September 2004

MILITARY PERSONNEL

DOD Needs More Data Before It Can Determine if Costly Changes to the Reserve Retirement System Are Warranted
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What GAO Found

The active duty and reserve component retirement systems require 20 years of service for vesting, provide annuities that are based on 2.5 percent of basic pay for every creditable year served, and offer options to participate in the government’s Thrift Savings Plan. Active duty members receive an immediate annuity upon retirement based on pay rates in effect on the date of retirement. Eligible reservists must wait until their 60th birthday to receive an annuity. The annuity of retired reservists who remain subject to recall is based on pay rates in effect when they reach their 60th birthday.

Current data do not provide DOD with the information it needs to determine what changes, if any, to the reserve retirement system are needed. DOD has not established thresholds for attrition attributable to retirement and, without thresholds, it is not possible to assess the extent to which DOD is retaining the desired numbers of senior reservists or the extent to which retirement benefits influence decisions to leave or stay in the reserves. Nevertheless, GAO’s analysis of DOD data for selected periods when reservists were deployed shows that the overall makeup of the reserve force by years of service, age, and pay grade has remained relatively even and that overall reserve retention rates, to date, have remained relatively stable. DOD has, however, identified certain high-demand occupational specialties, such as military police, where retention rates have decreased. While these cases do not necessarily suggest that uniform retirement reform is required, they do suggest that targeted corrective actions of some sort may be needed.

The estimated cost of lowering the age of receipt, coupled with an associated increase in retiree health care costs, is significant and considering the fact that military basic pay will continue to grow and health care costs will continue to rise, the longer-term cost will be significant. Importantly, all reservists—not just the minority of reservists who have deployed to recent operations—would be covered under this change. In addition, reservists who are experiencing increased deployments may not be the beneficiaries of a reduction in the age of receipt, given that only one in four reservists currently stays in the reserves long enough to retire. Finally, DOD has not studied changes to the reserve retirement system in the context of the total force. Changes, if not evaluated from a total force perspective, could result in a significant increased cost with little or no benefit and may produce unintended consequences on DOD’s active duty forces.

<table>
<thead>
<tr>
<th>Increased costs</th>
<th>Immediate annuity</th>
<th>Age 55</th>
<th>Age 53 on a sliding scale</th>
<th>Age 55 on a sliding scale</th>
<th>Age 55 with reduced annuity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirement fund</td>
<td>$20.45</td>
<td>$7.60</td>
<td>$2.88</td>
<td>$2.88</td>
<td>$3.59</td>
</tr>
<tr>
<td>Health care</td>
<td>$14.24</td>
<td>$6.03</td>
<td>$2.49</td>
<td>$2.39</td>
<td>NA</td>
</tr>
<tr>
<td>Total</td>
<td>$34.69</td>
<td>$13.63</td>
<td>$5.37</td>
<td>$5.27</td>
<td>$3.59</td>
</tr>
</tbody>
</table>

Source: GAO analysis of DOD data.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Derek B. Stewart at (202) 512-5559 or stewartd@gao.gov.
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September 15, 2004

The Honorable John W. Warner  
Chairman  
The Honorable Carl Levin  
Ranking Minority Member  
Committee on Armed Services  
United States Senate

The Honorable Duncan Hunter  
Chairman  
The Honorable Ike Skelton  
Ranking Minority Member  
Committee on Armed Services  
House of Representatives

Over the past decade, the Department of Defense (DOD) has increasingly relied on members of the National Guard and Reserve to carry out its military operations domestically and abroad. At the end of fiscal year 2003, DOD had 1.2 million reservists.¹ Since September 11, 2001, DOD has called more than 335,000 reservists to active duty, and reservists will continue to serve a large critical role in the Global War on Terrorism.

Congress has focused attention on the fair treatment of reserve component personnel as compared to their active duty counterparts. For example, in recent years Congress has improved health care benefits not only for reservists but for their families as well.² Currently, several legislative proposals are under consideration to change the reserve retirement benefit that would lower the age when eligible reservists can receive their annuities.

¹ For the purpose of this report, the term reserve component, or reservists, refers to the collective forces of the Army Reserve, the Army National Guard, the Naval Reserve, the Air Force Reserve, the Air National Guard, and the Marine Corps Reserve.

House Report 107-436 accompanying the Fiscal Year 2003 National Defense Authorization Act\(^3\) directed us to review, among other things, DOD’s reserve component retirement system.\(^4\) We assessed (1) DOD’s reserve retirement system as compared with certain aspects of the active duty retirement system, (2) the extent to which DOD data suggest that changes to the reserve retirement system may be warranted from a workforce management perspective, and (3) the potential costs and effects of legislative proposals that address reserve retirement reform.

A number of factors need to be considered when assessing the need for reserve retirement reform. Among them are the provisions of the active duty retirement system, the magnitude of any problems—from a workforce management and retention perspective—that changes to the reserve retirement system might potentially foster, other factors such as costs to fund the retirement system and the health care benefits afforded to retired reservists,\(^5\) and the impact on the active duty forces. Any proposed changes that would permanently expand benefits should also be considered in the context of the serious fiscal challenges facing this country. The long-term fiscal pressure created by the known demographic trends and rising health care costs, combined with increased homeland security and defense commitments, and moreover, the gap between the estimated costs of DOD’s transformation needs and likely budgetary resources, sharpen the need to carefully scrutinize the longer-term costs and implications before these changes are enacted into law. For fiscal year 2004, DOD estimates that it will need approximately $15.1 billion to fund its current reserve component retirement system.

To conduct our review, we reviewed DOD reserve retirement policies and studies conducted by DOD and others that address reserve retirement


\(^5\) Currently, retired reservists are eligible to participate in DOD’s managed health care system when they reach age 60. Four legislative proposals would reduce the age of eligibility.
issues. We also collected and analyzed attrition data contained in DOD’s Reserve Components Common Personnel Data System as well as attrition and cost data from the Office of the Assistant Secretary of Defense for Reserve Affairs and the Office of the DOD Actuary. We reviewed three points in time—1991, 1997, and 2003—because these three points represent key periods when reservists were called to active duty to support military operations. These included Operations Desert Shield/ Desert Storm, military operations in the Balkans and Southwest Asia, and current operations in Iraq and Afghanistan. In addition, we analyzed the results of recent DOD web-based career satisfaction surveys that were administered to reservists in each of the components. Based on our review of databases we used, we determined that the DOD-provided data were reliable for our purposes. Finally, we interviewed officials in the Office of the Assistant Secretary of Defense for Reserve Affairs, the Office of the DOD Actuary, the DOD Office of the Assistant Secretary for Health Affairs, and DOD’s six reserve components—the Army Reserve, the Army National Guard, the Naval Reserve, the Air Force Reserve, the Air National Guard, and the Marine Corps Reserve. We conducted our review from November 2003 through July 2004 in accordance with generally accepted government auditing standards. Further information on our scope and methodology appears in appendix I.

The reserve component retirement system encompasses many of the aspects of the active duty retirement system, yet each system has certain unique provisions. For example, both systems require a minimum of 20 years of service for vesting and eligibility for retirement benefits, provide retirement annuities that are based on 2.5 percent of basic pay for every creditable year served, and offer opportunities to participate in the federal government’s Thrift Savings Plan. The primary differences between the two systems are the age when active duty and reserve personnel receive their annuities and the effective pay rates that are used to calculate annuities. Eligible active duty military members receive an immediate annuity upon retirement that is based on pay rates in effect on the date of retirement. Eligible reservists must wait until age 60 to receive an annuity. The annuities of retired reservists who remain subject to recall are based on pay rates that are in effect when reservists reach their 60th birthday and, accordingly, their retirement is calculated at these higher pay rates.

Current available data do not provide DOD with the information it needs to determine what changes, if any, to the reserve retirement system are warranted. While DOD has established enlisted personnel attrition ceilings as a performance metric for each of its six reserve components, it has not...
established attrition ceilings for its reserve officers. In addition, it has not established thresholds for attrition attributable to retirement. For example, almost 18,000 reservists, representing 2.1 percent of DOD’s selected reservists, retired from reserve duty in fiscal year 2003. Without thresholds or targets, however, it is not possible to assess the extent to which DOD is retaining the desired numbers of senior military members or to what extent retirement provisions influence decisions to leave or stay in the reserves. Furthermore, some retention rates may be artificially high because, at various times since September 11, 2001, DOD has implemented “stop loss” policies that have precluded servicemembers—both active and reserve—from separating from military service. Of all the services, the Army has made the greatest use of the stop loss policy. Nevertheless, our analysis of various DOD data for selected periods of time when reservists were called to active duty to support military operations reveals that the overall composition of the reserve force by years of service, age, and pay grade has remained relatively even and that DOD has not experienced significant declines in any of these variables. Similarly, departmentwide reserve retention rates for fiscal years 1991 through 2003 remained relatively stable, fluctuating between 76.5 and 82.9 percent, and the reserve components generally met their retention thresholds for enlisted personnel in recent years. In fiscal year 2003, for example, all components met their thresholds, with the exception of the Army National Guard and the Air National Guard who missed their thresholds by less than 1 percent. DOD has, however, identified certain high-demand occupational specialties where retention rates have decreased. While these cases do not necessarily suggest that uniform retirement reform is required, they do suggest that targeted corrective actions of some sort may be needed. For example, the retention rate for the military police within the Army Reserve dropped from approximately 67 percent in fiscal year 2000 to 49 percent in fiscal year 2003. Similarly, retention rates decreased for Army National Guard members in aviation—dropping from 80 percent to approximately 30 percent in fiscal year 2002. Finally, recent responses by reservists to surveys administered DOD-wide reflect these retention statistics. Responses to questions about career intention indicated that most reservists intended to continue their service in the reserves. For example, in the most recent survey available—September 2003—67.3 percent of the reservists who responded to the survey indicated that they would continue in the reserves and noted that reserve retirement was one reason for joining the reserves. However, only 52.6 percent of respondents in the Army National Guard and 53.5 percent of respondents in the Army Reserve, who were or had been called to active duty, indicated that they would stay in the Guard or Reserves.
The estimated cost of current legislative proposals to change the reserve component retirement system is significant and will have a number of associated effects. First, the estimated cost of lowering the age of receipt, from age 60 to as low as 53 with limitations—or, in some cases, lower—will be significant, given that all reservists who qualify for retirement—and not just the minority of reservists who have deployed to recent contingency operations—would be covered under this change. Based on DOD data, our cost estimates of current legislative proposals are substantial, projecting that the cost of reserve retirement will increase from about $3 billion to over $20 billion, depending on the proposal, over the next 10 years. The Congressional Budget Office had not estimated the cost of the retirement benefit for all five legislative proposals at the time of our review. When associated health care costs are factored in, the total projected cost increase ranges from over $3 billion to almost $35 billion. Considering the fact that military basic pay will continue to increase and health care costs will continue to rise, the longer-term cost will continue to be significant. Second, lowering the age of receipt will align the reserve retirement system more closely with the active duty retirement system, but this change may not affect reservists who are experiencing increased deployments and associated hardships. Many of these reservists are not likely to be the beneficiaries of a reduction in the age of receipt of annuity, given that only one in four reservists currently stays in the reserves long enough to become eligible for retirement. Third, retirement is only one human capital management tool available to DOD’s workforce managers to compensate servicemembers for hardships experienced during their careers. For example, DOD has several special pays and allowances it can use to compensate deployed servicemembers, such as hazardous duty pay and family separation allowances. In addition, Congress has approved, but DOD has yet to implement, a special allowance for military personnel who experience frequent and/or long duration deployments. Fourth, DOD has recently identified a need to rebalance the reserve and active duty forces to reduce the stress on certain high-demand occupations. Better use of these human capital management tools can help DOD address the issues of equity and the increased use of reservists in military operations. Finally, DOD has not yet studied changes to the reserve retirement system in the context of the total force, even though these changes could have unintended consequences on DOD’s active duty forces. For example, if the reserve retirement system were changed to offer an immediate annuity after 20 years of creditable service, some personnel who have made career decisions to remain in active duty until retirement might be inclined to leave active duty and apply to serve their remaining time in a reserve component.
This report contains recommendations that DOD (1) specify desired metrics for measuring the attrition rates of senior officer and enlisted reservists who are approaching retirement eligibility and, therefore, are most likely to be affected by changes to DOD’s reserve retirement system; (2) determine if gaps exist between the desired and actual rates of attrition; (3) identify changes, if any, to the current reserve retirement system that would address these gaps, to the extent that they exist; and (4) evaluate any changes to the reserve retirement system in the context of the total force. In written comments on a draft of this report, DOD stated that it concurred with each of the four recommendations.

