119261

REPORT BY THE

Comptroller General

OF THE UNITED STATES

Military's 1-Year "Look Back" Retirement Provision Should Be Revoked: Multiyear Provision Should Be Reviewed

The military retirement system contains two provisions which allow new retirees to calculate their annuity based on earlier pay scales, if it is to their advantage. The 1-year "look back" provision has outlived its usefulness and is no longer justified. At times it can discourage individuals from serving longer than 20 years. Therefore, GAO recommends that the Administration's proposal to rescind the provision be enacted.

Whether multiyear "look back" is a cost-effective tool for keeping military careerists well beyond 20 years of service is an open question. GAO recommends that Defense answer this question by demonstrating that keeping senior careerists is a problem and that multiyear "look back" is a cost-effective solution. If this cannot be demonstrated, GAO recommends that Defense ask Congress to also rescind this provision and, if necessary, seek authority for a suitable alternative to be used selectively.

UNITED STATES GENERAL ACCOUNTING OFFICE

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COMPTROLLER GENERAL OF THE UNITED STATES
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The Honorable John G. Tower
Chairman, Committee on
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United States Senate

The Honorable Mark O. Hatfield
Chairman, Committee on
Appropriations
United States Senate

The Honorable Melvin Price
Chairman, Committee on
Armed Services
House of Representatives

The Honorable Jamie L. Whitten
Chairman, Committee on
Appropriations
House of Representatives

The Reagan Administration's proposal to reform the military retirement system is pending before the Congress. Among other things, this proposal seeks to eliminate one of the two "look back" provisions 1/ currently in effect, namely the provision commonly referred to as 1-year "look back." This provision allows new retirees to "look back" one previous pay scale for the purpose of calculating initial retired pay, plus the intervening retired pay cost-of-living adjustments. The second provision (called multiyear "look back") allows new retirees' initial retired pay to be calculated by using any previous active duty pay scale in effect on or after January 1, 1971, but at the grade and longevity step the member was eligible to retire at under the previous pay scale. The initial retired pay amount calculated by this method is then increased by the retired pay cost-of-living

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1/"Look back" means that, if it is advantageous, a new retiree's annuity will be calculated using an earlier active duty pay scale, rather than using current active duty scales, plus the intervening retired pay cost-of-living adjustments.

adjustments that occurred since that active duty pay scale. The services contend that the multiyear provision helps to retain senior careerists.

Because both "look back" provisions affect the retirement system's cost and equity, we conducted this review to determine whether the Administration's position to eliminate one of the "look back" provisions was justified and to determine if the services can justify the continued use of either "look back" provision. (See app. I for a detailed statement of our objective, scope, and methodology.)

POTENTIAL RESULTS OF THE ADMINISTRATION'S PROPOSAL

Beyond recommending the repeal of the legislation authorizing the 1-year "look back," the Administration's proposal seeks to establish a

--new retired pay adjustment mechanism which would annually increase retirees' pay by the lesser of (1) the percentage increase in the Consumer Price Index (CPI) or (2) the active duty pay increase, and

--so called reverse-recomputation mechanism to limit the amounts of future retired pay adjustments so that eventually retired pay would not exceed the amount of retired pay the member would otherwise be entitled to if computed on the most recent active duty pay scale.

The Administration's proposal does not recommend eliminating multiyear "look back" because the Department of Defense (DOD) believes that such an action would adversely affect continued service of senior careerists.

Establishing a new retired pay adjustment mechanism as the Administration proposed could substantially reduce the future cost of both the 1-year and multiyear "look back" provisions. In fact, the 1-year "look back" provision would, in essence, become inoperative and there would be no need to revoke it. The multiyear "look back" provision would continue to have value, but at a reduced level, for some active duty members who currently have more than 20 years of service. However, it, too, would soon become worthless after the people in this category retire.

The reverse-recomputation mechanism would reduce the cost, and value to retirees, of the multiyear "look back" provision, even during the interim period when the provision would still be operative. This is because new retirees, while still permitted to have their initial retired pay calculated using an earlier active duty pay scale, would have subsequent retired pay cost-of-living adjustments calculated using the then-current active duty pay scale. In effect, this mechanism would increase the individual's initial retirement benefit, but immediately cap, either partially or fully, the person's retired pay until the retirement value of the then-current active duty pay scale for that individual caught up with his or her actual retired pay calculated using "look back."

Not possible to accurately project potential savings

The Administration assumes that in the future, active duty pay increases will always be equal to, or greater than, retired pay cost-of-living adjustments. The Administration has stated, therefore, that there would be no savings in fiscal year 1983 or in future years by eliminating the 1-year "look back" provision. If the Administration's assumption holds true, then very little savings would result from eliminating the 1-year "look back" provision--although there would be a small short-term savings. 1/ If the Administration's assumption does not prove to be correct, however, substantial savings could result from eliminating the 1-year "look back" provision. The amount saved would depend on several factors, the most important being the amount by which the retired pay adjustment percentage exceeds the active duty pay increase.

