



United States General Accounting Office

GAO

Report to the Secretary of Defense

August 1990

RESERVE FORCES

Opportunity to Reduce Pension Costs



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United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-239047

August 3, 1990

The Honorable Richard B. Cheney
The Secretary of Defense

Dear Mr. Secretary:

The military reserve forces retirement system cost \$1.4 billion in fiscal year 1989. We reviewed the system to identify potential areas of cost reduction. This report deals with members of the Ready Reserve¹ receiving additional retirement credits, even though they did not meet the minimum required participation levels.

Results in Brief

Members of the Ready Reserve who have the years of service required for retirement, but have not reached retirement age, are being allowed to continue their membership and earn additional credits that are used in calculating retirement pay. However, a Department of Defense (DOD) policy directive requires that reservists maintain a minimum level of participation or be transferred to either an inactive or retired status where they cannot earn additional retirement credits.

This directive was suspended for about 6 months in 1980. However, since the suspension was lifted, the Army has not been in compliance with the directive. Rather, the Army has continued to give additional retirement credits to individuals who should have been transferred to an inactive or retirement status. We also found that some Navy and Air Force reservists who did not meet the minimum level of participation were not transferred to an inactive or retired status.

The Defense Manpower Data Center's records showed that as of September 30, 1989, almost 6,000 reservists had not met the minimum level of participation required in each of their 2 most recent service years. We estimate that the long term cost of retirement credits earned by these reservists in their most recent service year could amount to about \$5.6 million.

¹The Ready Reserve consists of the Selected Reserve and the Individual Ready Reserve. The Selected Reserve includes individuals assigned to units, other trained personnel assigned to active organizations, and individuals who have not completed initial training. Its members are usually required to participate in 48 drills and 2 weeks of active duty annually. The Individual Ready Reserve is made up of persons who have served in the active components or the Selected Reserve, most of whom still have some period of obligated service. These members are not required to participate in a specified number of drills and do not have other active duty training requirements.

Background

DOD Directive 1200.15, dated February 16, 1973, requires individual reservists who are qualified for retirement, but are not yet age 60, to earn at least 50 points² annually to be retained in either the Ready Reserve or in an active status in the Standby Reserve. Reservists who earn less than 50 points per year are supposed to be transferred to an inactive status or to the Retired Reserve and are no longer qualified to earn retirement points. The service secretaries are authorized to waive the requirement one time for an individual in exceptional circumstances.

Members of the Ready Reserve meet service retirement requirements after 20 years of creditable service, as long as their last 8 years were served in a reserve component. However, to receive retirement pay they must have attained age 60. The retirement pay is computed by multiplying the monthly base pay in effect when the member attains age 60 times 2.5 percent times the equivalent years of service. The equivalent years of service is computed by dividing the total creditable retirement points earned during a reservist's career by 360, which represents a year of service.

For a year to count towards retirement, a reservist must earn at least 50 retirement points in that year. However, all creditable points earned during a reservist's career are used in calculating the retirement pay, regardless of how many points were earned in any given year. For example, if a reservist earned 20 points in a given year, those points would be included in the total points used to compute his retirement pay, but that year could not count towards the 20 years required to be eligible for retirement.

DOD Directive 1200.15 was temporarily suspended by a January 23, 1980, memorandum from the Assistant Secretary of Defense for Manpower, Reserve Affairs, and Logistics. The temporary suspension allowed members to remain in the Individual Ready Reserve with little or no active participation. This temporary suspension expired 6 months later.

²A retirement point is awarded for each day of active duty training or for inactive duty training such as drill attendance. Reservists can also earn other inactive duty training points. For example, reservists receive 15 gratuitous membership points for each year as an active member of a reserve component, in addition to points for completing correspondence courses. Total points are limited to 365 a year, with a maximum of 60 for inactive duty.

Potential to Avoid Future Retirement Costs

We found that not all components are transferring retirement-eligible Ready Reserve members earning less than 50 points a year to an inactive or retired status, as required by DOD policy. As of September 30, 1989, almost 6,000 reservists had earned less than the required 50 points in each of their 2 most recent service years. In total, these reservists had received almost 149,000 retirement points in their most recent service year. These points, which will translate into additional retirement pay, would have been avoided if DOD's directive had been followed. We estimate that these points could increase long-term retirement costs to the U.S. government by about \$5.6 million based upon the approximate value of points as of January 1, 1990.³ We found that the average number of retirement points received by reservists in some components was not much greater than the 15 gratuitous membership points, which indicates that most of these personnel are essentially inactive.

Army

At the time Directive 1200.15 was temporarily suspended in 1980, the Army deleted all minimum point requirements from its regulations. The Army did not reinstate the minimum point requirement when the temporary suspension expired. About 3,700 Army Individual Ready Reserve members inappropriately⁴ received about 64,000 retirement points. These points could increase retirement costs by about \$3 million.