**Background**

DOD has relied on its reserve forces to varying degrees over time. Reserve personnel are eligible to receive compensation the same as that of active duty personnel when called to active duty.

**Dependence on Reserves in Military Operations**

Since the end of the Cold War, there has been a shift in the way DOD has used its reserve forces. Previously, reservists were viewed primarily as an expansion force that would supplement active forces during a major war. DOD has since moved occupational specialties that are key to conducting any military operation into the reserve forces and, therefore, increasingly relies on reservists not only to supplement but also to replace active forces in military operations worldwide. Accordingly, DOD has called more than 335,000 reservists to active duty since September 11, 2001. Today’s increased reliance on the reserve components is a product of a number of factors: evolving total force policies, effects of force downsizing, increasing mission demands, and the Abrams Doctrine. In the aftermath of the Vietnam War, former Chief of Staff of the Army General Creighton Abrams asserted his belief that U.S. armed forces should not go to war again without the involvement of the National Guard and Reserve, given that decisions to employ reservists would reflect the national intent of the public. This philosophy became known as the Abrams Doctrine, and it has profoundly influenced DOD’s national defense strategies and plans. In fact, and as pointed out in the Fiscal Year 2002 Annual Report of the Reserve Forces Policy Board, DOD entered into the Global War on Terrorism dependent on the reserve components as the cumulative effect of 30 years of adherence to the Abrams Doctrine. In the Global War on Terrorism, the

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reserve components are considered full partners, providing nearly one-half of the personnel who currently comprise the total force. The Reserve Forces Policy Board cautioned that if DOD retains this doctrine, reserve forces will be committed for the duration of military operations and used and stressed as never before, adding that appropriate adjustments will be necessary to spread the burden and provide for the long-term sustainability of the force.

Composition of the Reserve Forces

At the end of fiscal year 2003, DOD had approximately 1.2 million Guard and Reserve members in the Ready Reserve. Within the Ready Reserve, there are three subcategories, the Selected Reserve, the Individual Ready Reserve, and the Inactive National Guard. Figure 1 shows how the Ready Reserve is organized.

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7 The Individual Ready Reserve is comprised principally of individuals who (1) have had training, (2) have served previously in an active component or the Selected Reserve, and (3) have some period of their military service obligation remaining. Members may voluntarily participate in training for retirement points and promotion with or without pay. Within the Individual Ready Reserve, there is a special category of members who have volunteered to be called to active duty under 10 U.S.C. 12304 when needed.

8 The Inactive National Guard consists of National Guard personnel in an inactive status in the Ready Reserve who are attached to a specific National Guard unit. To remain in the Inactive National Guard, members must muster once a year with their assigned unit, but they do not participate in training activities. Inactive National Guard members may not train for points or pay and are not eligible for promotion.
The Selected Reserve consists of reservists who serve in Selected Reserve units, as Individual Mobilization Augmentees, as active Guard and Reserve members, and as full-time support assets, such as military technicians. DOD’s selected reservists serve in one of six reserve components: the Army Reserve, the Army National Guard, the Naval Reserve, the Air Force Reserve, the Air National Guard, and the Marine Corps Reserve. The Army National Guard and the Air National Guard comprise what is known as the National Guard. As of fiscal year 2003, the Selected Reserve had a total number of 875,072 members. All selected reservists are subject to being

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9 Individual Mobilization Augmentees are trained individuals assigned to an active component, Selective Service System, or Federal Emergency Management Agency organization’s billet, which must be filled on or shortly after mobilization. Individual Mobilization Augmentees participate in training activities on a part-time basis with an active component unit in preparation for recall in a mobilization. The inactive duty training requirement for Individual Mobilization Augmentees is decided by DOD component policy and can vary from 0 to 48 drills a year. A minimum of 12 days of annual training is required of all Individual Mobilization Augmentees.

10 Active Guard and Reserve personnel are members of the Selected Reserve who are ordered to active duty or full-time National Guard duty for the purpose of organizing, administering, recruiting, instructing, or training the reserve component units. All Active Guard and Reserve members must be assigned against an authorized mobilization position in the unit they support. Units include the Navy Training and Administration of Reserve, and the Marine Corps Active Reserve programs.

11 Military technicians—who provide full-time support to the reserve components—concurrently serve as civilian employees and selected reservists and receive retirement annuities from both the federal civilian retirement system and the military reserve retirement system.
called to active duty before reservists in any of the other reserve categories. The President has the authority to order up to 200,000 selected reservists to active duty involuntarily for any operational mission—for not more than 270 days—without declaring a national emergency. Therefore, reservists must be prepared to report for active duty within 24 hours.

The purpose of each selected reserve component is to provide trained units and qualified persons available for active duty in the armed forces in times of war or national emergency, and at such other times as the national security may require, to fill the needs of the armed forces whenever needed. The National Guard is unique in that it has dual missions, both federal and state; when not in federal service, the Guard is available for use as provided by the constitution and laws of the state. The Guard is the only military force immediately available to a governor in times of emergency, including civil unrest and natural or manmade disasters. Under state law, the Guard provides protection of life and property and preserves peace, order, and public safety.

Reliance on Guard and Reserve members varies from service to service. Figure 2 shows that, in fiscal year 2003, 53 percent of the Army’s soldiers served in the Army National Guard or the Army Reserve and that 33 percent of Air Force military personnel served in the Air National Guard and the Air Force Reserve. Figure 2 also shows that the percentage of personnel serving in the Naval and Marine Corps Reserves was less than 20 percent for both components.
In 1948, Congress passed the Army and Air Force Vitalization and Retirement Equalization Act—which established the reserve retirement system—because it believed that reservists did not receive sufficient salary as an incentive for a career and that, as reservists approached mid-career, they would leave reserve service unless an additional incentive were offered to them. Congress established a retirement annuity, receivable at age 60 upon completion of at least 20 years of service, to provide them with this additional incentive. The sole purpose of reserve retirement is to provide a monetary incentive for qualified reserve personnel to retain membership in the reserve components and continue their training. This incentive provides the reserves with a pool of skilled, trained, and readily available personnel to augment active duty forces in times of national emergency. The reserve retirement system has remained essentially unaltered since enactment in 1948. The Assistant Secretary of Defense for Reserve Affairs, under the Office of the Under Secretary of Defense for Personnel and Readiness, is responsible for DOD’s reserve
retirement policy, and the reserve retirement system is funded through DOD’s reserve military personnel appropriations.

Reservists are currently entitled to a range of pay and benefits, depending on whether they are serving in part-time drilling or activated full-time duty status. When in normal part-time drilling status, reservists receive basic pay\textsuperscript{13} on a prorated basis and are entitled to such benefits as unlimited access to commissaries, certain health care benefits, educational benefits, and life insurance. Reservists activated for contingency operations are eligible to receive the same compensation and benefits as active duty personnel.\textsuperscript{14} While serving on active duty, reservists are entitled to basic pay and special pays and allowances at equivalent rates for active duty personnel and full health care benefits for themselves and their dependents.

By law, DOD is required to undertake a comprehensive review of military compensation every 4 years, and DOD compiles the findings and recommendations of these reviews into a report known as the Quadrennial Review of Military Compensation. In 1986, DOD was tasked by the President to perform an evaluation of the benefits and costs of reserve compensation. The resulting Sixth Quadrennial Review of Military Compensation was the first comprehensive review of reserve compensation that employed analytical models to assess the effects of the existing reserve compensation system and evaluate the costs and benefits of alternatives. The most recent quadrennial review assessed the effectiveness of current military compensation policies in recruiting and retaining a high-quality force. The Ninth Quadrennial Review of Military Compensation was conducted in 2002.

\textsuperscript{13} Basic military compensation consists of basic pay, basic allowance for housing, basic allowance for subsistence, and the federal tax advantage. The federal tax advantage is to account for the tax-free status of housing and subsistence allowances. It is the added amount of taxable income that servicemembers would have to receive in cash if housing and subsistence allowances were to become taxable in order for them to be as well off in after-tax income as they are under the existing system. Basic compensation does not include special and incentive pays and other allowances, such as deployment pays.

