays with one job.

Replacement rates, however, do not tell the whole story for military retirees. There still is the problem of evaluating total retirement benefits, that is, retired pay plus social security benefits, which are additive to retired pay. Military members may retire 20 years or more before becoming eligible for social security benefits. In the period between retirement and age 65, general wage levels will have increased so that the pay with which total benefits may then be compared will have become obsolete. This makes it difficult to relate combined retirement income at 65 to final pay. Even more difficult to evaluate is the effect a second career will have on retirement income.

Adjustments for early retirement

Most pension plans set out what constitutes normal retirement. They also define the changes in annuities if the employee, for some reason, retires earlier than normal. Few pension plans pay the full accrued benefits for early retirement. Military retirement benefits are computed by the same formula (2-1/2 percent times years of service) regardless of age and years of service between 20 and 30 years.

In the military, retirement at 20 years is typically referred to as "early retirement"; 30 years is regarded as a full career. A review of retirement literature indicates that early retirement has quite a different standard meaning in industry. An early retirement benefit is defined as a benefit reduced because of age. The early retirement provisions of private pension plans allow employees who meet specified age and/or service requirements to retire before the normal retirement age (usually 65) and receive an immediate although usually reduced pension. Some private pensions are reduced on an "actuarial" basis if the employee retires early.

There are two reasons for adjusting retirement benefits when employees retire before completing a normal career: The full benefit will not have accrued by the early retirement date; and, because the benefit is starting earlier than anticipated, it will be paid over a longer period of time.

One method of adjusting benefits is to apply an actuarial reduction factor to the employees' accrued benefits. A strict actuarial reduction would adjust pensions to reflect that benefits would be paid over a longer life expectancy. By paying only the actuarial equivalent of a member's accrued benefit, the employer's theoretical pension cost of retiring an employee early is no greater than the cost of retiring him (with the same credited service and earnings) at the normal retirement age. Actuarial reductions have a big impact on retirement annuities. For example, in a typical plan using actuarial reductions, pension benefits due at age 65 are cut by one-third if taken starting at age 60.

Some pension plans pay more than the strict actuarial equivalent to make early retirement more attractive. Other employees avoid actuarial reductions by simply establishing a normal retirement age that is earlier than age 65 (the most prevalent normal retirement age). Still others specify some combination of age and service that must be met in

order to receive the full accrued pension benefit. The civil service retirement system requires a minimum age and service of 55 and 30, respectively.

Another formula often used to adjust benefits is as follows:

$$\text{Benefit} = \left(\begin{array}{l} \text{Value of employee's} \\ \text{projected benefit at} \\ \text{normal retirement} \end{array} \right) \times \frac{\text{Years of service completed}}{\text{Years of service completed at normal retirement date}}$$

Sometimes an employer will specify a straight percentage reduction for each month an employee retires early. This reduction is often less than the full actuarial reduction. In the civil service retirement system, for example, employees with 25 years of service who are involuntarily discharged have their annuities reduced by one-sixth of 1 percent for each full month (2 percent a year) the employee is under age 55.

The military retirement system does not have any age criteria, and benefits are based on years of service. Thus the number of years over which the pension will be paid is much greater than in private sector plans.

Retirement benefits should be designed to encourage retirement at a time advantageous to both the employee and the employer. That is, the level of benefits should probably represent a balance between making retirement possible and leaving sufficient incentive for remaining on the job when it is feasible and practical. An important consideration in this procedure is how much retirement income the employee should receive during his nonworking years.

COST OF EARLY RETIREMENT

One of the reasons why the Congress enacted the 20-year retirement provisions was to induce a greater number of military members to remain in the service. This would reduce the cost of recruiting, outfitting, and training large numbers of new members. It also follows that lengthening some careers beyond 20 years and establishing a more cost-effective mix between first termers and career members would be more efficient.

Two important arguments in favor of extending careers in the military organizations are the cost of (1) training new recruits to replace experienced personnel and (2) the

economic cost of military retirement. The cost of these factors must be evaluated together in determining the most cost-effective career lengths and force structures for the Armed Forces.

Our sample showed that the services spent on the average about 2 years and 4 months training and educating an officer and about 9.5 months training and educating an enlisted member. However, these estimates exclude all short-term training (including initial training for some members) and education sessions of less than 3 months. Such large commitments to preparing personnel for specialized careers should encourage the services to retain as many skilled members as possible. However, the promise of a generous retirement pension, coupled with specific inducements which encourage retirement at an early date, make a full 30-year military career unappealing for many members--even when that option is available to them.

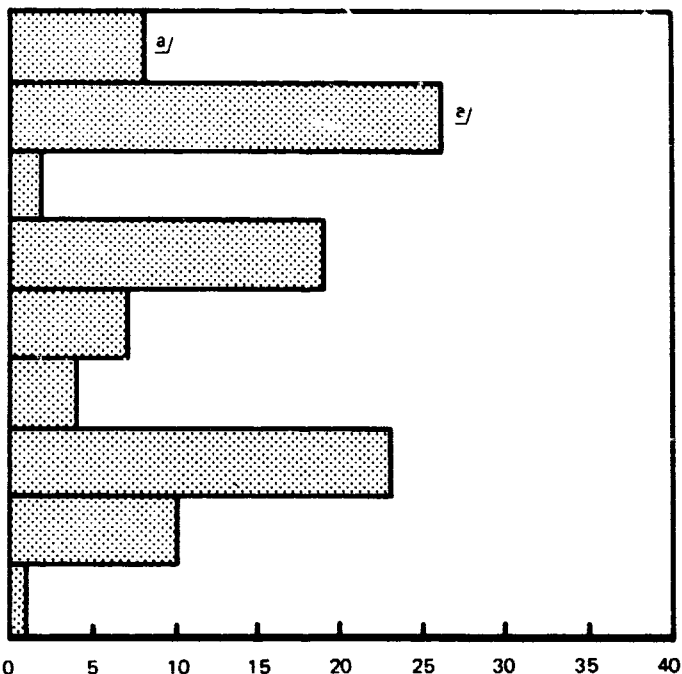
Many skills the services are now losing through early retirement, voluntary or involuntary, do not in our opinion necessarily require youth and vigor, but the experience and judgment of senior personnel. Our sample of fiscal year 1975 retirees, as shown in the chart on page 30, showed that when they retired, 93 percent of the enlisted members and 66 percent of the officers were working in positions that we classified as support type or non-combat-related positions. (See app. III, p. 55.) For example, of the retired officers, about 23 percent were classified as administrators when they retired, 19 percent were engineering/maintenance officers, 10 percent were supply/procurement workers, and 7 percent were scientists/professionals. Almost 31 percent of the retired enlisted members vacated administrative jobs, 19 percent electrical/mechanical repair jobs, 11 percent supply/service jobs, and 7 percent communications/intelligence specialist jobs.

**JOB CLASSIFICATION FISCAL YEAR 1975 RETIREES
HELD ON THEIR LAST ASSIGNMENT**

OFFICERS (All Services Combined)

PERCENT OF MEMBERS IN EACH CATEGORY

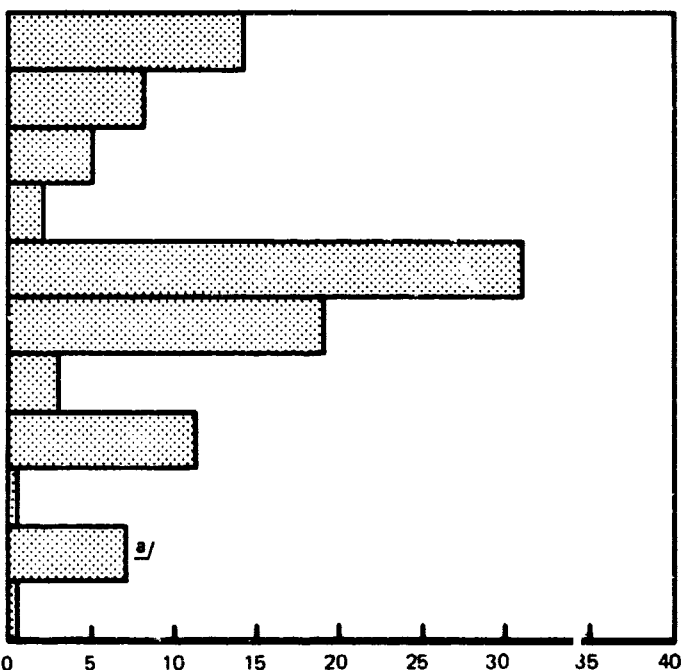
- GENERAL OFFICERS AND EXECUTIVES
- TACTICAL OPERATIONS OFFICERS
- INTELLIGENCE OFFICERS
- ENGINEERING & MAINTENANCE OFFICERS
- SCIENTISTS AND PROFESSIONALS
- MEDICAL OFFICERS
- ADMINISTRATORS
- SUPPLY, PROCUREMENT & ALLIED OFFICERS
- OTHER



ENLISTED (All Services Combined)

PERCENT OF MEMBERS IN EACH CATEGORY

- ELECTRONIC EQUIPMENT REPAIRMEN
- COMMUNICATIONS AND INTELLIGENCE SPECIALISTS
- MEDICAL AND DENTAL SPECIALISTS
- OTHER TECHNICAL & ALLIED SPECIALISTS
- ADMINISTRATIVE SPECIALISTS & CLERKS
- ELECTRICAL/MECHANICAL EQUIPMENT REPAIRMEN
- CRAFTSMEN
- SERVICE & SUPPLY HANDLERS
- TRAINING (OVER 3 MONTHS)
- INFANTRY, GUN CREWS, AND SEAMANSHIP SPECIALISTS
- PATIENT (OVER 3 MONTHS)



a/ Classified as Combat.

Retiring from military service does not mean permanent retirement, because many members continue to pursue civilian careers. As of June 30, 1975, about 142,000 military retirees were employed in the Federal civilian service, including 111,793 retired enlisted personnel and 27,682 retired officers. We do not consider this retirement, but merely changing positions within the Federal Government.