Our review indicates that eliminating either "look back" provision at this time will produce only minimal savings in the current fiscal year because recent active duty pay raises and the partial uncapping of Federal executive salaries have exceeded recent retired pay cost-of-living adjustments. Furthermore, due to the unpredictability of future economic conditions, active duty pay raises, retired pay cost-of-living adjustments, and the uncertain prospects for continuing executive level pay caps, it is impossible to accurately project the savings to be gained from eliminating either one of the "look back" provisions. However, based on actuarial assumptions described in the objective, scope, and methodology section of appendix I, we made a sample calculation which showed that potential savings would be substantial if both provisions were rescinded; the savings would increase from an estimated $1 million in fiscal year 1983 to over $445 million

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1/There would also be almost no reason to revoke the 1-year "look-back" provision because, with rare exception, this provision only becomes operative--has value to new retirees--when the retired pay cost-of-living adjustment exceeds the active duty pay adjustment.

in fiscal year 2001. These savings would be greatly reduced in the near term and virtually eliminated in the long term, however, if the Administration's April 30, 1982, legislative proposal is enacted.

WHO BENEFITS FROM "LOOK BACK?"

As explained in appendix I, the situation which the 1-year "look back" was meant to remedy has been overtaken by subsequent events. Individuals who now benefit the most from this provision are those who retire as soon as they become eligible. This situation exists because service members are permitted by DOD to "look back" to the previous pay scale in effect before they become entitled to retired pay, but at their current grade and longevity step.

The multiyear provision can potentially benefit members of any rank who remain on active duty beyond 20 years of service, but those who benefit the most are senior officers who have had their pay limited by the Federal executive level V pay cap. In essence, this provision allows senior officers to at least partially avoid the congressionally imposed active duty pay cap when computing their retired pay. For example, under this provision a 35-year Lieutenant General retiring in July 1982 would receive $43,426 based on his capped active duty pay. By using the "look back" provisions, however, his initial annual retired pay will be increased by $9,840--to $53,266.

DOD claims multiyear "look back" is retention incentive

The legislative history of the multiyear "look-back" provision is very brief, but what legislative history does exist indicates that this provision was intended as an incentive to help retain highly qualified personnel on active duty beyond when they first become eligible to retire. It was argued that the multiyear "look back" provision was needed to correct the wasteful early retirement of military personnel at the earliest eligibility for retirement and to encourage them to stay on active duty "through the most productive part of their careers." 1/

Although DOD contends that multiyear "look back" continues to be needed as an incentive for senior military personnel to serve well beyond the time they first become eligible to retire, neither DOD nor the services have been able to quantitatively demonstrate (1) the extent to which the multiyear provision has improved retention, (2) whether the provision is a cost-effective

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1/121 Congressional Record S.9928, daily ed., June 6, 1975.

method for improving retention of high quality individuals beyond 20 years of service, or (3) that revocation of the provision would result in a mass exodus of highly qualified military members the services would like to keep on active duty beyond 20 years of service. Our review of multiyear "look back" indicates that even if retention of senior personnel were a problem, "look back" is a poor mechanism for solving it. "Look back" is inflexible in that (1) anyone who remains on active duty beyond 20 years of service is automatically entitled to it, (2) managers do not have the ability to target the benefit to a specific problem area, and (3) there is no built-in feedback mechanism to keep managers informed as to whether the benefit is achieving its retention goal in a cost-effective manner. Furthermore, as the analysis on pages 2 and 3 shows, the Administration's proposals would lessen the future value of multiyear "look back" in the near term and make it worthless in the long term, contradicting, to some extent, DOD's argument that it is an important retention incentive.

CONCLUSIONS

We believe the Administration's legislative proposal to rescind the 1-year "look back" provision should be enacted because this provision now benefits most those members who retire as soon as they are eligible. In fact, depending on the relationship between the value of active duty and retired pay adjustments, this provision could encourage members to retire sooner than they would without 1-year "look back."

Since the services have not demonstrated that the multiyear "look back" is a cost-effective retention tool, we believe that it should either be shown to be cost-effective and needed, or be eliminated. We recognize that there may be times when retired pay cost-of-living adjustments exceed active duty pay increases, making it attractive for eligible members to opt for retirement. We do not, however, necessarily see this as bad, provided that the services have sufficient flexible management tools, such as targeted incentives, at their disposal to retain the people they need and want to retain. The problem, as we see it, is that if the current multiyear "look back" provision has any retention value at all, it does not have sufficient flexibility to allow DOD managers to selectively use "look back" as a retention incentive. Rather, the law makes "look back" an entitlement available to everyone who remains on active duty beyond initial retirement eligibility, regardless of the needs of the services.