\textsuperscript{14} For a listing of benefits, see Military Personnel: Active Duty Benefits Reflect Changing Demographics, but Opportunities Exist to Improve, GAO-02-935 (Washington, D.C.: Sept. 18, 2002).

\textsuperscript{15} 37 U.S.C. 1008(b).
Both active duty and reserve component retirement systems operate under the same military compensation principles. Differences exist between them because the reserve retirement system was not intended to be comparable to active duty retirement when it was created in 1948. Similarities between the systems include a minimum of 20 years of service for vesting and eligibility for retirement benefits, a calculation of retirement pay at 2.5 percent of basic pay for every creditable year served, and an opportunity to participate in the federal government’s Thrift Savings Plan. The primary differences between the two systems are (1) the age when active duty and reserve personnel receive their annuities and (2) the effective pay rates that are used to calculate annuities. An eligible active duty military member receives an immediate annuity upon retirement that is based on pay rates in effect on the date of retirement. An eligible reservist must wait until age 60—the age at which federal civilian employees could retire in 1948—to receive an annuity. Retired reservists who remain subject to recall receive an annuity that is based on pay rates in effect when they reach age 60, and, accordingly, the retirement is calculated at these higher pay rates. Table 1 shows various retirement provisions that are available to active duty and reserve personnel.

### Table 1: Availability of Retirement Provisions

<table>
<thead>
<tr>
<th>Retirement provisions</th>
<th>Annuity after 20 years of service</th>
<th>Annuity based on 2.5 percent of creditable years of service</th>
<th>Receipt of annuity upon retirement</th>
<th>Receipt of annuity at age 60</th>
<th>Annuity based on effective basic pay rates at date of discharge</th>
<th>Annuity based on higher effective basic pay rates at age 60</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active duty personnel</td>
<td>X</td>
<td>X*</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Reserve personnel</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

Source: GAO.

* DOD has the authority to offer matching funds to active duty members serving in critical occupations but had not exercised this authority as of July 2004. See 37 U.S.C. 211(d).

* An option exists for reservists to separate entirely from the reserves upon completing 20 years of qualifying service. Those reservists who select this option are no longer subject to being called to active duty. However, their retirement annuities, which they do not receive until age 60, are based on pay rates that were in effect at the date of separation from the service.
The active duty and reserve component retirement systems contain many of the same aspects, but they were not intended to be the same. Similarities between the retirement systems are due to the fact that the underlying principles for both retirement systems are the same. The purpose of the military compensation system—of which retirement is one part—is to attract, retain, and motivate the number of quality personnel needed to maintain the desired level of national security. DOD has said that the military retirement systems—both active duty and reserve—should support and complement force management requirements (e.g., youth, vigor, and career development opportunities); be integrated into the military compensation system; and be structured to replace and maintain income for retirees. Both retirement systems have the shared purpose of maintaining a pool of skilled, trained, and readily available personnel subject to recall during time of war or national emergency.

Differences between the retirement systems exist, however, because the reserve retirement system was originally intended to compensate civilian reserve retirees differently than active duty retirees. The active duty retirement system, which was created in the mid-1800s, was originally intended to provide for the separation of older officers with over 40 years of service to obtain a youthful and vigorous officer force, and improve promotion opportunities for younger officers. This active duty retirement system has been substantially modified over time. For example, the provision enabling active duty military personnel to retire after 20 years was first introduced in 1915. More than 30 years later, the 20-year provision was adopted for all active duty officers and enlisted personnel in all services. When the reserve component retirement system was created in 1948, Congress and the War and Navy Departments did not intend that it should be comparable to the active duty retirement system. In contrast, the purpose of the reserve retirement system was to improve retention, as opposed to encouraging attrition, by providing a financial incentive for qualified personnel to maintain their reserve affiliation and continue training in the reserves. Establishing age 60—the age at which federal civilian employees could retire in 1948—as the age at which reservists would be eligible to receive retirement annuities provided a mechanism to retain reservists for a longer period of time while compensating civilian reserve retirees differently than active duty retirees.\footnote{In 1967, Public Law 90-83, Sec. 1(75) created an entitlement for federal civilian employees to receive an annuity at age 55 with 30 years of service or at age 60 with 20 years of service.}
The Active Duty and Reserve Component Retirement Systems Have Similar Features

Both the active duty and the reserve component retirement systems require 20 years of service for vesting and benefit eligibility. The fact that neither the active duty nor the reserve component retirement system provides for reduced annuities if personnel serve less than 20 years provides a strong incentive for servicemembers to either leave the military after serving only a few years or stay in the military for 20 years or longer. For active duty members, each year of service counts as a qualifying year for retirement purposes. Reservists must earn a minimum of 50 points, each year, for the year to qualify for retirement purposes. Reservists typically train one weekend each month and earn 4 points for each weekend (two drills per day). In addition, they earn 1 point for each day of annual active duty training (typically 12 points for a 2-week period) and an additional 15 points annually for being a member of a reserve unit. Reservists earn an additional point for each day that they are called to serve on active duty. Between fiscal year 1992 and fiscal year 2001, reservists earned, on average, 64 retirement points per year. In fiscal year 2003, reservists earned, on average, 138 retirement points. The increase is likely due to the number of reservists who were called to active duty. Appendix II provides a more detailed discussion of the reserve retirement points system.

Generally speaking, both retirement systems apply a rate of 2.5 percent to the number of creditable years served and then apply this rate to servicemembers’ basic pay to determine retirement annuities.¹⁷ In the case of reserve personnel, the number of creditable years served is, essentially, a prorated number of calendar years of service. (Specifically, reserve years of creditable service are calculated by dividing a reservist’s accumulated retirement points by 360—roughly, the number of days in a year.) Typically, current active duty servicemembers who retire after serving 20 years on active duty receive retirement annuities that are equivalent to 50 percent of average basic pay over their last 3 years of service. Current active duty servicemembers who retire after serving 30 years on active duty receive retirement annuities that are equivalent to 75 percent of their...
final basic pay.\textsuperscript{18} In contrast, current reserve members who retire after serving all 20 years in the reserves, and who earn only the minimum 50 required points in each of those years, would receive annuities that will be equivalent to approximately 7 percent of basic pay. Most reservists, however, earn more than 50 points each year. Reservists can apply a maximum of 90 points each year toward their retirement calculation—earned from their weekend drills and annual 2-week period of active duty training—but can apply up to 365 points each year if they are called to active duty. Reservists who are called to active duty will earn more points, which will translate into a higher retirement annuity, if they serve their full 20 years. In addition, many reservists previously served some time on active duty before affiliating with one of the reserve components. Therefore, while their retirement annuities will be significantly less than the annuities of their active duty counterparts, the annuities of retired reservists who served on active duty at points during their careers will be greater than 7 percent of basic pay.

Beginning in fiscal year 2001, both active duty and reserve personnel became eligible to participate in the federal government’s Thrift Savings Plan on a voluntary basis. The Thrift Savings Plan is a tax-deferred savings and investment plan only available to currently employed federal government employees and provides active duty and reserve servicemembers the opportunity to contribute additional funds to their retirement. Service secretaries have the legislative authority, if they choose, to provide matching funds for active duty personnel in critical military occupational specialties, but not for reservists. Agency officials frequently cite monetary recruitment and retention incentives as effective for hard-to-fill positions.\textsuperscript{19} To date, the service secretaries have not used this human capital flexibility for any active duty military personnel.

\textsuperscript{18} An active duty servicemember has the option of retiring under an alternative retirement system, known as REDUX, which reduces the percentage factor of 2.5 percent—and, therefore, the amount of the annuity—for each year that a servicemember retires with less than 30 years of service. However, this alternative retirement system also provides a servicemember with a $30,000 bonus at 15 years of service. The system, which was made voluntary in fiscal year 2000, was designed to encourage longer-term retention by providing an incentive for servicemembers who complete 20 years of service, and who are otherwise eligible, to remain on active duty beyond 20 years.

The Main Differences between the Two Systems Are the Age of Receipt of Annuity and the Effective Pay Rates Used to Calculate Annuities

One significant difference between the active duty and reserve retirement systems is the age at which retirees receive their annuities. Active duty personnel immediately qualify for receipt of an annuity after 20 years of service, should they decide to retire, that compensates them for lost income potential. The Defense Science Board Task Force on Human Resources Strategy stated in a 2000 report that many, if not most, active duty retirees suffer a “second-career” earnings loss when transitioning to the civilian sector in their 40s or 50s and that immediate receipt of retirement pay reduces the financial penalty associated with the transition to a second career. As a result, the immediate annuity provides a strong incentive for active duty personnel to retire when eligible. Reservists similarly become eligible for retirement upon completing 20 years of service, but they are not eligible to receive an annuity until their 60th birthday—the age at which federal civilian employees could retire when the reserve retirement system was enacted. The incentive for reservists to separate once retirement eligibility is achieved is not as strong, given that their retirement annuity is delayed until they reach age 60.

A second significant difference between the two retirement systems is the basic pay rate that is used to calculate retirement annuities. Active duty retirement pay is based on basic pay rates that are in effect when active duty servicemembers retire. Reserve retirement pay is calculated differently, depending on retirement options that reservists select. Reservists who attain 20 years of qualifying service for retirement purposes and who elect to retire can, if otherwise eligible, (1) continue their affiliation in the reserves in a nondrilling status, (2) transfer to retired reserve status in which they retain their reserve affiliation but are not required to train, or (3) request a discharge. Reservists who continue their reserve affiliation in a nondrilling status do not drill or receive basic pay, but they can acquire additional retirement points. In addition, they remain subject to being involuntarily called back to active duty. Reservists who transfer to retired reserve status do not earn basic pay or additional retirement points. They are, however, also subject to being involuntarily called back to active duty. Retirement pay for reservists who retain some form of affiliation with the reserves, and who are subject to involuntary recall to active duty until they reach age 60, is based on pay rates that are in effect on the reservists’ 60th birthday. Accordingly, this provision

\[\text{Equation}\]

For example, reservists who are in a nondrilling status can earn additional retirement points by successfully completing correspondence courses.
creates an incentive for reservists to retain their affiliation with the reserves until age 60 in order to benefit from the calculation of their annuity at the higher pay rate. Reservists who request a discharge from the reserves once they become retirement eligible are not subject to being called back to active duty. They also do not receive their annuities until their 60th birthday, but their retirement annuities are derived from basic pay rates in effect at the date of discharge.