About 1,300 Army Selected Reservists inappropriately received about 31,700 retirement points. These points could increase retirement costs by about \$1.8 million.

Army Reserve officials agreed with us that they should comply with the directive, and stated that they had directed the Army Reserve Personnel Center to develop procedures necessary to implement the directive. They also said that the database⁵ we used to quantify the number of points inappropriately credited by the Army may not be completely accurate, but that it was indicative of the magnitude of the problem.

³The estimated dollar value has not been discounted, i.e. the point values have not been inflated to account for pay raises and cost of living allowances in the years in which the payments will be made and then reduced to their net present value.

⁴These are reservists who earned less than 50 points in their 2 most recent years of active duty.

⁵The Reserve Components Common Personnel Data System is the database used to produce the official DOD reports on reserve component personnel. The Defense Manpower Data Center receives updates from the services on a monthly basis.

Army National Guard

The Defense Manpower Data Center's records showed that about 1,700 guardsmen were inappropriately credited with about 34,800 retirement points.

Although Army National Guard officials agreed they should comply with the DOD directive, they said that few guardsmen would have earned less than 50 points during 2 successive service years. They believe that most members had earned the required 50 points, but that the states were delinquent in reporting the point data to the Army National Guard Personnel Center, which provides the data to the Defense Manpower Data Center. They also said that guardsmen not earning 50 retirement points each year are routinely removed from the Army National Guard by applying Army regulations that require minimal drill attendance and consideration by 20-year retention boards.

According to DOD, 15 percent of Army National Guard records were reviewed and all members were found to have earned the minimum annual points for retirement credit. DOD also stated that verification of the balance of the members would be completed by the end of fiscal year 1990. We believe DOD's action to perform a 100-percent verification should enhance confidence in the integrity of the retirement point system, and identify the cause of the reporting problems that resulted in the differences between the individual members' records and DOD's official database.

Navy

The Navy partially applied the DOD directive for officers in 1984 and again in November 1988. Since January 1, 1989, it has transferred about 900 officers from the Individual Ready Reserve to the Inactive Standby Reserve under the 50-point rule.

According to information maintained by the Defense Manpower Data Center, almost 700 members of the Navy's Individual Ready Reserve still did not meet the 50-point requirement as of September 30, 1989. These reservists had earned about 12,200 retirement points. We estimate that these points could increase retirement costs by almost \$700,000.

According to Naval Reserve officials, they will comply with the directive and transfer retirement-eligible Ready Reserve members not earning the minimum 50 points to an inactive status. They stated that they would continue screening officers for noncompliance with the

directive and begin screening warrant officer and enlisted personnel in the same manner.

Air Force

The Air Force incorporated the directive into its regulations and requires its Individual Ready Reserve members who are eligible for retirement to earn at least 50 points a year or be transferred to the Inactive Standby or Retired Reserve. Our review indicated that to a large extent, the Air Force has been following the regulations. However, the Defense Manpower Data System showed about 140 members of the Air Force Individual Ready Reserve had inappropriately accumulated about 2,700 retirement points in their most recent year. We estimate that these points could increase retirement costs by about \$100,000.

According to Air Force Reserve officials, they will comply with the directive and require that retirement-eligible Ready Reservists not earning the minimum 50 points be transferred to an inactive status. Subsequently, Air Force Reserve officials directed the Air Reserve Personnel Center to implement these actions.

Other Reserve Components

The other reserve components had few retirement-eligible members earning less than 50 points per year.

Recommendations

We recommend that the Secretary of Defense monitor and enforce service compliance with DOD Directive 1200.15, which provides that any member eligible for retirement who earns less than 50 points in 1 year be transferred to an inactive status.

Agency Comments

In commenting on a draft of this report, DOD generally concurred with our findings and recommendation. DOD stated that action was underway to (1) revise existing policy, (2) verify the status of the individuals that the Reserve Components Personnel Data System indicated should be placed in an inactive status, and (3) establish procedures for the periodic verification of compliance with the policy.

DOD noted that, although the Reserve Components Common Personnel Data System indicates that many retirement-eligible reservists had accrued less than the required 50 points, it may be that all the retirement points had not been entered into the automated systems. DOD said

it would verify the information and then transfer those individuals who did not meet the required minimum.

DOD also stated that in revising its policy, the requirement to earn a minimum of 50 points annually or be transferred to an inactive status would remain in effect. Following the policy restatement, it will conduct periodic screenings of the Reserve Components Common Personnel System database to track compliance. DOD's comments are contained in appendix I.