The Administration's April 30, 1982, legislative proposal, if enacted, will substantially reduce the near term cost of multiyear "look back," and over the longer term would make the effect of both "look back" provisions inoperative. Should the Congress enact the Administration's proposal, the need to revoke either the 1-year or multiyear "look back" provisions would largely be eliminated.

RECOMMENDATION TO THE CONGRESS

We recommend that the Congress repeal the 1-year "look back" provision authorized in 10 U.S.C. 1401a(e). Not only has this provision outlived its initial purpose, it could serve as a disincentive to retention beyond 20 years of service.

RECOMMENDATION TO THE SECRETARY OF DEFENSE

Since the services have not shown the multiyear "look back" provision to be a cost-effective tool for retaining senior careerists, we recommend that, if the Administration's April 30, 1982, legislative proposal is not enacted, the Secretary of Defense task the services with developing data by September 30, 1983, to show whether (1) retention of senior careerists well beyond 20 years of service has been or is expected to be a problem and (2) multiyear "look back" is cost-effective and necessary for dealing with the problem.

If the services cannot document the need and cost-effectiveness of the multiyear "look back" provision, we recommend that the Secretary of Defense prepare and submit to the Congress a legislative proposal to repeal 10 U.S.C. 1401a(f). However, to avoid unfairly treating members on active duty but eligible to retire at the time this repeal is recommended, the repeal proposal should contain a provision that the retired pay for individuals who retire after the effective date of repeal would not be less than it would have been had they retired on the day before the effective date of revocation. Further, if the Secretary of Defense determines that adequate alternatives are not available to use on a selective basis to retain those senior officers the services want and need to remain on active duty, we recommend that along with the proposal to repeal multiyear "look back," he seek legislative authority for a suitable alternative to be used selectively.

AGENCY COMMENTS AND OUR EVALUATION

DOD reviewed a draft of this report which contained a proposal to revoke both the 1-year and multiyear "look back" provisions. They agreed that the 1-year "look back" provision should be repealed, but it disagreed with our proposal to repeal the multiyear provision. DOD acknowledged that it does not know whether multiyear "look back" is a cost-effective retention tool because it has not quantified either the cost or benefits of this provision. DOD contends, however, that this retirement system feature was expressly provided to preclude situations where a member could face a financial penalty in retired pay for continued active service. (See app. II.)

DOD is partly correct in asserting that the multiyear "look back" feature was enacted to overcome a so-called "pay inversion" problem--"pay inversions" can occur when retired pay increases at a faster rate than does active duty pay. However, the belief at that time was that "pay inversion" was working against the retention of highly qualified personnel. Thus, the management problem that the multiyear "look back" provision was intended to solve was an alleged problem of retaining senior careerists.

We basically agree with DOD that members should not suffer a financial penalty in retired pay for continued active duty service. Although the Administration's April 30, 1982, legislative proposal to change the mechanism for adjusting retired pay has other important implications not addressed in this report, our assessment indicates that the proposal would, in the long term, greatly reduce the effect of the "pay inversion" problem.

As a result of DOD's official comments on our report draft, and our assessment of how the Administration's April 30, 1982, legislative proposal would affect the "look back" provisions, we have modified our draft report proposal with regard to the multiyear "look back" provision.

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Copies of this report are being sent to the Chairmen, House and Senate Committees on the Budget; the Secretaries of Defense, the Army, the Navy, and the Air Force; the Director, Office of Management and Budget; and other interested parties.

Charles A. Bowsher

Comptroller General
of the United States

OBJECTIVE, SCOPE, AND METHODOLOGY

The objectives of this review were to (1) determine whether the Administration's April 30, 1981, proposal to eliminate only one of the "look back" provisions was justified and (2) in the event that the Congress decides not to approve the Administration's proposal, determine whether the services can justify the continued use of either "look back" provision as cost-effective retention incentives for keeping highly qualified military personnel on active duty beyond when they first become eligible to retire--at 20 years of service.

Our review was performed during February through July 1981, and January through April 1982, in accordance with our Office's current "Standards for Audit of Governmental Operations, Programs, Activities, and Functions." We conducted our work primarily in the Washington, D.C. area, at the Office of the Assistant Secretary of Defense (Manpower, Reserve Affairs and Logistics); and Headquarters, Army, Navy, Air Force, and Marine Corps.

To determine whether either "look back" provision is a cost-effective retention incentive, we requested documentation from each service to show the extent to which each provision encouraged qualified members to remain on active duty beyond 20 years of service. In this connection, we also requested documentation to determine which military members benefited the most from the provisions. To analyze the benefits of the "look back" provisions, we requested that DOD and/or the services quantify the retention value of "look back"; however, they were unable to do so.