Current available data do not provide DOD with the information it needs to determine what changes, if any, to the reserve retirement system are warranted. While DOD has established enlisted personnel attrition ceilings as a performance metric for each of its six reserve components, it has not established attrition ceilings for its reserve officers. In addition, it has not established thresholds or targets for attrition attributable to retirement. In fiscal year 2003, for example, 2.1 percent of DOD’s selected reservists retired from reserve duty. Without thresholds or targets, it is not possible to assess the extent to which DOD is retaining the desired numbers of senior military members or the extent to which retirement provisions influence decisions to leave or stay in the reserves. Furthermore, some retention rates may be artificially high because, at various times since September 11, 2001, DOD has implemented “stop loss” policies that have precluded servicemembers—both active and reserve—from separating from military service. Of all the services, the Army has made the greatest use of this policy. Nevertheless, our analysis of various DOD data for selected periods of time when reservists were called to active duty to support military operations reveals that the overall composition of the reserve force by years of service, age, and pay grade has remained relatively even and that DOD has not experienced significant declines in any of these variables. Similarly, departmentwide reserve retention rates for fiscal years 1991 through 2003 remained relatively stable, fluctuating between 76.5 and 82.9 percent and the reserve components generally met their retention thresholds for enlisted personnel in recent years. In fiscal year 2003, for example, all components met their thresholds, with the exception of the Army National Guard and the Air National Guard who missed their thresholds by less than 1 percent. DOD has, however, identified certain high-demand occupational specialties where retention rates have decreased. While these cases do not necessarily suggest that uniform retirement reform is required, they do suggest that targeted corrective actions of some sort may be needed. For example, the retention rate for the military police within the Army Reserve dropped from approximately 67 percent in fiscal year 2000 to 49 percent in fiscal year 2003. Similarly, the retention rate decreased for Army National Guard
members in aviation, dropping from 80 percent to approximately 30 percent in fiscal year 2002. Finally, recent responses by reservists to surveys administered DOD-wide reflect these retention statistics. Responses to questions about career intent indicated that most reservists intended to continue their service in the reserves. For example, in the most recent survey available—September 2003—67.3 percent of all reservists who responded indicated that they would continue in the reserves and noted that reserve retirement was a reason for joining the reserves.

DOD does not have complete data to properly identify whether changes to the reserve retirement system are needed. Our prior work\footnote{GAO, Exposure Draft: A Model of Strategic Human Capital Management, GAO-02-373SP (Washington, D.C.: March 2002).} has shown that one of the critical success factors for strategic human capital management is the use of reliable data to make human capital decisions. A fact based performance-oriented approach to human capital management is crucial for maximizing the value of human capital as well as managing relative risks. Accordingly, DOD has established enlisted personnel attrition ceilings as a performance metric, for each of its six reserve components, which vary by component. For example, for fiscal years 2003 through 2005, the attrition ceilings range from a low of 12 percent in the Air National Guard to a high of 36 percent in the Naval Reserve. According to DOD, these ceilings represent the maximum number of losses deemed acceptable in a given fiscal year that are not to be exceeded. However, DOD has not established attrition ceilings for its reserve officers.\footnote{DOD prefers to measure attrition rates rather than retention rates, given that only a small portion of the reserve population is eligible for reenlistment during any given year. In assessing enlisted personnel retention trends in the reserve components, DOD computes enlisted personnel attrition rates against established annual targets by dividing total losses from a reserve component in a given fiscal year by the average personnel strength for that component in the same year.} An official within the Office of the Assistant Secretary of Defense for Reserve Affairs stated that DOD historical data indicate that military officers tend to be more career-focused than enlisted personnel. While on occasion there are some officer retention issues, DOD has generally found that long-term officer retention is more stable and higher than enlisted personnel retention. Consequently, DOD has not identified a need for establishing officer attrition ceilings.

Current Available Data Do Not Provide DOD with Complete Information

DOD does not have complete data to properly identify whether changes to the reserve retirement system are needed. Our prior work\footnote{GAO, Exposure Draft: A Model of Strategic Human Capital Management, GAO-02-373SP (Washington, D.C.: March 2002).} has shown that one of the critical success factors for strategic human capital management is the use of reliable data to make human capital decisions. A fact based performance-oriented approach to human capital management is crucial for maximizing the value of human capital as well as managing relative risks. Accordingly, DOD has established enlisted personnel attrition ceilings as a performance metric, for each of its six reserve components, which vary by component. For example, for fiscal years 2003 through 2005, the attrition ceilings range from a low of 12 percent in the Air National Guard to a high of 36 percent in the Naval Reserve. According to DOD, these ceilings represent the maximum number of losses deemed acceptable in a given fiscal year that are not to be exceeded. However, DOD has not established attrition ceilings for its reserve officers.\footnote{DOD prefers to measure attrition rates rather than retention rates, given that only a small portion of the reserve population is eligible for reenlistment during any given year. In assessing enlisted personnel retention trends in the reserve components, DOD computes enlisted personnel attrition rates against established annual targets by dividing total losses from a reserve component in a given fiscal year by the average personnel strength for that component in the same year.} An official within the Office of the Assistant Secretary of Defense for Reserve Affairs stated that DOD historical data indicate that military officers tend to be more career-focused than enlisted personnel. While on occasion there are some officer retention issues, DOD has generally found that long-term officer retention is more stable and higher than enlisted personnel retention. Consequently, DOD has not identified a need for establishing officer attrition ceilings.
Furthermore, DOD has not established similar ceilings for the subset of reserve attrition that can be attributed to retirement for officers or enlisted personnel. For example, 17,959 reservists, representing 2.1 percent of the Selected Reserve, retired from selected reserve duty in fiscal year 2003. Without ceilings or targets against which to measure attrition attributable to retirement, however, it is not possible to assess the extent to which DOD is retaining the desired number of senior reserve officer and enlisted personnel or to determine whether changes to the reserve retirement system are needed to manage the force. In other words, without targets, DOD cannot determine if 2.1 percent attrition due to retirement is desirable.

Identifying or establishing retirement goals would be beneficial to DOD for several reasons. First, retirement is a force-shaping tool. As we previously stated, the purpose of DOD’s retirement systems—both active and reserve—should support force management requirements (e.g., youth, vigor, and career development opportunities) in addition to replacing or maintaining income for retirees. Second, retirement policies provide the primary financial incentive available to those senior personnel most likely to be affected by retirement policies. According to DOD’s Sixth Quadrennial Review of Military Compensation, reserve retirement provisions begin to shape the retention decisions of military personnel with as little as 5 to 7 years of service, and the effect of these provisions on retention decisions gradually increases as servicemembers approach 20 years of service. This can be attributed, in part, to the fact that DOD’s retirement systems do not provide reduced annuities to members who serve less than 20 years. DOD officials have observed that the retirement incentive has a noticeable retention effect that begins at the 12th to 14th year of service. DOD assumes that most personnel who have more than 14 years of service have decided to make a career out of the military and will stay until they are eligible for retirement, and DOD data show that attrition rates decline as servicemembers approach 20 years of service. Accordingly, DOD does not offer retention bonuses to military members who have served 14 years or longer. Third, retirement is a very expensive force-shaping tool. As noted earlier, for fiscal year 2004, DOD estimates
that it will need about $15.1 billion to fund its current reserve retirement system.\textsuperscript{23}

Finally, DOD does not have the best data available to determine if changes are needed because it has implemented “stop loss” policies in recent years that have precluded servicemembers—both active and reserve—from separating from military service. As a result, retention rates may be artificially high. At various times since September 11, 2001, all of the services have employed stop loss policies for both active duty personnel and reservists at different times and in different ways. Stop loss policies include, but are not limited to, the following examples. The Air Force was the first service to use “stop loss” and invoked it for the entire Air Force between September 2001 and January 2002. The Navy soon followed by implementing stop loss for certain specialties between September 2001 and February 2002. The Marine Corps instituted stop loss for certain specialties beginning in December 20, 2001, and terminated all stop loss in May 2003. The Army began using stop loss in November 2001 and, as of the issuance of this report, the Army is the only service operating a stop loss policy.\textsuperscript{24} Many within and outside of DOD are concerned about the impact that lifting stop loss in the Army will have on attrition. While some fear that servicemembers will leave the military in great numbers, others encourage caution, suggesting that while a spike in attrition might occur, it would be prudent to wait to see if the spike is temporary or long lasting. It is important to note that a number of Army personnel affected by the stop loss policy had already planned to leave the service upon completion of their military obligation. Thus, some service members’ departure is simply delayed.

DOD should not only be able to measure the degree to which its retirement system is meeting its goals but also assess how well the retirement system helps the organization achieve its goals and pursue its

\textsuperscript{23} Until 1984, the amount appearing in the DOD budget under military retirement reflected the annual amount paid to current retired military personnel or their survivors. In 1984, Congress directed DOD to switch to an accrual method for accounting for military retirement in the budget process. (10 U.S.C. 1465(c).) An accrual method attempts, instead, to reflect the liability arising from future retirees in current budgets. This mechanism assumes that DOD will contribute a constant percentage of an individual servicemember’s pay annually to the accrual account.