The cost of military retirement is not only one of the fastest growing elements of compensation, but it is also becoming one of the larger components of military compensation. In a March, 1976, report, "A Contributory Retirement System For Military Personnel," FPCD-76-43, we estimated the normal cost of military retirement to be about 37.2 percent of basic pay. Normal cost was computed using the "entry age normal method" and the following actuarial assumptions: interest rate of 7 percent, yearly basic pay increases of 5.5 percent, and an annual Consumer Price Index increase of 5 percent.

The cost of early retirement alone can be estimated when compared to the normal retirement in a given plan. The following table shows the percentage increase in the cost of providing a full-formula benefit at ages earlier than 65.

<u>Retirement age</u>	<u>Percentage increase in costs (note a)</u>
62	29
60	51
55	123

a/This assumes a normal retirement benefit of 1.5 percent of final 5 years' average salary with entry at age 25.

These figures indicate that lowering retirement ages would have a significant impact on retirement costs. 1/

It is difficult to show the exact cost of 20-year retirement for military members since there is no normal retirement age. However, when one considers the effect of early retirement on factors such as mix of personnel, training costs, experience and productivity, and retired pay, it shows that letting members retire too early is very costly and an inefficient use of manpower resources.

1/Greenough and King, pp. 231-234.

CONCLUSIONS

Retirement should be considered in two ways: as a component of a military member's compensation package and as an effect on the military force structure and personnel management systems. While there may be rationale for letting some members retire early, 20-year retirement for all military members is not necessary. DOD believes youth and vigor are needed for all military personnel and has designed its personnel management system toward that end. However, our statistical sample suggests that youth and vigor are not universally required because officers and enlisted members spent most of their time in skills which in our view do not demand these attributes.

Some skills in the military do require youth and vigor, but the services need to find definite answers to the following questions before an optimum force profile can be designed:

1. What skills require youth and vigor?
2. In what age bracket are members no longer able to perform their duties?
3. How much of the force is actually engaged in work requiring youth and vigor?
4. How much of an individual's career is devoted toward more physically demanding work and at what stage of the member's career?
5. To what degree do career members perform the more physically demanding work?
6. Are the duties of senior members more concerned with judgment, knowledge, and experience?
7. Is the present mix of career and noncareer personnel the best?

We believe 20-year retirement is dictating the wants and desires of service personnel, rather than meeting the services' needs and requirements. An economically efficient compensation system should be designed to attract and retain the necessary quantity and quality of manpower. Twenty-year retirement, lack of vesting, and the competitive promotion

system are an economically inefficient combination, because too many members stay until completion of 20 years' service and many highly qualified members leave the services to begin second careers. The retention of personnel should be guided by service requirements and the ability of each individual to perform his or her duties effectively. Also, the benefit formula for military retirement should be revised to reflect more accurately the needs of the services. That is, if the services determine that 30 years is the correct career length, members allowed to retire earlier than that should (1) have their retired pay reduced or (2) receive a deferred annuity later in life, possibly at ages 60, 62, or 65. The services need to design a more cost-effective mix of new recruits and experienced personnel. To achieve the desired mix it will be necessary to design variable career lengths depending on occupational skills.

RECOMMENDATIONS TO THE CONGRESS

We recommend that the Congress

- revise the military retirement system length-of-service criterion, based on the type of duty performed, recognizing that many members in noncombat occupations can effectively serve longer careers;
- revise retired pay to encourage appropriate career lengths, based on duties performed; and
- provide some form of vesting for members not completing full careers.

We recognize that adjusting career lengths for military personnel affects personnel management policies and objective force profiles; therefore, to provide efficient long-term solutions we recommend that the Congress:

- Direct the Secretary of Defense to develop criteria for establishing appropriate career lengths for military personnel. DOD should be charged with the responsibility of determining (1) what specific occupational skills require youth and vigor, (2) a more cost-effective force profile that considers longer careers for skills not requiring youth and vigor, and (3) a more efficient method of retaining required personnel.

--Require that within 1 year after directed by the Congress, the Secretary of Defense submit to the Congress a report addressing these issues and making recommendations on youth and vigor, longer careers, mix of personnel, and cost estimates of alternatives evaluated.

AGENCY COMMENTS AND OUR EVALUATION

DOD generally agreed that the military retirement system needs reform. It stated that the Retirement Modernization Act submitted to the 93d and 94th Congresses was indicative of DOD's desire to adjust the system and would have corrected many of the retirement system limitations highlighted by our report. DOD also agreed that retirement must be viewed as a component of the total compensation package and that it must support personnel management policies; however, DOD was concerned that our report only concentrated on a single element of the retirement system--20-year retirement.

DOD believes that any action to alter the retirement system prior to the completion of the study by the President's Commission on Military Compensation (Mar. 15, 1978) is premature.

Although the proposed RMA may have corrected some of the deficiencies of the current system, it did not address the need for 20-year retirement. DOD approached retirement from the point of view that adjustments in retirement and personnel management were needed to "fine tune" an otherwise sound system. Restructuring of the retirement system was designed to assist in attaining the desired objective force profiles. But the objective force profiles were built upon past experience with a 20-year retirement system. Any changes made in the length of service needed for retirement or personnel mix will affect the force profiles as well. The purpose of our study was to evaluate whether the 20-year retirement provision needs to be continued for all members to help insure a young and vigorous force.

It was not our intent to determine a new force profile or to redesign a retirement system to achieve force profile objectives; but we are concerned about the deficiencies in DOD's approach to retirement reform. Our evaluation clearly showed a need to determine more effective career lengths. We believe DOD and the services must make decisions concerning effective length of service and assess the impact on military readiness before a better retirement system can

be designed. It has not been shown that the current force is more ready than other force structures.

DOD stated that the history of the military retirement system reveals a long evolution of attempts to structure a retirement system which would enable the country to maintain an effective military force (that is, young and vigorous).

Our legislative research showed that the retirement system was often modified to correct short-term personnel management problems such as insufficient short-term attraction and retention--problems not amenable to solution by adjusting retirement. Changes were piecemeal and often of the "me too" variety. Many systems were tried but not within the framework of supporting overall force structure and personnel management objectives.

It should also be noted that we suggested lengthening careers of personnel in less physically demanding or non-combat occupations. To do this, DOD must evaluate occupational skills to determine the most appropriate career length.

This request is not unfamiliar. DOD referred us to hearings on H.R. 12405, the Defense Officer Personnel Management Act, held by Subcommittee Number 4, House Armed Services Committee, July 10, 1974, for a summary of the retirement system and how it relates to the personnel management system. However, the hearings underscored the concern of members of the Subcommittee that personnel in many occupations specialties were retiring too early. Subcommittee members observed that:

- Retirement age and length of service may have been pushed too low.
- Many specialists are not needed in the same "rough and tumble" way as combat personnel. Therefore, why must they be promoted at the same rate and forced off active duty as early in life as combat personnel?
- More flexible career lengths are needed. Why force young people "who are capable out of the service, forcing them into new careers, when we could be keeping them in their prime professional career in the military?"
- A substantial number of positions don't involve combat.

--DOD needs to make a thorough evaluation of its specialties. Some skills require judgment and experience. Why should the "up or out" system pertain to specialists in the same way as combat personnel?

DOD's response to the Committee members can be summarized as follows:

- DOD's representative tended to agree that the demands and rigors of combat positions might differ from other duties. However, DOD emphasized the importance of treating all members uniformly.
- To retain experienced personnel longer DOD would have to deny promotions to younger personnel.
- Other groups have looked at this question and reached the same conclusion (for example, the Hook Commission, Committee hearings on the Officer Grade Limitation Act of 1954, and DOD's current study).

It should be noted that the Hook Commission recommended that officers be permitted to voluntarily retire at age 60 with 20 years of service or (with departmental approval) at any age with 30 years of service. Enlisted members would be able to voluntarily retire at age 50 with 20 years of service, at any age with 30 years of service, or (with departmental approval) at any age with 25 to 30 years of service.

Also, the congressionally chartered DMC did not believe that all members should be allowed to retire after 20 years of service. It recommended that only personnel serving in combat jobs or jobs demanding extraordinary physical exertion or indefinite unaccompanied duty be allowed to retire with less than 30 years.

Regarding the need for uniformity of treatment, if early retirements are justified because of the higher degree of physical stamina and youth associated with combat, is it equitable to provide the same early retirement option to personnel whose duties are not as demanding? DMC assigned a greater multiplier value to retirement points earned in combat duties, thus establishing the relationship between early retirement and its justification.

Regarding the need to promote younger members, DOD has not demonstrated why a career cycle of 20 years is better than 30 years, for example. Statements to the effect that promotions will be faster under a 20-year career are not sufficient justification for retiring most members early.

Concerning our sample, DOD commented that the sample size appears to be very small when one considers the varied career patterns and that there is no evidence that fiscal year 1975 is representative of the career patterns of all military members. DOD also believes the occupational definitions used in determining whether an individual served in a combat or noncombat role are invalid. For example, using our categorization, 87 percent of all Navy enlisted casualties from hostile causes in Viet Nam were noncombatants.

We sampled fiscal year 1975 retirees to determine if there is a need for youth and vigor and if 20-year retirement is an efficient method to achieve this. A sample of all active duty personnel cannot be used to evaluate early retirement since most personnel will not continue until retirement. We used a valid statistical sample, and in analyzing the data accepted statistical methods were used in arriving at estimates and the precision of the estimates at the 95-percent confidence level.

We recognize that it is extremely difficult to determine whether members will be subject to combat based on their occupational skill, but in our analysis we used the DOD Officer and Enlisted Occupational Conversion tables to classify duties as combat or noncombat skills. (See app. III.) The statement that 87 percent of all Navy enlisted casualties from hostile causes in Viet Nam were noncombatants is not the issue in this report. In following up on this statement, we found that DOD could not tell us what percent were careerists or noncareerists, nor what percent of the members were working in skills that required youth and vigor. The points that DOD should address are: What occupations require youth and vigor, and what are appropriate career lengths?