Scope and Methodology

We reviewed Office of the Secretary of Defense policy directives and the services' implementation regulations on the retention of officers and enlisted members in the Individual Ready Reserve who were eligible for retirement, except for attaining age 60. The Defense Manpower Data Center, which maintains the Reserve Components Common Personnel Data System, provided us with data on all Ready Reserve members who earned less than 50 points in each of their 2 most recent years of service. We did not verify the accuracy of this information.

To get a rough estimate of avoidable pension costs, we identified the retirement-eligible members who had earned less than 50 points in each of 2 preceding years ending September 30, 1989. First, we determined the points received by these reservists, whom we aggregated by years of service and rank. Then, we multiplied these points by the approximate monetary point values for retirement benefits cited in the Army Reserve Personnel Center's DARP Form 1259, based on January 1990 pay levels, to determine the monthly retirement pay value. This monthly value was annualized and multiplied by the life expectancy values for 60-year-old male officers (20.7 years) and male enlisted personnel (18.4 years) obtained from the DOD actuary. These derived estimates were neither inflated to the estimated pay level at the time of payout nor discounted to the net present value.

We performed our work at the Office of the Assistant Secretary of Defense (Reserve Affairs) and service headquarters locations in Washington, D.C., and at the Army Reserve Personnel Center in St. Louis, Missouri. We conducted our review from May 1989 to February 1990 in accordance with generally accepted government auditing standards.

As you know, the head of a federal agency is required by 31 U.S.C. 720 to submit a written statement on actions taken on recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of the report to the appropriate congressional committees; the Secretaries of the Army, Navy, and Air Force; the Director, Office of Management and Budget; and other interested parties. We will also make copies available to others upon request.

Major contributors to this report were William E. Beusse, Assistant Director, Robert T. Bontempo, Evaluator-in-Charge, and William J. Rigazio, Senior Evaluator.

If you need further information, please call me on (202) 275-3990.

Sincerely yours,



Paul L. Jones
Director, Defense Force Management Issues

Comments From the Department of Defense



ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301

RESERVE AFFAIRS

JUN 29 1990

Mr. Frank C. Conahan
Assistant Comptroller General
National Security and International
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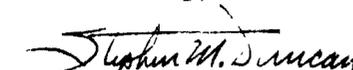
Dear Mr. Conahan:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, entitled "RESERVE FORCES: Opportunity to Reduce Pension Costs," May 18, 1990 (GAO Code 391109/OSD Case 8346).

The Department generally concurs with the report findings and the recommendation. Action is underway to (1) restate the existing policy, (2) verify the status of these individuals the GAO determined should be placed in an inactive status, and (3) establish procedures for the periodic verification of compliance with the policy.

The DoD detailed comments on the report findings and recommendation are provided in the enclosure. The Department appreciates the opportunity to comment on this GAO draft report.

Sincerely,


Stephen M. Duncan

Enclosure
As Stated

GAO DRAFT REPORT - DATED MAY 18, 1990
(GAO CODE 391109) OSD CASE 8346

"RESERVE FORCES: OPPORTUNITY TO REDUCE PENSION COST"

DEPARTMENT OF DEFENSE COMMENTS

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FINDINGS

FINDING A: Members of the Ready Reserve Inappropriately Receiving Additional Retirement Credits. The GAO reported that, in FY 1989, the military reserve forces retirement system cost \$1.4 billion. The GAO found that members of the Ready Reserve who have the years of service to retire but have not reached retirement age are being permitted to continue their membership and earn additional credits, which are used to calculate retired pay. The GAO pointed out that this is being done despite DoD policy that requires Reservists to maintain a minimum level of participation or be transferred to an inactive status, where they cannot earn additional retirement credits or to the Retired Reserve. The GAO reported that as of September 30, 1989, about 7,600 Reservists had earned less than the required 50 retirement points in each of the two most recent service years, yet in total received 145,000 retirement points in the most recent service year, which will translate to additional pay to the individual and cost the government about \$7 million in long-term retired pay. The GAO observed that, according to applicable DoD Directive 1200.15, Reservists who are qualified for retirement but have not reached age 60 and have not earned 50 points per year, are required to be transferred to inactive status--where they are no longer eligible to earn retirement points. The GAO also found that, in some components, the average number of retirement points received by Reservists was not much greater than the 15 gratuitous membership points, indicating that the personnel are essentially inactive. The GAO concluded that the liability for future retirement pay has been increased because Ready Reserve members receiving less than 50 retirement points a year were not placed in an inactive status, as required by DoD Directive 1200.15. (The GAO noted that DoD officials agreed that such members should be transferred to inactive status and corrective actions were being initiated.) (pp. 1-6, p. 11/GAO Draft Report)

DOD COMMENT: Concur. While the data from the Reserve Component Common Personnel Data System reviewed by the GAO indicates that 7,600 retirement eligible reservists had accrued less than the required 50 points, it could include a significant number of Reservists, who accrued the minimum annual requirement, but for whom all retirement points have not been entered into automated systems. Action is underway to verify the information and to transfer those members who did not meet the required minimum.