\textsuperscript{24} Current Army policy prevents active and reserve component members from leaving the service from the time their unit is alerted until 90 days after their unit returns from active duty.
mission. This assessment would then enable DOD to determine if changes to its reserve retirement system are needed from a workforce management perspective. The fact that DOD has established attrition goals for its reserve enlisted personnel is helpful. However, establishing goals for the subset of attrition that is attributable to retirement would provide DOD with even more meaningful data. For example, if overall attrition remained constant but retirement attrition decreased, this trend could suggest that the attrition was occurring at earlier career points and that fewer servicemembers were deciding to make the military reserves a career. We have previously reported that high-performing organizations identify their current and future human capital needs and then create strategies for identifying and filling gaps. The types of data that can inform workforce planning efforts include, but are not limited to, the size and shape of the workforce, skills inventory, attrition rates, and projected retirement rates and eligibility. We previously testified that it is important to consider the impact of retirement on the age and experience distribution of the force, but that DOD lacked critical data needed to assess alternatives to the existing retirement system. DOD also testified that retirement benefits help shape the force by creating a reserve force with certain characteristics and a specific distribution of personnel by rank and years of service. However, officials in DOD’s Office of the Assistant Secretary of Defense for Reserve Affairs told us that they currently do not have any way to empirically measure the retention effects of the reserve retirement system. According to a 2001 study conducted for the 9th Quadrennial Review of Military Compensation, DOD should (1) assess whether the current skill, experience, and age composition of the reserves are desirable and, if not, what they should look like now and in the future and (2) develop an accession and retention model to evaluate how successful varying combinations of compensation and personnel management reforms would be in moving the reserves toward that preferred composition.

25 See GAO-02-373SP.
26 See GAO-03-549T.
Our analysis of DOD workforce profile data over three points in time—1991, 1997, and 2003—"for enlisted and officer reservists, by years of service, age, and pay grade, does not demonstrate that significant gaps have occurred in the reserve component workforce that might suggest that changes to the reserve component retirement system are warranted from a workforce management perspective. In fact, our analysis revealed that, on average, reserve enlisted personnel had more years of service and were slightly older in 2003 than in 1991. For example, the average years of service of reserve enlisted personnel was 1 to 3 years higher, for all components, in calendar year 1997 than it was in calendar year 1991 and, with the exception of the Marine Corps Reserve (which dropped by 1 year), the average years of service was the same at the end of calendar year 2003 as it was at the end of calendar year 1997. Correspondingly, the average age for all enlisted reservists was 1 to 3 years older in calendar year 1997 than in calendar year 1991. For the most part, average pay grades remained constant over the three points in time. Similarly, our analysis of reserve officers revealed that, on average, they also had more years of service and were slightly older in 2003 than in 1991. Their average pay grades remained constant across all components and points in time. More detailed force profile data are presented in appendix III.

In general, reservists had more years of service and were older than their active duty counterparts. In calendar year 2003, for example, reserve officer and enlisted personnel served an average of 17 and 11 years, respectively, compared to active duty officers and enlisted personnel, who served an average of 11 and 8 years, respectively. The average age of reserve officers was 40 in calendar year 2003, and the average age of active duty officers was 35. The average age of reserve enlisted personnel was 33 in calendar year 2003, and the average age of active duty enlisted personnel was 28. The average pay grade of reserve officers was O-3 in calendar year 1991 and O-4 in 1997 and 2003, while the average pay grade for active duty officers was O-3 in all three calendar years. The average reserve enlisted pay grade was E-5 in all three calendar years. The average active duty enlisted pay grade was E-4 in calendar year 1991 and E-5 in calendar years 1997 and 2003.

The three points in time—1991, 1997, and 2003—were selected because they coincided with major military events—Operations Desert Shield/Desert Storm, military operations in Southwest Asia and the Balkans, and current military operations in Iraq and Afghanistan, respectively.
Retention Rates Have Remained Fairly Constant Overall

An analysis of retention rates also did not indicate problems to suggest that changes to the reserve retirement system are needed. Retention of reservists between fiscal year 1991 and fiscal year 2003 remained relatively stable, fluctuating between 76.5 and 82.9 percent. Retention rates for reserve enlisted personnel were just slightly lower, fluctuating between 75.1 and 82.3 percent, and retention rates for officers were somewhat higher, ranging between 83.7 and 87.4 percent. Figure 3 shows reserve retention rates for officers, enlisted personnel, and all reservists from fiscal year 1991 through fiscal year 2003.

**Figure 3: Total DOD Reserve Component Retention Rates, and Retention Rates for Officer and Enlisted Reservists, Fiscal Years 1991 through 2003**

![Graph showing retention rates for officers, total DOD reserve component, and enlisted personnel from 1991 to 2003.](image)

In general, the reserve components met DOD-established thresholds for enlisted personnel attrition in recent years. In fiscal year 2003, all components met their goals, with the exception of the Army National Guard and the Air National Guard, which missed their targeted thresholds by less than 1 percent. In fiscal years 2001 and 2002, all components met their goals, except for the Army National Guard, which missed its targeted thresholds by approximately 2 percent each year. Finally, in fiscal year
2000, all components met their targeted thresholds except for the Army Reserve, which missed its threshold by less than 1 percent.

We also examined the career points at which attrition occurred. Our analysis of retention data shows that relatively little attrition occurred among reservists with more than 14 but less than 20 years of service—those reservists most likely to be affected by retirement policies. (See appendix IV for more information on attrition of reserve personnel, by years of service, for fiscal years 1991, 1997, and 2003.)

DOD has, nonetheless, identified certain high-demand occupational specialties where retention rates have decreased. These cases do not necessarily suggest that uniform retirement reform is required. However, they do suggest that DOD may need to take targeted corrective action, using any number of human capital management tools available to DOD, to address those specialties that are experiencing significant attrition. Personnel in the fields of aviation, special forces, security, intelligence, psychological operations, and civil affairs, for example, have experienced a pace of operation two to seven times higher than those of the average reservist. Retention rates for military police in the Army Reserve, for example, decreased from approximately 67 percent in fiscal year 2000 to 49 percent in fiscal year 2003. Similarly, retention decreased for Army National Guard members in aviation, dropping from 80 percent in fiscal year 2000 to approximately 30 percent in fiscal year 2002. Additionally, from fiscal year 2000 to 2002, the retention rates of Marine Corps Reserve members in civil affairs were consistently lower than the overall retention rates for the entire Marine Corps Reserve.

Responses by reservists to questions about career intention in recent surveys administered by DOD indicate that, if given a choice, most reservists intended to continue their service in the reserves. These surveys were conducted during 2000 and in May and September of 2003. Responses by reservists in the 2000 survey indicated that 71.8 percent of respondents intended to stay in the reserves. This percentage remained unchanged in the May and September surveys. A more recent survey was conducted in April 2004, the results of which should be available by fall 2004, according to officials in the Office of the Assistant Secretary of Defense for Reserve Affairs.
relatively stable at 71.4 percent in May 2003, but it dropped to 67.3 percent in September 2003. Responses from reservists in each of the components, who had been or were deployed overseas, however, showed greater variation. For example, in the most recent survey available—September 2003—67.3 percent of the reservists who responded to the survey indicated that they would continue in the reserves, and a majority of reservists noted that reserve retirement was a reason for joining the reserves. However, only 52.6 percent of respondents in the Army National Guard and 53.5 percent of respondents in the Army Reserve, who were or had been called to active duty, responded that they would stay in the Guard or Reserves. In the September 2003 survey, more than one-half of the respondents cited the opportunity to earn a retirement pension as a factor that influenced their decision to join the Guard or Reserves. About 68.8 percent of higher graded officers (O-4 to O-6) and 66.5 percent of higher graded enlisted personnel (E-5 to E-9) cited the reserve retirement system as a reason to join the Reserves, compared with 50.5 percent of lower graded officers (O-1 to O-3) and 37.5 percent of lower graded enlisted personnel (E-1 to E-4).³⁰

The estimated cost of current legislative proposals to change the reserve retirement system is significant and will have a number of associated effects. First, the estimated cost of lowering the age of receipt, from age 60 to as low as 53 with limitations—or, in some cases, lower—will be significant, given that all reservists who qualify for retirement—and not simply the minority of reservists who have deployed to recent contingency operations—would be covered under this change. Based on DOD data, our cost estimates of the five current legislative proposals are substantial, indicating that the cost of reserve retirement will increase by a range of almost $3 billion to over $20 billion, depending on the proposal, over the next 10 years. The Congressional Budget Office had not estimated the cost

³⁰ The following question was asked in the 2000, May 2003, and September 2003 surveys: “Suppose that you have to decide whether to continue to participate in the National Guard/Reserve. Assuming you could stay, how likely is it that you would choose to do so?” Respondents were asked to select from one of the following five response categories: very likely, likely, neither likely nor unlikely, unlikely, very unlikely.

³⁰ The following question was asked in the September 2003 survey: “How much did each of the following contribute to your decision to join the National Guard/Reserve?” Of the several different items listed after this question, we analyzed responses to the following: “Opportunity to earn credit toward a military pension.” Respondents were asked to select from one of the following five response categories: not at all, little influence, some influence, great influence, very great influence.
Legislative Proposals Are Designed to Lower the Age of Receipt

Members of the 108th Congress introduced five legislative proposals that would reduce the age at which retired reservists can receive their annuities from age 60 to something lower. The rationale often given for these proposals is that reserve benefits, such as retirement, should be enhanced in light of the frequency and duration of deployments that many reservists are experiencing. One of these proposals would allow reservists...
who served 20 years to retire and receive their annuities, immediately, at any age. A second proposal would allow reservists who served 20 years to leave the service and receive their annuities beginning at age 55. A third proposal would reduce the age of receipt from 60 to as low as age 53—on a sliding scale—by 1 year for every 2 additional years served beyond 20 years of service. For example, reservists who served 22 years would be eligible to receive their annuities at age 59, and reservists who served 24 years would be eligible to receive their annuities at age 58. Under this proposal, reservists would have to serve 34 years to be eligible to receive annuities at age 53. A fourth proposal follows the same model but establishes 55 as the minimum age at which reservists could begin to receive annuities. Finally, a fifth proposal would retain eligibility of receipt at age 60 but allow reservists to apply for receipt of reduced annuities at younger ages. For example, the annuities of reservists who applied to receive their annuities at age 55 would be reduced by 12.5 percent.

The estimated cost of lowering the age of receipt of retirement annuities will be substantial and has long-term budgetary implications. Based on data provided by DOD’s Office of the Actuary, we estimate that lowering the age would cost DOD an additional $2.88 billion to $20.45 billion in appropriated dollars, depending on the proposal, over the next 10 years. Reserve retirees would also be eligible, under four of the legislative proposals, for DOD-provided health care benefits for each year that the age of receipt is lowered. Using estimates of projected numbers of retirees and assumptions regarding the demographic characteristics of military personnel and their families provided by DOD’s Office of the Actuary, and average health costs for personnel and their dependents provided by DOD’s Office of Health Affairs, we calculated that DOD would incur additional health care costs ranging from $2.39 billion to $14.24 billion.