DOD commented that all members, regardless of occupational specialty, are subject to unique conditions of military service and combat area assignments; thus a youthful force is required. Lengthening the careers of even noncombat personnel would not permit DOD to maintain its current state of readiness.

These statements cannot be supported since the demands for youth and vigor do not fall equally on all members, as demonstrated by our sample. Since DOD has failed to prove that members cannot perform effectively after 20 years of service, we see no reason to arbitrarily allow all members to retire with only 20 years of service.

Our statistical sample of fiscal year 1975 retirees established the fact that youth and vigor were not required of all members. We also found that 20-year retirement was dictating service personnel wants and desires, rather than meeting the services' needs and requirements. Based on our analysis and the review of other studies, we concluded that the services need to design a more effective mix of new recruits and experienced personnel and that to achieve the desired mix it will be necessary to lengthen careers of many members.

Important questions still unanswered are: What skills require youth and vigor? How long can members effectively perform certain duties? What is the best mix of career and noncareer personnel to effectively achieve the mission of the Armed Forces?

CHAPTER 4

RETIREMENT LAWS AND POLICIES INEQUITABLE

Many differences presently exist in the laws and policies which govern military retirement. Though current retirement laws were written to equalize eligibility requirements, military personnel often receive different treatment. Methods used to compute eligible service for retirement and retirement pay, 1/ retirement grade, and mandatory retirement vary between services. A full discussion of the retirement computation process is provided in appendix I. DOD did not address these issues in its comments on our report.

COMPUTING CREDITABLE SERVICE FOR RETIREMENT

Military members seeking retirement must serve for a minimum of 20 years. But the services do not uniformly calculate members' accumulated service retirement credit. Marine Corps enlisted personnel receive treatment credit and pay for time they do not actually serve, while their Army and Air Force counterparts receive no credit. In many cases Navy and Marine Corps enlisted personnel are credited with 20 years' service and are able to retire with full 20-year benefits even though they have completed less than 20 years of actual active service. Constructive service and rounding are responsible for this inequity.

Constructive service 2/

Constructive service credit is credit received by Navy and Marine Corps enlisted personnel for service not actually

1/When Navy enlisted members "retire" with 20, but less than 30, years of active service, it is referred to as "transferring to the Fleet Reserve." Marine Corps enlisted members "transfer to the Fleet Marine Corps Reserve." Enlisted members of both services receive "retainer pay" while in Fleet Reserve status. For this report, the term Fleet Reserve includes both Navy and Marine Corps members.

2/The Department of Defense Appropriation Act, 1978, prohibits the expenditure of appropriated funds after Dec. 31, 1977, for constructive service used in the qualification and computation of retired pay for members transferring to the Fleet Reserve and the Fleet Marine Corps Reserve.

performed. The benefits of constructive service accrue to Navy and Marine Corps enlisted members regardless of their length of service at retirement, but are frequently taken advantage of by members with less than 20 years of actual active service.

When Navy and Marine Corps enlisted personnel approach completion of 20 years' service and are preparing to retire, they may count, for each enlistment served during their careers, any constructive service (up to 3 months) they received when they were allowed to sign a new enlistment contract before the enlistment in which they were serving expired. For example, members allowed to reenlist 3 months before the expiration of their present enlistment may count the ensuing 90-day period twice, once as a part of their current enlistment and again as a part of their new enlistment. Six months' credit is thus received for 3 months of actual service. Enlisted career personnel, over a 20-year period, have the opportunity to accumulate increments of constructive service for early discharges several times depending on the opportunities for early reenlistment offered by the Navy and Marine Corps.

Constructive service for minority enlistment is awarded to enlisted Navy personnel and Marine Corps personnel with prior Navy service who, under the now-discontinued Navy minority enlistment program, joined the Navy between the ages of 17 and 18 and signed minority enlistment contracts. Members who signed such contracts receive 4 years' credit for the period between their 17th and 21st birthdays, regardless of whether they joined the Navy on their 17th birthday or 1 day before their 18th (in which case they receive 4 years' credit for 3 served--1 year of constructive service).

Rounding

In setting forth the service requirements for enlisted transfers to the Fleet Reserve, 10 U.S.C. 6330 states that "a part of a year that is six months or more is counted as a whole year and a part of a year that is less than six months is disregarded." Based on this provision, Navy and Marine Corps enlisted members can round their eligible service for transfer to the Fleet Reserve, their retirement pay multiplier, and their terminal basic pay. Members with 19.5 years of service can round to the next whole year, thereby giving them the 20 years of eligible service needed for transfer to the Fleet Reserve. For members serving less than 6 months, the time is lost to the member for purposes

of computing retirement. In contrast, the civil service retirement system credits service on a monthly basis but does not give credit for periods of less than 1 month. The method employed by the civil service system is more equitable to the Government and the employee.

Officers of the armed services and enlisted members of the Army and Air Force can round after they have completed 20 years of service, but the rounded time counts only for multiplier purposes. For example, an Air Force enlisted member with 19.5 years of service would not be able to round to 20 years and retire, but a member with 20.5 years of service could retire and round his or her multiplier to 21 years.

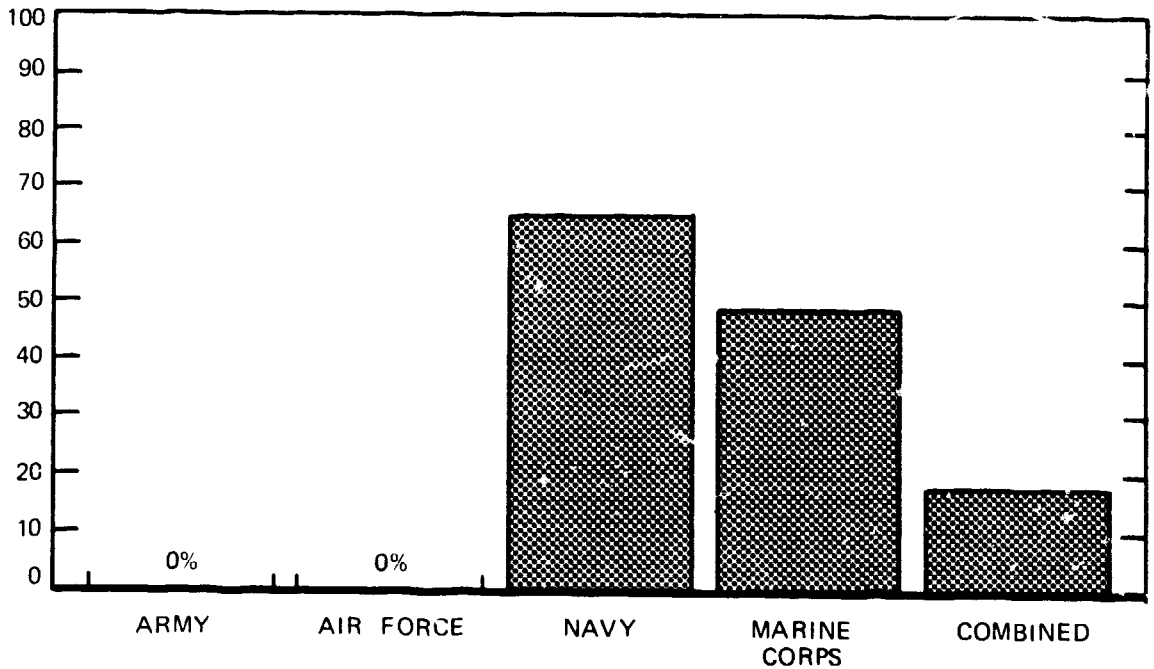
In effect then, Navy and Marine Corps enlisted personnel who transfer to the Fleet Reserve with less than 20 actual years of service are being paid virtually the same as if they had served 20 years of actual active duty, the only variance being the fact that their terminal service for basic pay is not increased by constructive service.

Impact of constructive service and rounding

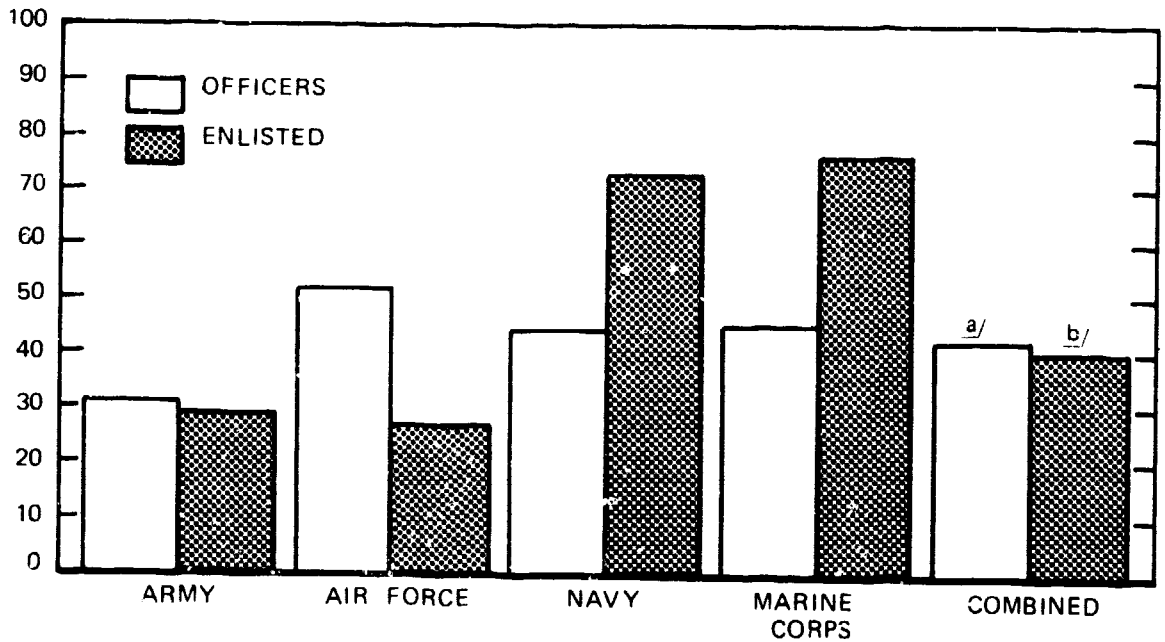
Our statistical sample of fiscal year 1975 retirees showed that 65 percent of the Navy and 49 percent of the Marine Corps enlisted members retired with less than 20 years of actual active service. Navy enlisted members also received an average of almost 7 months' constructive service. Rounding procedures enabled 42 percent of all officers and 40 percent of the enlisted members in the sample to retire and receive up to 6 months' credit for years of service not actually served. This not only increases their initial retired pay but will also increase total lifetime retired pay of the member.