Now on pp. 1-5.

Now on p. 3.

FINDING B: Army Individual Ready Reservists. The GAO reported that, at the time DoD Directive 1200.15 was temporarily suspended in 1980, the Army deleted all minimum point requirements from its regulations and did not reinstate them when the temporary suspension expired. The GAO found that about 3,700 Army Individual Ready Reservists with less than 50 points in the most recent two consecutive years inappropriately received about 64,000 retirement points--which could increase retirement costs by about \$3 million. The GAO also found about 1,300 Army Selected Reservists who inappropriately received about 31,000 retirement points, which could increase retirement costs by about \$1.8 million. The GAO reported that Army officials agreed that they should comply with the DoD Directive and the Army Reserve Personnel Center had been directed to develop the necessary procedures to implement the DoD Directive. (pp. 6-7/GAO Draft Report)

DOD COMMENT: Concur.

FINDING C: Army National Guard. The GAO reported that the Defense Manpower Data Center showed about 1,700 Army National Guard Reservists who earned less than 50 participation points in their most recent of two consecutive years inappropriately received about 34,800 retirement points--which could increase retirement costs by about \$1.5 million. The GAO reported that the Army National Guard expressed firm belief that most of these members had earned the required 50 points, but that the States were simply delinquent in reporting the data to the Army National Guard Personnel Center. The GAO also reported that Guardsmen who have not earned the 50 retirement points each year are routinely removed from the Army National Guard by applying Army regulations that require minimal drill attendance and consideration by 20-year retirement boards. The GAO also noted that, by May 1990, the Guard planned to have completed a 100 percent verification of Guardsmen reported to have earned less than the required 50 points. (pp. 7-8/GAO Draft Report)

Now on p. 4.

DOD COMMENT: Concur. Fifteen percent of Army National Guard records identified by the GAO have been reviewed and all members were found to have earned the minimum annual points for retirement credit. The verification process of all identified records will be completed by the end of Fiscal Year 1990.

FINDING D: Navy Individual Ready Reserve. The results of the verification conducted by the National Guard indicate that the GAO reported that the Navy only partially applied the DoD Directive for officers in 1984 and again in November 1988. The GAO noted that, since 1988, the Navy has transferred about 900 officers from the Individual Ready Reserve to the Standby Reserve under the 50-point rule. The GAO found, however, that according to Defense Manpower Center information, about 700 members of the Navy Individual Ready Reserve still did not meet the requirements of the DoD Directive as of September 30, 1989.

Now on pp. 4-5.

The GAO reported that those Reservists had earned about 12,200 retirement points--which could increase retirement costs by about \$700,000. The GAO noted that the Navy agreed to comply with the Directive and to screen not only officers for noncompliance with the 50-point rule, but also warrant officers and enlisted personnel. (pp. 8-9/GAO Draft Report)

DOD COMMENT: Concur

Now on p. 5.

FINDING E: Air Force Individual Ready Reserve. The GAO reported that the Air Force incorporated the DoD Directive into its regulations and, to a large extent, has been following the regulations. The GAO found, however, that the Defense Manpower Data System showed about 140 members of the Air Force Ready Reserve who had earned less than 50 points for two consecutive years but who had not been transferred. The GAO noted that, as a result, those Reservists inappropriately earned about 2,700 retirement points in their most recent year. The GAO observed that these points could increase retirement costs by about \$100,000. The GAO reported that Air Force Reserve officials directed the Air Reserve Personnel Center to develop procedures to identify all retirement-eligible Air Force Reservists earning less than 50 points and to transfer them to an inactive status. (pp. 9-10/GAO Draft Report)

DOD COMMENT: Concur

Now on p. 5.

RECOMMENDATION

RECOMMENDATION: The GAO recommended that the Secretary of Defense monitor and enforce Service compliance with DoD Directive 1200.15--which provides that any member eligible for retirement who earns less than 50 points in one year be transferred to an inactive status. (pp. 11/GAO Draft Report)

DOD COMMENT: Concur. The DoD is in the process of revising DoD Directive 1200.15. The revision should be completed by the end of CY 1990. The requirement to earn a minimum of 50 points annually or be transferred to an inactive status will remain in effect. Following this restatement of the policy, the Office of the Assistant Secretary of Defense for Reserve Affairs will conduct a periodic screening of the Reserve Components Common Personnel System data base to track compliance.

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