Table 2 presents estimates of increased appropriations that would need to be paid into the Military Retirement Fund to finance the increased retirement benefits. The increased costs of even the most modest reduction in the age of receipt can be expected to be large—nearly $3 billion between fiscal year 2005 and 2014. More generous proposals, such as allowing reservists who have fulfilled 20 satisfactory years of service to begin receiving retirement annuities immediately, could

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31 The Congressional Budget Office had not estimated the cost of the retirement benefit for all legislative proposals at the time of our review.
increase appropriations by over $20 billion during fiscal years 2005 and 2014. Table 2 also presents estimated associated increases in health care appropriations.

Table 2: Estimated 10-Year Increase in Appropriations of Five Legislative Proposals between Fiscal Year 2005 and 2014

<table>
<thead>
<tr>
<th>Increased costs</th>
<th>Immediate annuity</th>
<th>Age 55 on a sliding scale</th>
<th>Age 55 with reduced annuity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirement fund</td>
<td>$20.45</td>
<td>$7.60</td>
<td>$2.88</td>
</tr>
<tr>
<td>Health care</td>
<td>14.24</td>
<td>6.03</td>
<td>2.49</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$34.69</strong></td>
<td><strong>$13.63</strong></td>
<td><strong>$5.37</strong></td>
</tr>
</tbody>
</table>

Source: GAO analysis of DOD data.

*These dollar figures include the effects of inflation. When the effects of inflation are removed, the total dollar estimates would be approximately 6 percent lower. The net present value, or the funds that would need to be invested in fiscal year 2005 to fund the additional appropriations through fiscal year 2014, ranges from $4.28 billion to $28.1 billion.

This proposal precludes members from receiving retiree health benefits until age 60.

It should be noted that the numbers reported in table 2 underestimate the costs of any of these proposals because they do not include the past service liability created by the proposals. In addition, these estimates assume that retention among personnel not yet eligible for retirement would remain unchanged from recent experience. Officials in DOD’s Office of the Actuary suggested that improvements in retirement benefits could lead to increases in retention and, therefore, produce a greater number of retirees and higher costs than projected in this report.

Importantly, these costs are even more substantial, given the fact that all reservists who qualify for retirement—and not just the minority of reservists who have been called to active duty for recent contingency operations—would be covered under any change to the reserve component retirement system. Since 1991 and Operations Desert Shield/Desert Storm, about one-fourth of all reservists who have served in the reserves were called to active duty. Data, as of March 2004, show that about 28 percent of the Ready Reserve have been called to active duty—either domestically or abroad, for both short and long durations—in support of current military operations since September 11, 2001. While all the services have been affected, certain components and specialties have been affected more than others. Furthermore, DOD’s actuary has calculated that about only one person in four who enters the reserves—
whether directly from civilian life or from active service—will retire from the reserves. While lowering the age of receipt would align the reserve retirement system more closely with the active duty retirement system, it might not, as a result, affect those reservists who are experiencing increased deployment and associated hardships.

Retirement is only one human capital management tool available to shape the workforce, and it is not clear how influential it is on a servicemember’s decision to leave or stay. That decision is a complex, highly individual decision. Many factors, such as the availability of civilian jobs, family considerations, and satisfaction with military life, can influence a servicemember’s decision. We previously found that, when given a choice, servicemembers have tended to prefer immediate compensation to compensation that is deferred.\(^{32}\) The Congressional Budget Office found that new recruits would place a value of 4 cents on every dollar to be paid to them in 20 years.\(^{33}\) Consequently, compensation such as bonuses may be more effective at increasing overall retention than changes to the reserve retirement system.

DOD has several special pays and allowances to further compensate servicemembers who are experiencing excessive deployments. For example, servicemembers who are away from their permanent duty station for more than 30 consecutive days receive a family separation allowance to help offset the additional expenses that may be incurred by their dependents. In addition, servicemembers deployed for less than 30 days may be eligible to receive regular per diem, which ranges from $20 to $533 per day, depending upon the location. Furthermore, Congress has approved, but DOD has yet to implement, a high-deployment allowance designed to compensate certain servicemembers for lengthy as well as frequent shorter deployments. There are also a number of special pays and allowances intended to compensate servicemembers for hardships associated with deployments and incentive pays to induce members to acquire a particular skill or volunteer for certain career fields experiencing staffing shortages.


Another way to address possible retention problems in high-demand occupations is to alleviate the stress placed on reservists by transferring functions between active duty and reserve components. DOD recently published a report identifying the need to rebalance the forces—reserve and active duty—to ease stress on units and individuals serving in occupational specialties that are in high demand, such as military police, civil affairs and intelligence.\(^{34}\) DOD has undertaken studies to balance its military forces by (1) moving skills and functions that are found almost exclusively or predominately in the reserve components, such as civil affairs, into the active force and (2) reassigning personnel within the active and reserve components out of low-demand specialties, such as heavy artillery, into high-demand capabilities, such as military police and civil affairs. It should be noted, however, that these efforts are in the early planning stages and may take several more years to complete.

DOD has not yet studied changes to the reserve retirement system from a total force perspective, even though it relies on the total force—both active duty and reserve component personnel and units—to conduct its military operations. Today, DOD cannot conduct operations without contributions from both active duty and reserve personnel, given that missions no longer reside solely within the active duty forces. DOD has transferred primary missions to the reserve components and, accordingly, reservists no longer simply augment active duty forces in times of conflict. DOD has identified a need to rebalance functions between the active duty and reserve forces to meet its mission. Similarly, DOD must also balance the needs of both segments of its uniformed personnel when it considers changes to manage its force.

Changes to the reserve component retirement system will have a number of ramifications, some more difficult than others to foresee and potentially unintended. Most importantly, not all of these ramifications will appear in the retention experience of the reservists. While reducing the age of receipt in the reserve retirement system may more closely align this system with the active duty retirement system, this change could adversely affect active duty retention rates. For example, if the reserve retirement system were changed to offer an immediate annuity after 20 years of

creditable service, personnel who have made career decisions to remain on active duty until retirement might be inclined to leave active duty and apply to serve their remaining time in a reserve component or transfer to the Inactive Ready Reserve and obtain retirement eligibility by participating in and completing voluntary training programs. Although DOD has not studied changes to the reserve retirement system from a total force perspective,\(^\text{35}\) it has contracted RAND to prepare a study, due in September 2004, on how changes to the reserve retirement system might affect reserve retention and force management.

### Conclusions

DOD is not in the best position to make a business case for endorsing or dissuading efforts to adopt any of the legislative proposals that are under consideration because it has not established expectations and associated metrics that would help determine if changes to the reserve retirement system are needed. In the absence of identified weaknesses in the reserve component profiles or overall retention rates, it is difficult to determine if problems exist that would be best served by changing the reserve retirement system. Furthermore, changes to the retirement system are expected to be costly, and retirement—a one-size-fits-all compensation tool—does not necessarily target those reservists who are experiencing frequent and lengthy deployments and associated hardships. This is especially significant, given the fact that less than one-third of all reservists have been called to active duty in recent years and that only one in four reservists currently remains in the reserves long enough to become retirement eligible. In other words, changes to the reserve retirement system, at a substantial cost, would be extended to many reservists who have not deployed and might only reach a minority of those reservists who have deployed. Finally, DOD has not studied the impact of proposed changes to the reserve component retirement system on the active duty forces. DOD has transferred primary missions to the reserve components and, accordingly, reservists no longer simply augment active duty forces in times of conflict. DOD has already identified a need to rebalance functions between the active duty and reserve forces to meet its mission. Similarly, DOD must also balance the needs of both segments of its uniformed personnel when it considers changes to manage its force.

\(^{35}\) According to the Office of the Under Secretary of Defense for Personnel Readiness, DOD initiated a contract to study retirement issues from a total force perspective. However, this contract was terminated and the study was not completed.
Proposals, such as those that have been introduced and that would permanently expand benefits, should be considered in the context of the serious fiscal challenges facing this country. The longer-term costs and implications of legislative proposals must be given adequate consideration before they are enacted into law. The deficit is now so large that the United States will not be able to grow its way out of it. Difficult choices are inevitable. Congress and DOD have already implemented a number of changes to improve the pay and benefits for reservists over the past few years. Furthermore, DOD is exploring other human capital management options. If changes are still warranted, opportunities may exist to apply other workforce management tools and target corrective actions to those reservists who are in military occupational specialties experiencing the highest attrition rates.

We recommend that the Secretary of Defense direct the Under Secretary of Defense for Personnel and Readiness, in concert with the Assistant Secretary of Defense for Reserve Affairs, to take the following four actions:

1. specify desired metrics for measuring the retention or attrition rates of senior officer and enlisted reserve component personnel who are approaching retirement eligibility and, therefore, are most likely to be affected by changes to DOD’s reserve component retirement system;

2. determine if gaps exist between the desired and actual rates of attrition;

3. identify changes, if any, to the current reserve component retirement system that would address these gaps, to the extent that they exist; and

4. evaluate any changes to the reserve component retirement system and their associated long-term costs in the context of the total force.

In commenting on a draft of this report, DOD concurred with each of our four recommendations. DOD also cited its ongoing contract with RAND to conduct a detailed study of the reserve retirement system. DOD stated that the contract calls for RAND to develop dynamic retention models that DOD will be able to apply to evaluate the effect of any changes to the reserve retirement system. DOD added that RAND is near completion of this study. While the work that RAND is doing may provide DOD with
tools it needs to evaluate the effects of changes to the reserve retirement system, we continue to emphasize that these evaluations should be conducted in the context of the total force—both reserve and active duty personnel. DOD’s comments are reprinted in their entirety in appendix V.

We are sending copies of this report to interested congressional committees, the Secretary of Defense, and the Director of the Office of Management and Budget. We will make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at http://www.gao.gov.

If you or your staff have any questions regarding this report, please contact me at (202) 512-5559 or stewartd@gao.gov or Brenda S. Farrell at (202) 512-3604 or farrellb@gao.gov. Key contributors to this report were Joseph Applebaum, William J. Doherty, Mark B. Dowling, Ann M. Dubois, Kenya R. Jones, Karen L. Kemper, Kristy L. Kennedy, Stephen P. Marrin, William McNaught, David E. Moser, Charles W. Perdue, Jennifer R. Popovic, Jay Willer, and Gregory H. Wilmoth.