For example, an actual case in our sample disclosed that one member was able to retire from military service at age 35 with only 17 years and 11 months of actual active service, but retired pay was based on 20 years. The member received 22 months for constructive service--10 months for a minority enlistment and 1 year due to early discharges--and 3 months credit for rounding.

PERCENT OF ENLISTED MEMBERS WHO RETIRED WITH LESS THAN 20 YEARS OF ACTUAL ACTIVE SERVICE



PERCENT OF MEMBERS WHOSE ELIGIBLE SERVICE FOR RETIREMENT WAS ROUNDED UPWARD



a/ Eighteen percent of the officers did not have any time rounded.

b/ Forty percent of the enlisted members did not have any time rounded.

RETIREMENT GRADE

Requirements for retirement to a higher grade differ between the services.

Navy and Marine Corps officers may retire to the highest grade (with corresponding pay) in which they served satisfactorily on active duty--regardless of the length of that service. Army and Air Force officers must have served satisfactorily for at least 6 months to be eligible for retirement to a higher grade.

Army and Air Force enlisted members whose active service plus service on the retired list totals 30 years may retire to the highest enlisted or officer grade in which they served satisfactorily on active duty. Navy and Marine Corps enlisted personnel, however, can retire only to a higher officer grade.

Mandatory retirement

Mandatory retirement age is not often used by the services, but even these provisions differ between services. Generally, the mandatory retirement age for Army and Air Force officers is 60, while Navy and Marine Corps officers must retire at 62. A mandatory retirement age is not set out in the laws for enlisted members, probably because they may be denied reenlistment at any time.

CONCLUSIONS

The inequities discussed above point to only a few of the problems existing in the retirement computation system. The laws governing the calculation of eligible service for retirement and retirement pay are both inconsistent and inequitable.

We believe the applicable laws should be changed to eliminate inefficient and inequitable provisions of the present retirement system.

RECOMMENDATIONS TO THE CONGRESS

We recommend that the Congress revise the retirement laws to

--eliminate the use of constructive service,

- implement the use of rounding to the nearest month of service and eliminate rounding to the nearest year, and
- eliminate service inconsistencies in using different retirement grades for computing retired pay.

SUMMARY OF THE LAWS AND POLICIES
WHICH IMPLEMENT ELIGIBILITY REQUIREMENTS FOR
THE ARMED FORCES NONDISABILITY RETIREMENT SYSTEM

The laws and policies which implement retirement eligibility requirements for officers and enlisted members of the Armed Forces are complex and often inconsistent. ^{1/} In most instances, the Navy and Marine Corps are covered by similar provisions. Those provisions, however, are different in several significant ways from Army and Air Force provisions.

REGULAR COMMISSIONED OFFICERS--
INVOLUNTARY RETIREMENT

Most regular commissioned officers of the Armed Forces are involuntarily retired if they exceed statutory age limitations or are not promoted to the next highest grade within a specified amount of time prescribed by law. This is usually referred to as the "up or out" procedure. Under this system, officers who do not meet promotion requirements are mandatorily retired if they have the necessary years of service, or discharged if they do not.

Army and Air Force officers who are not promoted within a specified time but are within 2 years of becoming eligible for retirement are retained on the active list in their present grade until they complete 20 years of eligible service, or until the first day of the seventh calendar month after the service Secretary approves the report of the last promotion board that did not recommend promotion, whichever is later. At that time, the officer is retired. An officer whose regular grade is below major general is retired at age 60 unless extenuating circumstances exist.

Navy lieutenant commanders and Marine Corps majors are involuntarily retired on June 30 of the fiscal year in which (1) they are not on a promotion list, (2) they are considered as having twice failed selection for promotion, and (3) they have completed at least 20 years of total commissioned service. Navy lieutenants and lieutenants (junior grade)

^{1/}See footnote, 1, p. 39.

and Marine Corps captains and first lieutenants are honorably discharged on June 30 of the fiscal year in which they fail selection for promotion for the second time. All officers of the Navy and Marine Corps below the grade of fleet admiral are retired upon reaching 62 years of age unless the President defers their retirement to age 64.

REGULAR COMMISSIONED OFFICERS--
VOLUNTARY RETIREMENT

Officers of all services so inclined may voluntarily apply for retirement when they have accumulated a specified period of eligible service and have served the required amount of time in their present grade and at their current duty station or assignment.

Army and Air Force voluntary retirements are approved at the discretion of the service Secretary, and officers may request retirement when they have completed 20 years of eligible service, at least 10 of which have been eligible service as a commissioned officer. Army and Air Force officers are entitled to retire to the highest grade in which they served on active duty satisfactorily for not less than 6 months.

Navy and Marine Corps officers may voluntarily retire at the discretion of the President when they have completed more than 20 years of eligible service. At least 10 of those years must have been spent as a commissioned officer. Navy and Marine Corps officers are also entitled to retire to the highest grade in which they served satisfactorily (no minimum time restriction) as determined by the Secretary of the Navy.

PERMANENT REGULAR WARRANT OFFICERS

Army, Air Force, Navy, and Marine Corps warrant officers are governed by the same retirement laws. Those who complete at least 20 years of active service that is creditable under the Career Compensation Act of 1949 may voluntarily retire at the discretion of the service Secretary. Warrant officers who serve 30 years of creditable service are mandatorily retired 60 days after the completion of that service, along with those who have 20 years or more of eligible service and are 62 years of age. Warrant officers who twice fail selection for promotion are discharged, or if they have enough service, retired.

As a general rule, warrant officers are retired in the permanent warrant officer grade held the day before retirement or in any higher warrant officer grade in which they served satisfactorily for more than 30 days.

REGULAR ENLISTED MEMBERS

Though "up or out" laws do not exist for enlisted members of the armed services, policies have been established which achieve the same results. For example, the Navy instructs that personnel serving in most grades will be eligible for reenlistment depending on their length of service and the staffing requirements for members of their grade. Unless in an understaffed military occupational specialty (MOS), an E-5 is not eligible for service beyond 21 years of actual active military duty, E-6s are not eligible for service beyond 24 years, and so forth.

Enlisted members of the Army and Air Force who have served at least 20 years of eligible service may, at their request and under regulations prescribed by the service Secretary, be retired. They then become retired members of the Army (Air Force) Reserve and are, under circumstances established by law, subject to further active duty until their eligible service for retirement and membership in the reserve equals 30 years, at which time they become permanently retired. On reaching permanent retirement, members may be advanced on the retired list to the highest enlisted or officer grade in which they served satisfactorily while on active duty as determined by the service Secretary. Retirement pay is adjusted to correspond with the higher grade.

Enlisted members of the Navy and Marine Corps who have completed 20 or more years of eligible service may, at their request, be transferred to the Fleet Reserve (Fleet Marine Corps Reserve). Fleet Reservists can be ordered back to active duty without their consent by a competent authority in time of war or national emergency. Fleet Reservists are transferred to the retired list when their eligible service for retirement (transfer) plus membership in the Fleet Reserve and inactive service equals 30 years, or when they are found not physically qualified to remain in the Fleet Reserve. Members transferred to the retired list may be advanced to the highest officer grade in which they served satisfactorily as determined by the Secretary of the Navy. If advanced, they draw retirement pay based on that higher grade. Members transferring to the retired list who are not otherwise entitled to higher

pay receive retirement pay equal to the retainer pay they were drawing as members of the Fleet Reserve.

The President may order any retired member of the Regular Army or Air Force to active duty as he considers necessary in the interest of national defense. Retired members of the Regular Navy and Marine Corps may be ordered to active duty by the Secretary of the Navy during times of war or national emergency. At any other time, the Secretary of the Navy may recall officers only with their consent.

COMPUTATION OF SERVICE AND RETIREMENT PAY

The methods of computing eligible service for retirement pay purposes (retainer pay for Navy and Marine Corps enlisted personnel transferring to the Fleet Reserve) vary among the four services as well as between officers and enlisted personnel.

Retirement pay formulas for officers and enlisted members of the armed services are generally as follows:

Army and Air Force

Officers--monthly basic pay (on date retired) of member's retired grade multiplied by 2-1/2 percent of the years of service credited to the member, not to exceed 75 percent of the pay on which the computation was based.

Warrant officers--monthly basic pay to which member would have been entitled if he had served on active duty in his retired grade on the day before retirement, or if the pay of that grade is less than the pay of any warrant grade satisfactorily held by him on active duty, the monthly basic pay of that warrant officer grade--multiplied by 2-1/2 percent of the years of service credited to him. Retirement pay may not exceed 75 percent of the pay on which the computation was based.

Enlisted--monthly basic pay (computed at rates applicable on date of retirement) to which member was entitled on the day before he retired--multiplied by 2-1/2 percent of the years of service credited to the member. If cited for extraordinary heroism by the concerned Secretary, an additional

10 percent is added to the member's retirement pay; however, total retirement pay may not exceed 75 percent of the monthly basic pay on which the computation was based.

Navy and Marine Corps

Officers--2-1/2 percent of the basic pay of the grade in which retired, multiplied by the number of years of service credited to the member; not to exceed 75 percent of the pay on which the computation was based.

Warrant officers--same as for Army and Air Force.

Enlisted retainer pay--2-1/2 percent of the basic pay received at the time of transfer to the Fleet Reserve, multiplied by the number of years active service in the Armed Forces. If cited for extraordinary heroism by the Secretary of the Navy, an additional 10 percent is added to the member's retirement pay; however, total retirement pay may not exceed 75 percent of the monthly basic pay on which the computation was based.