Derek B. Stewart
Director, Defense Capabilities and Management
To assess the Department of Defense’s (DOD) reserve component retirement system as compared with certain aspects of the active duty retirement system, we reviewed the legislative history and purpose of DOD’s retirement systems—both active and reserve—and DOD reserve retirement policies and studies conducted by DOD and others that addressed reserve retirement issues. Specifically, we reviewed DOD’s Military Compensation Background Papers and the results of the Sixth Quadrennial Review of Military Compensation, conducted in 1988, that specifically addressed retirement issues. We also interviewed officials in the Office of the Assistant Secretary of Defense for Reserve Affairs and officials in each of DOD’s six reserve components—the Army Reserve, the Army National Guard, the Naval Reserve, the Air Force Reserve, the Air National Guard, and the Marine Corps Reserve.

To assess the extent to which data available to DOD suggest that changes to the reserve component retirement system might be warranted, we analyzed recent trends in overall workforce profiles and retention. For example, we collected and analyzed data contained in DOD’s Reserve Components Common Personnel Data System and DOD’s Active Duty Military Personnel Master File and developed overall workforce profiles by years of service, age, and pay grade. We did this for both officer and enlisted personnel on active duty in each of the services and for officer and enlisted personnel reservists serving in each of DOD’s six reserve components. We also used year-end data for three points in time—1991, 1997, and 2003—because these points in time represent key periods when reservists were called to active duty to support military operations. These included Operations Desert Shield/Desert Storm, military operations in the Balkans and Southwest Asia, and current operations in Iraq and Afghanistan. We then compared average years of service, age, and pay grade over the three points in time to identify the extent to which DOD may have experienced declines in any of the variables we analyzed. In addition, we analyzed data provided by the Office of the Assistant Secretary of Defense for Reserve Affairs and generated from the Reserve Components Common Personnel Data System to identify the retention and attrition patterns of reservists from fiscal year 1991 through fiscal 2003. These data also included information on certain high-demand military occupational specialties that experienced higher than normal attrition between fiscal year 1991 and 2003. DOD calculated the attrition rates by dividing total losses in a given year by the number of reservists present at the end of each year, and then compared retention rates over the years that we selected. We developed retention rates for reserve officers, reserve enlisted personnel, and for reservists as a whole, and then compared rates over time. We also analyzed attrition by the years of service in which the
attrition occurred, for the three points in time, to determine if attrition was occurring at different stages in reservists’ careers. We interviewed officials in the Office of the Assistant Secretary of Defense for Reserve Affairs and in each of DOD’s reserve components to discuss issues surrounding workforce profiles and retention.

We also reviewed DOD attitudinal surveys that were administered to reservists in calendar years 2000 and 2003 and analyzed responses to questions that addressed the intent of reservists to stay in or leave the reserves. Response rates for the 2000 Survey of Reserve Component Personnel, the May 2003 Status of Forces Survey of Reserve Component Members, and the September 2003 Status of Forces Survey of Reserve Component Members were 47.3 percent, 35.6 percent, and 31.9 percent, respectively. There is a potential for bias in the estimates to the extent that respondents and nonrespondents had different opinions on the questions asked. Each survey was a random probability sample, so each was only one of a number of large samples that could have been drawn. All percentage estimates cited from each of the surveys have sampling errors of plus or less than 5.6 percentage points. We used the weighting factors and the sampling error methodology provided by the Defense Manpower Data Center to develop estimates and sampling error estimates for each survey.

We assessed the accuracy and reliability of the Active Duty Military Personnel Master File and the Reserve Components Common Personnel Data Systems, from which all workforce profile, retention, and attrition data were generated. Through written responses provided from the Defense Manpower Data Center, which maintains these databases, we reviewed (1) existing information about the data and the systems that produce them, (2) the completeness of the electronic data, (3) DOD’s methods of data collection verification and quality control practices, (4) previous quality reviews of the data and the frequency of these reviews, (5) any limitations to the data, and (6) practices and controls over data entry accuracy. We also interviewed agency officials knowledgeable about these data systems. We determined that the data were sufficiently reliable for purposes of this report. We also assessed the reliability of survey responses for reporting purposes. The surveys we analyzed were based on stratified, random samples of reserve component members, and the results were weighted to achieve statistical validity. Again, the results of the surveys were sufficiently reliable for purposes of this report.

To evaluate the potential effects and costs of legislative proposals that address reserve retirement reform, we reviewed legislative proposals
submitted in the 108th Congress and met with and obtained data on cost projections—and the assumptions behind those projections—from the Office of the DOD Actuary, the Office of the Assistant Secretary of Defense for Health Affairs, and the Office of the Assistant Secretary of Defense for Reserve Affairs. The Congressional Budget Office had not estimated the cost of the retirement benefit for all five legislative proposals at the time of our review. In addition, we reviewed reports developed by RAND and others that analyze the potential effects of provisions in the legislative proposals on the retention of reservists. We also acquired reports that allowed us to assess alternative compensation and workforce management methods for maintaining or increasing retention. Finally, we interviewed officials in the Offices of the Assistant Secretary for Reserve Affairs and Under Secretary of Defense for Personnel and Readiness to analyze the extent to which DOD has studied reserve retirement reform from a total force perspective.

We developed our own estimates of the increased costs that would be incurred under each retirement proposal using projections made by DOD’s Office of the Actuary and data received from DOD’s Office of Health Affairs. We obtained estimates from the DOD actuary on the number of personnel that would be affected by each retirement proposal and then multiplied this population estimate by the estimated costs of providing retirement and health care benefits.

To estimate the retirement benefit costs, we asked DOD’s Office of the Actuary to estimate the number of new persons who would be eligible to retire under each retirement proposal. The DOD actuary also estimated the normal cost of each proposal.\(^1\) To develop estimates of the normal cost of each alternative, the DOD actuary projected future personnel levels based upon the number of persons participating in the selected reserve

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1 The normal cost of the military reserve retirement system is defined as the percentage of reservists’ basic salary that must be invested so that sufficient resources will be available to finance all anticipated retirement benefits, including costs of providing benefits to survivors. The increased normal cost reflects the increase in the expected value of the reserve retirement system expressed as a level percentage of reservists’ pay over their military careers. In other words, if this percentage of reservists’ pay were put aside and returned the rate of return assumed by DOD’s Office of the Actuary, it would be sufficient to pay for the increased benefits. However, these normal costs will be paid only for years 2005 and later. To have financed the increased benefits contained in the proposals completely, it would have been necessary to collect the increased normal costs over the previous years in which the current group of reservists served. This was not done and, therefore, an additional unfunded liability would have to be added to the Military Retirement Fund.
forces on September 30, 2003. The DOD actuary generally assumed that future retention rates in the reserve forces would be the same rates that were observed from 1997 to 2000 and also assumed that personnel, newly eligible under the different proposals, would retire at the same rates as personnel who are currently eligible. The DOD actuary assumed that retirement benefit increases would vary from 1.3 to 3.0 percent between fiscal year 2005 and 2014, that future pay raises for the uniformed services would range from 3.4 to 3.75 percent, that the real rate of return on retirement investments would be 3.25 percent, and that the rate of discount would be 6.25 percent. For each proposal, we applied the DOD actuary’s estimate of the increase in the normal cost percentage to the projected level of basic pay that would be paid to reservists from fiscal year 2005 through fiscal year 2014 to estimate the amount of additional funds that would need to be appropriated to the Military Retirement Fund.

To estimate the increased costs of providing health care benefits to newly eligible retirees under each proposal, we again used the DOD actuary’s estimate of the number of new retirees under each proposal. We also used assumptions, provided by DOD’s Office of Health Affairs, that one-half of these retirees would be single and that one-half would have dependents. DOD’s Office of Health Affairs assumed that the average number of dependents in this latter group of retirees would be 2.94. The Office of Health Affairs also assumed that the costs to provide health care would be $2,242 for each retiree and $1,910 for each dependent in fiscal year 2005. Based on these data, we calculated that the costs of providing health care through DOD’s health care system would increase 10 percent annually from fiscal year 2006 through fiscal year 2014.

We conducted our review from November 2003 through July 2004 in accordance with generally accepted government auditing standards.
The reserve retirement system, which has remained largely unchanged since its enactment in 1948, is built upon a points system that provides DOD with a means to convert the total number of years served by reservists on a part-time basis into the equivalent number of full-time years served. Essentially, DOD divides the total number of points that a reservist earned in each qualifying year by 360—roughly, the number of days in a year. This prorated adjustment provides DOD with the ability to calculate retirement annuities for both active duty and reserve retirees on a comparable basis.

Reservists must accumulate 20 years of creditable service to become retirement eligible and, as of October 1, 2002, reservists must also serve the last 6 years in a reserve component. A creditable year of service is a year in which a reservist earns a minimum of 50 points. Retirement points can be classified as inactive duty points and active duty points.

Reservists typically earn inactive duty points in a number of different ways:

- Weekend drills. Reservists attend weekend drills each month. Each day is divided into two drill periods, of 4 hours in duration, and reservists earn 1 point for each drill. This equates to 4 points for each weekend, or 48 points annually.

- Annual training. Reservists participate in 2 weeks of training annually and typically earn 12 points for this training time.

- Affiliation with a reserve unit. Reservists earn 15 points annually for being a member of a reserve unit.

- Additional points. Reservists can earn additional points for such things as completion of accredited correspondence courses or participation in

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1 The number of final years that reservists must serve in a reserve component is established in law, and the number has fluctuated between 6 and 8 years. Reservists who completed 20 years of creditable service prior to October 5, 1994, were required to fulfill their last 8 years of service in a reserve component. Reservists who completed 20 years of creditable service between October 5, 1994, and December 31, 2001, were required to fulfill their last 6 years of service in a reserve component. Reservists who completed 20 years of creditable service between January 1, 2002, and September 30, 2002, were required to fulfill their last 8 years of service in a reserve component. From October 1, 2002, until the present time, reservists are required to serve their last 6 years in a reserve unit.
funeral honors duty. Reservists, however, cannot apply more than 90 inactive duty points toward retirement in any given year.\textsuperscript{2}

In addition, reservists receive 1 point for any day served on active duty prior to separating from active duty and affiliating with a reserve component. When called to active duty, reservists also earn active duty points—1 point for each day served. Reservists can earn a maximum of 365 active duty points in any calendar year and a career maximum of 10,950 points or 30 years of creditable service. Reservists who are called to active duty will accumulate more points and, therefore, will receive larger retirement annuities, should they stay until retirement, than their reserve counterparts who are not called to active duty.

\textsuperscript{2} Prior to October 30, 2000, reservists could only apply 75 inactive duty points toward retirement per year.
Appendix III: Reserve Workforce Profile Data

We analyzed data contained in DOD’s Reserve Components Common Personnel Data System and developed overall workforce profiles—by years of service, age, and pay grade—for each reserve component, and for officer and enlisted personnel, to identify trends that might suggest that changes to DOD’s reserve retirement system are warranted from a workforce management perspective. We selected three points in time—calendar years 1991, 1997, and 2003—because they represent key periods when reservists were called to active duty. These included Operations Desert Shield/Desert Storm, military operations in the Balkans and in Southwest Asia, and current operations in Iraq and Afghanistan. We did not find significant variations in overall years of service, age, or pay grade that would suggest that changes to DOD’s reserve retirement system are currently needed from a workforce management perspective.

Reserve Enlisted Personnel Average Years of Service

The average years of service of reserve enlisted personnel was 1 to 3 years higher, for all components, in calendar year 1997 than it was in calendar year 1991. With the exception of the Marine Corps Reserve, the average years of service was the same at the end of calendar year 2003 as it was at the end of calendar year 1997. In the Marine Corps Reserve, the average years of service was 1 year lower at the end of calendar year 2003 than it was at the end of calendar year 1997, but the same as it was at the end of calendar year 1991. Figure 4 shows the average years of service by reserve enlisted personnel for all components for calendar years 1991, 1993, and 2003.
Similarly, reserve enlisted personnel were, on average, 1 to 3 years older, across all components, in calendar year 1997 than they were in calendar year 1991. Reserve enlisted personnel in four of the components were, on average, the same age or 1 year older in calendar year 2003 as they were in calendar year 1997. In the Army National Guard, enlisted reservists were, on average, 1 year younger in calendar year 2003 than they were in calendar year 1997, but 1 year older than they were in calendar year 1991. In the Marine Corps Reserve, enlisted reservists were, on average, 1 year younger in calendar year 2003 than they were in calendar year 1997, and the same age as they were in calendar year 1991. Figure 5 shows the

Figure 5: Reserve Enlisted Average Age for Calendar Years 1991, 1997, and 2003

Source: GAO analysis of DOD data.

Reserve Enlisted Personnel Average Pay Grade

Figure 6 shows the average pay grade for reserve enlisted personnel for all components for calendar years 1991, 1997, and 2003. Average pay grades remained constant in four of the six components. The average enlisted pay grade was one pay grade higher in the Air National Guard in calendar year 2003 than it was in calendar years 1991 and 1997. The average pay grade in the Air Force Reserve was one pay grade higher in calendar years 1997 and 2003 than it was in calendar year 1991.
Figure 6: Reserve Enlisted Personnel Average Pay Grade for Calendar Years 1991, 1997, and 2003

Average enlisted pay grade

Source: GAO analysis of DOD data.
Reserve Officer Average Years of Service

The average years of service by reserve officers in the Air Force Reserve remained constant in calendar years 1991, 1997, and 2003. In the remaining five components, the average years of service was 1 to 3 years greater in 2003 than it was in calendar year 1991. None of the components experienced a decline in the average number of years served for the three points of time that we analyzed. Figure 7 shows the average years of service by reserve officer personnel for all components for calendar years 1991, 1997, and 2003.

Figure 7: Reserve Officer Average Years of Service for Calendar Years 1991, 1997, and 2003

Source: GAO analysis of DOD data.
Reserve Officer Average Age

Reserve officers were, on average, 1 to 2 years older in calendar year 1997 than they were in calendar year 1991, with the exception of the Air Force Reserve where officers were, on average, the same age in both calendar years. Similarly, reserve officers were, on average, 1 to 2 years older in calendar year 2003 than they were in calendar year 1997, with the exception of reserve officers in the Air National Guard, who were, on average, the same age in both of those calendar years. Figure 8 shows the average age of reserve officer personnel for all components for calendar years 1991, 1997, and 2003.

Figure 8: Reserve Officer Average Age for Calendar Years 1991, 1997, and 2003

Source: GAO analysis of DOD data.
Figure 9 shows the average pay grade of reserve officers for all components for calendar years 1991, 1997, and 2003. Average pay grades remained constant within each component.

**Figure 9: Reserve Officer Average Pay Grade for Calendar Years 1991, 1997, and 2003**

Average officer pay grade

Source: GAO analysis of DOD data.
We analyzed data contained in DOD’s Reserve Components Common Personnel Data System, for reserve officers, enlisted personnel, and all reservists, to determine the career points at which attrition occurs and the extent to which the current reserve retirement system influences the decisions of reservists to stay in or leave reserve duty. Again, we selected three points in time—1991, 1997, and 2003—because they represent key periods when reservists were called to active duty to support military operations. These included Operations Desert Shield/Desert Storm, military operations in the Balkans and Southwest Asia, and current operations in Iraq and Afghanistan. In each of the years we selected, we found little attrition among those reservists with more than 14 years of service but less than 20 years of service—those servicemembers most likely to be affected by changes to the reserve retirement system. Figures 10, 11, and 12 show reserve attrition by years of service for fiscal years 1991, 1997, and 2003, respectively.
Figure 10: Reserve Attrition by Years of Service for Fiscal Year 1991

Number of reservists

Source: GAO analysis of DOD data.

*Includes reservists leaving with 20 to 30 years of service.
Figure 11: Reserve Attrition by Years of Service for Fiscal Year 1997

Number of reservists

0 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20

0 500 1,000 1,500 2,000 2,500 3,000 3,500 4,000 4,500 5,000 5,500 6,000 6,500 7,000 7,500 8,000 8,500 9,000 9,500 10,000

Source: GAO analysis of DOD data.

*Includes reservists leaving with 20 to 30 years of service.
Figure 12: Reserve Attrition by Years of Service for Fiscal Year 2003

Number of reservists

Years of service

- Officer
- Enlisted
- Total DOD reserve component

Source: GAO analysis of DOD data.

*Includes reservists leaving with 20 to 30 years of service.
Appendix V: Comments from the Department of Defense

ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, DC  20301-1500

SEP 01 2004

Mr. Derek B. Stewart
Director, Defense Capabilities and Management
U. S. Government Accountability Office
Washington, D. C. 20548

Dear Mr. Stewart:

This is the Department of Defense (DoD) response to the GAO draft report, GAO-04-1005, "MILITARY PERSONNEL: DoD Needs More Data Before It Can Determine If Costly Changes to the Reserve Retirement System Are Warranted," dated August 9, 2004, (GAO Code 350459).

I appreciate the opportunity to comment on your draft report.

The GAO draft report was reviewed and formally coordinated within DoD. We concur with each of the GAO recommendations, number 1 – 4. Minor administrative changes/corrections to the report have been forwarded via email directly to your staff. No significant changes to the GAO draft report are recommended.

Sincerely,

[Signature]

T. F. Hall
Appendix V: Comments from the Department of Defense

GAO DRAFT REPORT – DATED AUGUST 9, 2004
GAO CODE 350459/GAO-04-1005

“MILITARY PERSONNEL: DoD Needs More Data Before It Can Determine If Costly Changes to the Reserve Retirement System Are Warranted”

DEPARTMENT OF DEFENSE COMMENTS TO THE RECOMMENDATIONS

RECOMMENDATION 1: The GAO recommends that the Secretary of Defense direct the Under Secretary of Defense for Personnel and Readiness, in concert with the Assistant Secretary of Defense for Reserve Affairs, to specify desired metrics for measuring the attrition rates of senior officers and enlisted reserve component personnel who are approaching retirement eligibility and, therefore, are most likely to be affected by changes to DOD’S reserve component retirement system. (Page 36/GAO Draft Report)

DoD RESPONSE: Concur.

RECOMMENDATION 2: The GAO recommends that the Secretary of Defense direct the Under Secretary of Defense for Personnel and Readiness, in concert with the Assistant Secretary of Defense for Reserve Affairs, to determine if gaps exist between the desired and actual rates of attrition. (Page 36/GAO Draft Report)

DoD RESPONSE: Concur.

RECOMMENDATION 3: The GAO recommends that the Secretary of Defense direct the Under Secretary of Defense for Personnel and Readiness, in concert with the Assistant Secretary of Defense for Reserve Affairs, to identify changes, if any, to the current reserve component retirement system that would address these gaps, to the extent that they exist. (Page 36/GAO Draft Report)

DoD RESPONSE: Concur. The Department has contracted with RAND, a Federally Funded Research and Development Center, to conduct a detailed study of the reserve retirement system. The contract calls for RAND to develop Dynamic Retention Models that will assist the Department in analyzing and predicting behavior of the force, and possible costs, in considering changes to the reserve retirement system. RAND is near completion of the two-year study. Once the new models have been tested and validated, the Department can apply these models to evaluate the effect that any changes in the reserve retirement system might have to overcome any gaps in retaining the desired number of senior officer and enlisted personnel, if the Department finds that there is a shortfall in the retention of these personnel.
**RECOMMENDATION 4:** The GAO recommends that the Secretary of Defense direct the Under Secretary of Defense for Personnel and Readiness, in concert with the Assistant Secretary of Defense for Reserve Affairs, to evaluate any changes to the reserve component retirement system and their associated long-term costs in the context of the total force. (Page 36/GAO Draft Report)

**DoD RESPONSE:** Concur. The Department has contracted with RAND, a Federally Funded Research and Development Center, to conduct a detailed study of the reserve retirement system. The contract calls for RAND to develop Dynamic Retention Models that will assist the Department in analyzing and predicting behavior of the force, and possible costs, in considering changes to the reserve retirement system. RAND is near completion of the two-year study. Once the new models have been tested and validated, the Department can apply these models to evaluate the effect that any changes in the reserve retirement system would have on future force management and outlays.
Appendix VI: Related GAO Products


Appendix VI: Related GAO Products


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