Once a member has completed 20 years or more of eligible service for retirement, his or her retirement pay is computed by determining (1) creditable service for terminal basic pay and (2) the retirement pay multiplier. The complicated nature of the retirement system can be traced to a large degree to the complexities involved in applying these factors to the pay formulas and in determining which service is actually eligible for retirement purposes.

Creditable service for terminal basic pay

Creditable service for terminal basic pay refers to all service credited to the member for purposes of establishing his or her basic pay at the time of retirement or transfer to the Fleet Reserve. Though a member's grade influences his terminal basic pay, the number of years spent in that grade do not. Terminal basic pay is determined by the number of creditable years of service for basic pay purposes that have been accumulated during the member's career. Creditable service for terminal basic pay always includes, but is not limited to, all service satisfactorily performed, whether active or inactive, regular or reserve.

Retirement pay multiplier

The retirement pay multiplier includes those years of service that may be used in computing the member's retirement pay. It is calculated by multiplying those years by 2-1/2 percent. In some instances, the years of service for retirement pay multiplier purposes are not the same as the years creditable for terminal basic pay or retirement eligibility purposes.

Eligible service for retirement
(transfer to the Fleet Reserve)

As prescribed by law, all members of the armed services must complete 20 years or more of eligible service before they can voluntarily or involuntarily be retired. However, certain types of service that are creditable for determining a member's terminal basic pay are not countable when computing their eligible service for retirement. For example, in most instances, officers joining the Army or Navy Medical or Dental Corps are initially credited with a minimum of 4 extra years of service they did not actually serve, but which can be used in computing their creditable service for terminal basic pay and their retirement pay multiplier. These 4 additional years of credit, however, may not be counted as part of the 20 years of eligible service needed for retirement (transfer to the Fleet Reserve).

SERVICE INTERPRETATIONS OF THE RETIREMENT LAWSRegular enlisted members

Army and Air Force enlisted personnel must serve 20 years of actual active duty to achieve the 20 years of eligible service required for retirement. Active service performed in certain other areas, such as the Army or Navy Nurse Corps before April 16, 1947, can be counted as eligible service also. Active duty is defined as "full-time duty in the active military service of the United States." It includes "duty on the active list, full-time training duty, annual training duty, and attendance, while in the active military service, at a school (not academy) designated as a service school by law or by the Secretary of the military department concerned."

Navy and Marine Corps interpretations of the law enable their enlisted personnel to accumulate the required 20 years of eligible service for transfer to the Fleet

Reserve without actually serving 20 years of actual active duty. Under certain circumstances, the amount of actual active service performed can be considerably less than 20 years--with the balance of service needed for transfer to the Fleet Reserve existing only on paper. Most of this paper service is acquired through the accumulation of constructive service. Members receiving constructive service for early discharges and minority enlistments are credited with service they never actually perform.

Constructive service received from minority enlistments and early discharges is used to calculate a member's eligible service for retirement and retirement pay multiplier, but is not used to compute terminal service for basic pay.

The practice of "rounding" a service member's eligible service for retirement before he or she serves 20 years of actual active duty also tends to shorten the amount of service that Navy and Marine Corps enlisted personnel must perform before being eligible to transfer to the Fleet Reserve.

Early discharges

10 U.S.C. 6330(d) states that "an enlistment terminated within three months before the end of the term of enlistment is counted as active service for the full term." When enlisted members of the Navy or Marine Corps transfer to the Fleet Reserve, they may count, for multiplier and eligible service for retirement purposes, any constructive service (up to 3 months) they received when they were allowed to reenlist before the end of the term of the enlistment in which they were serving. For example, if a member is allowed to terminate an enlistment 3 months early, he may reenlist and begin serving a new enlistment the next day and receive 6 months' credit for multiplier and eligible service for retirement purposes for the 3-month period that normally would have been completed under the original enlistment contract. Career personnel, in the course of 20 years' service, have the opportunity of accumulating increments of constructive service for early discharge several times, depending on the lengths of enlistments and opportunities for early discharge offered by the Navy and Marine Corps. Currently, the Navy is operating under policies which tie the amount of constructive service available through an early discharge to the length of the member's enlistment. For example, a Navy enlisted member may be discharged up to 3 months early on

a 6-year enlistment, whereas a member serving a 4-year enlistment would only be eligible for a 2-month early discharge.

Minority enlistments

The Navy minority enlistment program, though now discontinued, at one time required persons who were enlisted between 17 and 18 years of age to sign a minority enlistment contract. This contract was terminated on the member's 21st birthday, and when the member later transferred to the Fleet Reserve, he was credited with 4 years of eligible service for pay multiplier and retirement purposes. A minor signing such a contract the day before his 18th birthday would receive 4 years' credit for 3 years served. If the member was also allowed to take advantage of the 3-month early discharge provision, up to 1 year and 3 months of constructive service could be gained.

Though the Marine Corps has never had its own minority enlistment program, it does honor those contracts held by Marines who obtained them from a prior Navy enlistment.

Rounding

10 U.S.C. 6330, in setting forth the service requirements for enlisted transfers to the Fleet Reserve, states that "a part of a year that is six months or more is counted as a whole year and a part of a year that is less than 6 months is disregarded." This statement is interpreted by the Navy and Marine Corps to mean that enlisted members computing their eligible service for transfer to the Fleet Reserve, their retirement pay multiplier, and their terminal basic pay may count a remainder of a year that is 6 months or more as a whole year. Application of this translation enables members with 19.5 years of service to "round" to the next whole year, thereby giving them the 20 years of eligible service needed for transfer to the Fleet Reserve.

Officers of the armed services and enlisted members of the Army and Air Force can "round" after they have completed 20 years of service, but the rounded time counts only for multiplier purposes. For example, an Air Force enlisted member with 19.5 years of service would not be able to round to 20 years and retire, but a member with 20.5 years of service could retire and round his or her multiplier to 21 years.

In effect then, Navy and Marine Corps enlisted personnel who transfer to the Fleet Reserve with less than 20 actual years of service are being paid virtually the same as if they had served 20 years of actual active duty, the only variance being the fact that their terminal service for basic pay is not increased by constructive service.

All enlisted members of the Armed Forces receive "creditable service for basic pay" for inactive reserve service. When a member's eligible service for retirement (not less than 20 years) plus inactive reserve service equals 30 years, he or she is then transferred to the retired list.

REGULAR COMMISSIONED OFFICERS

Regular commissioned officers of the armed services, in addition to being unable to round a fractional year of 6 months before they have served 20 years of actual active duty, are also unable to receive constructive service that Navy and Marine Corps enlisted members gain from minority enlistments and early discharges. However, officers who are retiring to the retired list receive credit for any reserve service they might have had during their careers. Reserve service performed in an inactive capacity before June 1, 1958, is counted as creditable service for basic pay and towards the retirement pay multiplier. It does not count as eligible service for retirement. Inactive reserve service performed after May 31, 1958, is converted into "points." Points are given for membership in a reserve unit as well as for drills, certain correspondence courses, and the like. For retirement purposes, a point translates into 1 day of service for retirement pay multiplier purposes only.

Active duty reserve service, regardless of the date performed, is treated like regular active duty service. It counts as eligible service for retirement, creditable service for basic pay, and the retirement pay multiplier.

All members of the Armed Forces who are retired or are members of the Fleet Reserve may, if they return to active duty and again retire, recompute their retirement (retainer) pay to reflect the additional service.

FISCAL YEAR 1975 RETIREES

	<u>Officers</u>	<u>Enlisted</u>	<u>Total</u>	<u>Sample size</u> <u>Officers</u>	<u>Enlisted</u>	<u>Cases reviewed</u> <u>Officers</u>	<u>Enlisted</u>
Army	6,719	9,676	16,395	100	100	94	96
Air Force	6,341	27,274	33,615	105	99	103	95
Navy	3,940	12,506	16,446	100	100	93	95
Marine Corps	<u>671</u>	<u>1,624</u>	<u>2,295</u>	<u>100</u>	<u>100</u>	<u>92</u>	<u>98</u>
Total	<u>17,671</u>	<u>51,080</u>	<u>68,751</u>	<u>405</u>	<u>399</u>	<u>382</u>	<u>384</u>

TYPES OF POSITIONS

We differentiated positions into combat and noncombat categories because there may be a reasonable basis for requiring greater youth and vigor in combat positions than in noncombat positions. DOD believes early retirement is justified due to the need to maintain a young and vigorous fighting force. Occupations such as administrator, food specialist, mathematician, and so forth, were classified as noncombat in this analysis.

We recognize that there may be some exceptional cases in which there could be disagreement as to whether an MOS should be classified as combat or noncombat. However, we believe the MOS data, in combination with the location data, is a reasonable indicator of the demand for youth and vigor in the military. The ultimate test as to whether a position should be classified as requiring youth and vigor is whether the position could be effectively performed by someone older and more experienced. Also, we assumed for our analysis that all combat positions require youth and vigor--a position that may not always hold true.

We used the DOD Officer and Enlisted Occupational Conversion Tables to classify duties as combat or noncombat. For enlisted members, MOSs falling within the "0--Infantry, guncrews, and seamanship specialists" occupational area were classified as combat. The remaining eight occupational areas were classified as noncombat:

- 1--Electronic equipment repairman.
- 2--Communications and intelligence specialists.
- 3--Medical and dental specialists.
- 4--Other technical and allied specialists.
- 5--Administrative specialists and clerks.
- 6--Electrical/mechanical equipment repairmen.
- 7--Craftsmen.
- 8--Service and supply handlers.

We used three other categories of our own in order to account for all of the enlisted members' career time-- "Training, education and patient."

For officers, MOSs falling with the "1--General officers and executives" or "2--Tactical operations officers" occupational areas were classified as combat. Again, all the remaining occupational areas were classified

as noncombat, as well as the other categories we added--
"Training, education, patient."

- 3--Intelligence officers.
- 4--Engineering and maintenance officers.
- 5--Scientists and professionals.
- 6--Medical officers.
- 7--Administrators.
- 8--Supply, procurement and allied officers.

Examples of combat and noncombat occupations follow:

ARMY

Officers

Combat occupations

Infantry unit commander
Rotary and fixed wing pilot
Amphibious craft officer
Field artillery unit commander
Tank unit commander
Combat engineer unit commander
Chemical combat support unit
commander
Air defense missile unit
commander

Noncombat occupations

Military intelligence unit
commander
Construction engineer
Chemist
General medical officer
Administrative officer
Logistics officer
Motor officer
Bakery officer

Enlisted

Combat occupations

Light weapons infantryman
Combat engineer
Amphibian operator
Field artillery crewman
Armor crewman
Field illumination crewman
Chemical operations specialist
Lance missile crewman

Noncombat occupations

Ground control radar
repairman
Radio operator
Medical corpsman
Still photographer
Personnel management
specialist
Helicopter technical
inspector
Machinist
Food Service Specialist

AIR FORCEOfficersCombat occupations

Pilot, fighter interceptor
 Pilot, strategic bomber
 Pilot, helicopter
 Navigator-bombardier,
 strategic
 Electronic warfare officer
 Missile launch officer
 Weapons controller
 Space systems staff officer

Noncombat occupations

Technical intelligence
 officer
 Civil engineering officer
 Computer maintenance
 officer
 Aeronautical engineer
 Mathematician
 Dermatologist
 Executive support officer
 Fuels management officer

EnlistedCombat occupations

Combat security policeman
 Small arms technician
 Survival specialist
 Military training
 Seaman
 Boatmaster
 Flight engineer specialist
 Combat information monitor

Noncombat occupations

Bomb-navigation systems
 mechanic
 Radio operator
 Optometry specialist
 Audio-visual specialist
 Manpower specialist
 Helicopter mechanic
 Machinist
 Meat cutter

NAVYOfficersCombat occupations

Fighter pilot
 Bombardier/navigator
 Fire control officer (general)
 Underwater demolition team
 officer
 Missile systems officer
 (general)
 Radar air traffic control
 center officer
 Minesweeping officer
 Signal officer

Noncombat occupations

Intelligence officer, basic
 Cryptosecurity officer
 Public works officer
 Chemist
 Flight surgeon
 Administrative officer
 General supply officer
 Food service officer

NAVYEnlistedCombat occupations

Seabee team technician
 Naval guns maintenancemen
 Airborne gunner
 Flight crew ordnanceman
 Boatswain's mate,
 minesweeping
 Heavy attack crewman
 Deep submergence crewmember
 Assault boat coxswain

Noncombat operations

Steward
 Radar technician
 Radioman basic
 Hospital corpsman
 Photographer's mate
 Personnelman
 Aircraft maintenanceman
 Welder

MARINE CORPSOfficersCombat occupations

Basic rotary wing pilot
 Aerial navigation officer
 Bombardier/navigator
 Infantry officer
 Field artillery officer
 Parachutist/SCUBA man
 Naval gunfire spotter
 Guided missile systems officer

Noncombat occupations

Intelligence officer
 Utilities officer
 Defense systems analyst
 Administrative officer
 Legal services officer
 Supply operations officer
 Contracting officer
 Corrections officer

EnlistedCombat occupations

Basic infantryman
 Antitank assaultman
 Armored amphibian crewman
 Combat engineer
 Field artillery batteryman
 Anti-air warfare batteryman
 Aerial navigator
 SCUBA man

Noncombat occupations

Basic electronics
 maintenanceman
 Radio technician
 Recruiter
 Cook
 Cinematography specialist
 Unit diary clerk
 Basic aircraft
 maintenanceman
 Electrician

CRITERIA FOR COMBAT SERVICE

	<u>Combat Zone</u>	
Berlin	Aug. 14, 1961	to June 1, 1963
Congo	July 14, 1960	to Sept. 30, 1962
	Nov. 23, 1964	to Nov. 27, 1964
Cuba	Oct. 24, 1962	to June 1, 1963
Dominican Republic	Apr. 28, 1965	to Sept. 21, 1966
Korea	June 27, 1950	to July 27, 1954
Laos	Apr. 19, 1961	to Oct. 7, 1962
Lebanon	July 1, 1958	to Nov. 1, 1958
Quemoy and Matsu Islands	Aug. 23, 1958	to June 1, 1963
Taiwan Straits	Aug. 23, 1958	to Jan. 1, 1959
Vietnam	Mar. 8, 1949	to July 20, 1954
	Mar. 1, 1960	to Mar. 28, 1974
World War II (outside CONUS)	Dec. 7, 1941	to Dec. 31, 1946

Note: This information is based on AR 672-5-1 which defines locations and dates of combat for award of medals.

CAREER PATTERNS OF FISCAL YEAR 1975 MILITARY RETIREES (note a)

	<u>Career Pattern Highlights (note b)</u>									
	<u>Army</u>	<u>Air Force</u>	<u>Officers</u>	<u>Combined</u>	<u>Army</u>	<u>Air Force</u>	<u>Enlisted</u>	<u>Combined</u>		
			<u>Navy</u>	<u>Marine Corps</u>	<u>Navy</u>	<u>Marine Corps</u>	<u>Navy</u>	<u>Marine Corps</u>		
Age at retirement	44.7	46.6	45.8	44.7	45.6	42.6	41.5	39.8	41.1	41.3
Years of actual active service	23.3	23.8	24.9	23.9	23.9	21.7	21.6	20.4	21.4	21.3
Months of actual active service	280	286	299	287	287	260	259	245	257	256
Months of constructive service received	-	-	.8	-	.2	-	-	6.7	.5	1.7
Months spent in combat-related jobs	68.2	124.8	100.1	88.0	96.4	58.3	5.7	17.5	36.4	19.5
	<u>Actual Active Service</u>									
Percent of members with:										
Less than 20 years	-	-	4.3	-	1.0	-	-	65.3	49.0	17.5
More than 20 years	100.0	100.0	95.7	100.0	99.0	100.0	100.0	34.7	51.0	82.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	<u>Time Rounding</u>									
Members who:										
Had time rounded up	30.9	51.5	44.1	44.6	41.7	29.2	27.4	72.6	75.5	40.3
Had time rounded down	51.1	34.0	32.3	42.4	40.4	26.0	18.9	16.8	18.4	19.8
Did not have time rounded	18.1	14.6	23.7	13.0	17.9	44.8	53.7	10.5	6.1	39.9
Total	100.1	100.1	100.1	100.0	100.0	100.0	100.0	99.9	100.0	100.0

a/Figures do not always total 100 percent due to rounding.

b/These figures are excerpts and cannot be totaled.

Time Spent in Combat-Related Jobs

<u>Year spent</u>	<u>Officers</u>					<u>Enlisted</u>				
	<u>Army</u>	<u>Air Force</u>	<u>Navy</u>	<u>Marine Corps</u>	<u>Combined</u>	<u>Army</u>	<u>Air Force</u>	<u>Navy</u>	<u>Marine Corps</u>	<u>Combined</u>
None	29.8	27.2	35.5	26.1	30.0	49.0	91.6	85.3	44.9	80.5
Less than .5	2.1	1.0	-	1.1	1.2	5.2	1.1	-	7.1	1.8
.5 to 1.5	5.3	1.9	2.2	4.3	3.4	7.3	2.1	-	11.2	2.9
1.5 to 2.5	6.4	1.0	5.4	3.3	4.1	3.1	-	2.1	8.2	1.4
2.5 to 3.5	6.4	2.9	1.1	2.2	3.8	3.1	-	4.2	3.1	1.7
3.5 to 4.5	5.3	4.9	2.2	4.3	4.4	2.1	1.1	1.1	3.1	1.3
4.5 to 5.5	-	-	3.2	5.4	.9	2.1	-	-	1.0	.4
5.5 to 6.5	2.1	1.0	1.1	2.2	1.5	1.0	1.1	-	2.0	.8
6.5 to 7.5	4.3	1.0	1.1	4.3	2.4	1.0	-	-	3.1	.3
7.5 to 8.5	3.2	-	1.1	4.3	1.6	-	1.1	-	1.0	.6
8.5 to 9.5	4.3	2.9	3.2	4.3	3.5	-	-	-	4.1	.1
9.5 to 10.5	4.3	3.9	1.1	5.4	3.5	1.0	1.1	-	-	.8
More than 10.5	26.6	52.4	43.0	32.6	39.8	25.0	1.1	7.4	11.2	7.5
Total	100.1	100.1	100.2	99.8	100.1	99.9	100.3	100.1	100.0	100.1

----- (Percent) -----

Where and How Members Spent Their Careers
(Accounting of All Months in Sample)

	Officers				Enlisted					
	Army	Air Force	Navy	Marine Corps	Combined	Army	Air Force	Navy	Marine Corps	Combined
In or outside of the U.S.	14.1	32.0	14.3	20.9	20.8	11.7	1.0	2.0	9.9	3
In the U.S. in combat-related jobs	45.8	43.7	43.0	55.4	44.7	44.0	64.5	41.8	63.8	55
In the U.S. in non-combat-related jobs	10.1	11.7	19.0	9.6	12.7	10.5	1.2	5.0	4.2	4
Outside the U.S. in combat-related jobs	30.0	12.6	23.7	14.1	21.7	33.8	33.3	51.1	22.1	37
Outside the U.S. in non-combat-related jobs	100.0	100.0	100.0	100.0	99.9	100.0	100.0	99.9	100.0	100
Total										
In combat or noncombat zones	2.3	3.3	2.7	3.3	2.8	1.9	.6	.3	1.5	
In combat zones:	4.7	1.6	1.7	4.2	2.9	6.3	3.0	3.2	2.1	3
In combat-related jobs	21.9	40.4	30.6	27.0	30.7	20.3	1.6	6.8	12.6	6
In non-combat-related jobs	71.0	54.7	65.0	65.3	63.6	71.5	94.9	89.7	83.8	88
Total	99.9	100.0	100.0	100.0	100.0	100.0	100.1	100.0	100.0	100

Job Classification Held on Last Assignment

	Officers			Enlisted			
	Army	Air Force	Navy	Air Force	Navy	Marine Corps	Combined
	-----			-----			
	(percent)			(percent)			
General officers and executives	7.4	4.9	11.8	13.0	7.7	7.4	7.4
Tactical operations officers	19.1	35.0	23.7	14.1	25.6	6.1	14.0
Intelligence officers	2.1	1.0	5.4	1.1	2.4	9.2	7.0
Engineering and maintenance officers	20.2	13.6	24.7	14.1	18.6	5.3	5.2
Scientists and professionals	6.4	8.7	4.3	2.2	6.6	2.1	1.5
Medical officers	5.3	2.9	4.3	-	4.0	34.7	30.7
Administrators	23.4	24.3	19.4	39.1	23.4	18.9	18.6
Supply, procurement, and allied officers	11.7	8.7	6.5	15.2	9.6	3.2	3.0
Other	4.4	1.0	-	1.1	2.0	8.4	11.4
Total	100.0	100.1	100.1	99.9	99.9	100.0	99.9
	1.0	-	-	-	-	-	.2
	1.0	-	-	1.1	1.0	1.1	.5
Total	99.9	100.0	100.1	100.0	100.1	100.0	99.9

Percent of Total Sample Months Spent by
Officers in Different Jobs
During the Period From the 14th Career
Year To Retirement (note a)

Job category:	Army	Air Force	Navy	Marine Corps	Combined
General officers and executives	3.6	2.7	8.5	7.3	4.6
Tactical operations officers	17.8	39.8	27.7	20.2	28.1
Intelligence officers	3.9	2.1	3.2	2.6	3.0
Engineering and maintenance officers	19.7	13.9	23.7	15.0	18.5
Scientists and professionals	5.3	11.0	2.9	1.0	6.6
Med-cal officers	4.7	1.9	3.9	-	3.3
Administrators	22.0	17.5	16.5	31.2	19.4
Supply, procurement, and allied officers	14.1	7.2	7.6	12.1	10.0
Training (over 3 months)	2.3	.4	1.8	1.2	1.5
Education	3.2	2.5	1.6	2.5	2.5
Patient (over 3 months)	.1	.1	-	.2	.1
Other	3.5	1.1	2.5	6.5	2.5
Total	<u>100.2</u>	<u>100.2</u>	<u>99.9</u>	<u>99.8</u>	<u>100.1</u>

a/ The first 14 years are not included because a significant amount of that time was spent in enlisted grades.

Percent of Total Sample Months Spent by Enlisted Members in Different Jobs During the Following Career Periods: 7 Years or Under, 8-14 Years, Over 14 Years

Job Category:	Army			Air Force			Navy			Marine Corps			Combined		
	7 or under	8-14	over 14	7 or under	8-14	over 14	7 or under	8-14	over 14	7 or under	8-14	over 14	7 or under	8-14	over 14
Infantry, gun crews, and seamanship specialists	22.1	24.2	19.8	2.8	.6	3.0	7.3	6.7	7.3	16.5	14.2	11.8	8.0	7.0	7.6
Electronic equipment repairmen	.6	3.7	3.4	9.7	15.8	18.5	7.3	9.6	11.8	1.7	3.6	4.2	7.2	11.6	13.6
Communications and intelligence specialists	6.7	9.0	10.7	5.0	5.3	4.7	11.3	13.7	9.5	5.0	7.6	7.9	6.9	8.1	7.0
Medical and dental specialists	6.9	7.7	6.0	6.5	5.5	4.2	3.5	4.0	3.5	-	-	-	5.6	5.4	4.3
Other technical and allied specialists	.5	.9	-	1.9	2.0	1.7	2.1	1.4	.6	4.5	5.9	4.2	1.8	1.8	1.2
Administrative specialists and clerks	15.8	19.0	24.8	28.7	31.1	33.6	13.7	19.5	24.7	21.3	27.8	34.2	22.3	25.9	30.0
Electrical/mechanical equipment repairmen	12.6	15.5	13.4	21.2	23.9	22.7	23.9	25.6	23.0	17.1	17.7	16.6	20.1	22.5	20.7
Craftsmen	3.4	2.5	1.5	3.3	3.1	3.3	3.9	3.8	4.0	4.1	4.4	3.3	3.5	3.2	3.1
Service and supply handlers	22.3	15.5	17.9	10.3	10.8	8.0	15.8	12.1	12.7	21.4	16.9	16.2	14.2	12.2	11.2
Training (over 3 months)	8.0	1.6	1.0	8.6	1.3	.3	9.5	3.1	1.1	3.3	1.4	.5	8.5	1.8	.7
Education	-	-	.1	-	-	-	-	-	.3	.1	-	-	-	-	.1
Patient (over 3 months)	.1	.2	.7	-	-	-	-	.4	.3	.1	-	.2	-	.1	.2
Other	-.9	-.4	-.8	2.1	-.4	-	1.7	-.2	-.9	4.8	-.4	-.9	1.9	-.3	-.4
Total	99.9	100.2	100.1	100.1	99.8	100.0	100.0	100.1	99.7	99.9	99.9	100.0	100.0	99.9	100.1

Percent of Members Who Retired at Each Grade Level

	Officers			Enlisted			
	Army	Air Force	Navy	Army	Air Force	Navy	Marine Corps
0-10	-	-	-	7.3	4.2	8.4	14.3
0-9	-	-	3.5	18.8	8.4	7.4	27.6
0-8	-	-	1.2	44.8	29.5	34.7	43.9
0-7	-	-	1.2	19.8	45.3	41.1	9.2
0-6	35.1	18.6	27.1	8.3	12.6	4.2	5.1
0-5	47.4	52.0	15.3	-	-	4.2	-
0-4	15.8	26.5	42.4	-	-	-	-
0-3	1.8	2.9	9.4	-	-	-	-
0-2	-	-	-	1.0	-	-	-
0-1	-	-	-	-	-	-	-
Total	100.1	100.0	100.0	100.0	100.0	100.0	100.1
Average grade at Retirement:	0-5.2	0-4.9	0-4.9	E-6.9	E-6.5	E-6.6	E-7.4

DETAILED PROVISIONS OF ALTERNATIVE RETIREMENT SYSTEMS

	Current System	Reduced Annuity to 30 Years of service	Reduced Annuity to Age 55 or 60	Annuity at Age 55 to 62
Retirement Base	Terminal basic pay.	High-1 basic pay.	High-3 basic pay.	High-3 basic pay.
Formula for Computing Annuity (Voluntary Separation)	Retirement base times 2.5 percent per YOS (maximum 75 percent).	Retirement base times 2.5 percent per YOS (10-14 YOS); plus 3 percent per YOS (15-30 YOS) to maximum of 70 percent, less 15 percent age points until time when 30 YOS would have been completed.	Retirement base times 2.5 percent per YOS (10-24 YOS) plus 3 percent per YOS (25-30 YOS) plus 2 percent per YOS (31-35 YOS) to maximum of 80 percent. Annuity reduced until age 60 (less than 25 YOS) or age 55 (25 or more YOS). Reduction equals 2 percent of annuity for each year under age threshold.	Retirement base times 2.5 percent per YOS (maximum 87.5 percent).
When Annuity Begins (Voluntary Separation)	More than 20 YOS: upon retirement; 0-19 YOS: no benefits.	More than 20 YOS: upon retirement; 10-19 YOS: age 60 a/; 0-9 YOS: no benefits.	More than 20 YOS: upon retirement (with reduction if applicable); 10-19 YOS: lump-sum payment equal to 5 percent per YOS times terminal basic pay b/; 0-9 YOS: no benefits.	More than 30 YOS: age 55; 20-29 YOS: age 60; 5-19 YOS: age 62; 0-4 YOS: no benefits.
Formula for Computing Annuity (Involuntary Separation)	Enlisted: no annuity c/; officer: lump-sum payment equal to 10 percent times YOS times retirement base (maximum \$15,000).	More than 20 YOS: same as voluntary; 5-19 YOS: lump-sum payment of 10 percent times YOS times terminal basic pay b/; 0-4 YOS: no benefits.	More than 20 YOS: same as voluntary; 10-19 YOS: same as voluntary plus lump-sum payment equal to 5 percent per YOS times terminal basic pay; 5-9 YOS: lump-sum payment equal to 5 percent per YOS times terminal basic pay; 0-4 YOS: no benefits.	More than 5 YOS: same as voluntary plus lump-sum payment equal to 5 percent per YOS times terminal basic pay; 0-4 YOS: no benefits.
Social Security Integration	None	Annuity reduced by half of social security payments attributable to military service.	Annuity reduced by half of social security payments attributable to military service.	None
Reduction for Continued Federal Employment (Double Dipping)	Over 20 YOS: regular officers forfeit about 1/3 of annuity.	Same as current system	Same as current system	Same as current system
Price Adjustment	Automatic based on CPI.	Same as current system d/	Same as current system	Same as current system d/
Phase-In Period for Reduced Annuities for Early Retirees	Not applicable	20 years	10 years	10 years
Save-Pay Provisions	not applicable	Individualized e/	Individualized e/	none

NOTE: YOS = Years of Service.

- a/ If retiree dies before the deferred annuity starts, survivors receive a lump-sum payment.
- b/ Retirees have a choice of a lump sum or deferred annuity. In this paper, all are assumed to elect the lump sum.
- c/ Enlisted receive involuntary separation pay in a few circumstances, but these are ignored in this paper.
- d/ Deferred annuities are adjusted for price increases between retirement and the time when payment begins.
- e/ Individualized save-pay insures that a retiree's pay would be at least as much as it would have been if, at some earlier year, he had been eligible and had chosen to retire.

Source: Congressional Budget Office, Budget in Review for Fiscal Year 1979; The Military Retirement System: Options for Change.

ALTERNATIVES STUDIED

Key Changes	Current System	Reduced to 10 Years of Service	Reduced to Age 55 or 60	Annuity at Age 55 to 62	Annuity at 55, With Continuation
Annuity for 20-Year Retiree ^{b/}	50% of basic pay	Reduced 30% below current level for 10 years, then restored.	Reduced 34-42% below current level to age 60, then restored. ^{c/}	Annuity begins at age 60.	Annuity begins at age 60.
Benefits for 0-19 Years' Service?	No	Yes	Yes	Yes	Yes
Member Contribution Required?	No	No	No	No	Yes
Phase-in for Reduced Annuity	—	20 years	10 years	10 years	10 years
Lifetime Retirement Pay ^{b/}	\$310,000	\$295,000	\$265,000	\$210,000	\$210,000
20-year retiree	\$190,000	\$155,000	\$110,000	\$65,000	\$65,000
10-year retiree	0	\$15,000	\$15,000	\$10,000	\$10,000
Summary of Effects					
Overall Evaluation	Features large losses after 20 years of service, but few losses from 10 to 19 years. Costs increasing through end of this century.	Retains career pattern similar to today's, but costs less. Low risk. Proposed by DoD.	Middle-ground option. More savings and longer careers than superior-30 option. But no fundamental change.	Far-reaching change. Slightly longer careers. Many personnel management changes. High risk. High potential savings.	See annuity-at-55. Savings may be more or less than annuity-at-55 depending on offsetting raise. Possible recruiting problems.
Effect on Career Patterns	See above	Continued high losses after 20 years likely. Retention may be higher from 5 to 9 years and lower from 10 to 19 years.	Similar to reduced-30 except probable increase in those staying past 20.	Strong incentive to stay 30 years or more. Retention may be lower from 5 to 19 years of service, though results uncertain.	Same as annuity-at-55 but possible recruiting problems among junior entrants.
Required Changes in Personnel Management Policies	None	Few required	Some to accommodate longer careers, but no fundamental changes.	Fundamental changes in all phases of personnel management.	Same as annuity-at-55.
Costs (Constant Dollars) FY 2000	\$46.8 billion	Saves \$1.2 billion	Saves \$2.2 billion	Saves \$2.8 to \$4.5 billion	See Table 8
Total FY 1979-2000	\$936 billion	Saves \$11 billion	Saves \$19 billion	Saves \$26 to \$36 billion	See Table 8
Costs in DoD Budget if Accounting Procedures Change	\$7.1 billion	Saves \$1.6 billion	Saves \$2.4 billion	Saves \$3.8 billion	See Table 8

^{c/} Range depends on whether retiree is an officer (low end of range) or enlisted (high end).

Source: Congressional Budget Office, Budget Issue Paper for Fiscal Year 1979; The Military Retirement System: Options for Change.



MANPOWER,
RESERVE AFFAIRS
AND LOGISTICS

ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D. C. 20301

13 JAN 1978

Mr. H. L. Krieger
Director, Federal Personnel and
Compensation Division
U. S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Krieger:

This is in response to your letter of November 4, 1977, to the Assistant Secretary of Defense (Comptroller) which requested comments on your draft report, "Longer Careers Should Be Established For Military Personnel" (Code 963053) (OSD Case #4754).

The comments included in this letter are intended to assist GAO in preparing a balanced and objective report on the military non-disability retirement system. The Department is not opposed to retirement reform. The Retirement Modernization Act (RMA), submitted to the 93rd and 94th Congresses, is indicative of our desire to adjust the system and would have corrected many of the limitations highlighted in your report. Our principal concern is that the evaluation of the existing system incorporates all relevant factors and that recommendations for change be based on the need to maintain a military force capable of defending the Nation.

The Department agrees with the conclusion that the role of retirement must be viewed as a component of total compensation and recommendations for change must support overall force structure and personnel management objectives. The report, however, concentrates on a single aspect of only the retirement system, i.e., eligibility for an immediate annuity at 20 years of service. It does not present an assessment of the impact that the suggested changes in career length would have on the force structure or military readiness. There are also several other areas in which the Department believes the report is deficient.

The report's historical discussion focuses on the World War II era. The history of the military non-disability retirement system began about 1861 and reveals a long evolution of attempts to structure a retirement system which would enable the country to maintain an effective military force. The system has changed from one in which there was no provision for either voluntary or involuntary retirement to our present combination of voluntary and mandatory provisions. During this 120 year period many different systems of non-disability retirement have been tried.

Voluntary retirement eligibility has ranged from 40 years of service to as few as 15 years service. Involuntary retirement has been based upon age, upon years of service, a combination of both and promotion success. The current non-disability retirement provisions coupled with other force management practices adopted in 1947 and 1948 permitted the United States to enter both the Korean and the Viet Nam conflicts without the problems which faced us at the onset of earlier emergencies --a force with many members too old or ineffective to withstand the rigors of combat or meet the demands of a wartime environment. The report does not explain how its suggested reversion to earlier practices would have produced better results than the current systems have for the past three decades.

A summary of the history of the retirement system and how it relates to the management system is contained in HASC Report No. 93-81 Hearings on H.R. 12405 Defense Officer Personnel Management Act (DOPMA) before Subcommittee No. 4 of the Committee on Armed Services, House of Representatives, 93rd Congress, Second Session July 10, 1974.

The findings of the report are based, to a large extent, upon the results of a survey conducted by GAO. This survey and the conclusions drawn from it have several apparent shortcomings:

- Only service members who retired in FY 75 were sampled. There is no evidence that this population is representative of the career patterns of all military members. For example, it would not be representative of the large number of personnel in the current force who entered service during the Viet Nam conflict. Further, the size of the sample appears to be very small in relation to the many different categories and varied career patterns of military personnel.

- A basic premise of the report is that, unless a member serves a large portion of his career in a combat zone or a combat-related duty, he should not be entitled to early retirement. The presence or absence of a conflict is largely responsible for the time spent in various duties. The absence of war does not remove the need to be ready for war with a capable military force. Throughout the Southeast Asia conflict, the U. S. armed forces maintained a capability to fight in other geographical areas. Those service members not directly involved in Southeast Asia were subject to immediate assignment to combat if other contingencies developed. The Pueblo incident off the Korean coast in 1967, and the associated force deployments, is an example of this worldwide commitment. This incident as well as the many other situations calling for protracted periods of increased readiness apparently were not considered in the survey.

- The occupational definitions used in determining whether an individual served in a combat or non-combat role are invalid. Using the GAO categorization, 87% of all Navy enlisted casualties (deaths) from hostile causes in Viet Nam were non-combatants. In the military, organization identity transcends occupation identity. For example, all personnel aboard a combatant ship, regardless of occupational speciality, have the same combat exposure and all members must be able to carry out physically demanding emergency assignments.

The report compares the military retirement system with those provided firemen and policemen. While there are some similarities between these occupations and the military, there are also significant differences. The need for a relatively youthful force stems from the unique conditions of military service. All members, regardless of occupational speciality, are subject to combat area assignments. Even rear area personnel must be able to perform their duties continuously with little rest for protracted periods in support of combat operations. The fact that these personnel may live under the physical and mental strain of the constant threat of attack and must be prepared to fight, as was the case in Viet Nam, can not be discounted. Most older members do not

readily adapt to and perform effectively under these conditions.

The report recommends that Congress eliminate 20 year retirement for most personnel and direct the Secretary of Defense to develop criteria for establishing longer careers for military personnel. The evidence presented in the report does not adequately support its recommendation.

In addition, the entire issue of military retirement is being reviewed by the President's Commission on Military Compensation. This Commission will report its recommendation to the President on March 15, 1978. The Department of Defense believes that any action to alter the existing retirement system prior to the receipt of this report would be premature and ill-advised. In evidence of this attitude, the Department has deferred submission of its own proposed Retirement Modernization Act. Consequently, the Department strongly urges on this ground alone that no action be taken on the recommendations of the GAO report.

Sincerely,



ROBERT B. DORNIE, JR.
Principal Deputy Assistant Secretary
of Defense (MRA&L)

PRINCIPAL DOD OFFICIALS RESPONSIBLE FOR
ACTIVITIES DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
SECRETARY OF DEFENSE:		
Harold Brown	Jan. 1977	Present
Donald H. Rumsfeld	Nov. 1975	Jan. 1977
James R. Schlesinger	July 1973	Nov. 1975
DEPUTY SECRETARY OF DEFENSE:		
Charles W. Duncan, Jr.	Jan. 1977	Present
William P. Clements	Jan. 1973	Jan. 1977
ASSISTANT SECRETARY OF DEFENSE (MANPOWER, RESERVE AFFAIRS AND LOGISTICS):		
John White	May 1977	Present
ASSISTANT SECRETARY OF DEFENSE (MANPOWER AND RESERVE AFFAIRS):		
Carl W. Clewlow (acting)	Feb. 1977	May 1977
David P. Taylor	July 1976	Feb. 1977
John F. Aherne (acting)	Mar. 1976	July 1976
William K. Brehm	Sept. 1973	Mar. 1976
SECRETARY OF THE ARMY:		
Clifford M. Alexander, Jr.	Feb. 1977	Present
Martin R. Hoffman	Aug. 1975	Feb. 1975
Howard H. Callaway	May 1973	Aug. 1975
Robert E. Froehke	July 1971	Apr. 1973
Stanley R. Resor	July 1965	June 1971
SECRETARY OF THE NAVY:		
Graham Claytor, Jr.	Feb. 1977	Present
J. William Middendorf	June 1974	Feb. 1977
J. William Middendorf (acting)	Apr. 1974	June 1974
John W. Warner	May 1972	Apr. 1974
John H. Chafee	Jan. 1969	May 1972
Paul R. Ignatius	Sept. 1967	Jan. 1969
SECRETARY OF THE AIR FORCE:		
John C. Stetson	Apr. 1977	Present
Thomas Reed	Jan. 1976	Apr. 1977
John L. McLucas	May 1973	Jan. 1976
Robert C. Seamans, Jr.	Jan. 1969	Apr. 1973
Harold Brown	Oct. 1964	Jan. 1969

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