As part of our evaluation, we made a sample calculation of what the savings in future retirement costs might be if (1) the "look back" provisions were eliminated and (2) historic active duty and retired pay adjustment trends continued, using retirement and pay adjustment data and certain actuarial assumptions. As with any projections of this nature, the estimates vary substantially, depending on the assumptions used. Our assumptions are as follows:

--The annual cost-of-living increases for retirees will average 6.89 percent for the next 20 years, but these increases will vary from one year to the next in accordance with the variations occurring over the last 16 years.

--Military pay increases will average 7.92 percent for the next 20 years (with limits imposed by the pay cap), again with the increases varying in accordance with past experience.

--The Federal executive level pay cap will go up every 3 years, by 56 percent of the intervening military pay increases.

--The number of military retirees by grade and years of service will be the same each year in the future as it has been for the most recent 3-year period for which the information is available.

We then compared the future military pay increases with the future cost-of-living increases using as a basis the correlation coefficients calculated for the previous 16 years.

WHAT ARE "LOOK BACK" PROVISIONS AND WHY WERE THEY ENACTED?

There are currently two "look back" provisions, one enacted as a technical amendment in 1967 which allows new retirees to "look back" to the prior pay scale for purposes of retired pay computation, and the second enacted in 1975 which allows a new retiree to "look back" to any previous pay scale in effect subsequent to January 1, 1971, as long as the member was eligible. While the question of equity to military retirees was raised when both provisions were enacted, the primary purpose of each is somewhat different. The first provision was intended to be a temporary measure to remedy an inequity which arose during a transitional period, whereas the second provision was primarily intended to be a retention incentive.

In general, both "look back" provisions become operative--that is, they have value to a new retiree--when the value of retired pay cost-of-living adjustments exceed (1) the value of the active duty pay raise plus (2) the value of the years-of-service percentage increase used to compute retired pay. "Look back" becomes increasingly valuable to those military members who have had their active duty pay limited by the Federal executive level pay cap and to members who have reached the maximum longevity pay step several years before retirement. At the present time, the value of both "look back" provisions has been somewhat diminished for new retirees. This is because (1) the combined value of the October 1980 and October 1981 active duty pay raises exceeded the value of the recent retired pay cost-of-living adjustment, and (2) Public Law 97-92 increased the executive level V pay cap from $50,112 to $57,500 effective January 1, 1982.

"Look back" could again become a costly feature of the military retirement system if retirement value of the active duty pay raise plus the years-of-service percentage used in computing retired pay falls below the retired pay cost-of-living adjustment. Furthermore, once either "look back" provision is used to calculate initial retired pay, the additional cost continues to be incurred for the life of the annuitant because the initial retired pay computation establishes the base upon which subsequent cost-of-living adjustments are made.

Under today's system, about 56 percent of all enlisted retirees and 33 percent of all officer retirees leave after 20 years. The typical 20-year enlisted retiree is 39 years old when he or she retires, and will receive military retirement pay for an average 33 years. The typical 20-year officer retiree is 43 years old and will also receive retired pay for an average of 33 years. The 20-year retirees benefit the most from the 1-year "look back" provision because they are permitted by DOD to calculate retired pay using the pay scale in effect before they became entitled to retired pay, but at their current grade and longevity step.

The process for adjusting retired pay has changed several times, but two major changes occurred which are important in understanding why "look back" came about. Between 1922 and 1958 military retired pay for existing retirees was recomputed whenever active duty pay was increased. In 1958 the Congress stopped that recomputation method of adjusting retired pay because it was becoming very costly. At that time active duty pay was rising faster than inflation, and recomputation was causing retired pay to increase at a more rapid rate than the Congress desired.

Between 1958 and 1963, periodic statutory adjustments in retired pay were made. Then, in 1963 the Congress replaced the recomputation method with a permanent system for adjusting retired pay based on increases in the cost of living as measured by the CPI. The philosophy embodied in this legislation was that retired pay would be fully protected against the effects of inflation. Although there was a period when active duty pay increased more rapidly than inflation, beginning in fiscal year 1974 the tables turned, and retired pay cost-of-living adjustments began to climb faster than active duty pay. This, coupled with the effects of executive-level pay caps, brought about a situation where newly retired military members received less in retired pay than they would have had they retired at an earlier date when first eligible.

Benefit of 1-year "look back"

The 1-year "look back" provision was enacted on December 16, 1967, as a technical amendment to Public Law 90-207. It added subsection(e) to 10 U.S.C. 1401a--the section which provides the basis for calculating and adjusting military retired pay. Subsection (e) states that the retired pay of members who retire on or after October 1, 1967, could not be less than it would have been if the member had become entitled to retired pay on the day before the effective date of the basic pay rates in effect on the date of retirement.

The technical amendment was needed because of a possible inequity resulting from the combined upward movement of the CPI together with the transitional provisions contained elsewhere in the then pending legislation. 1/ The equity concern was that, because of changes in the formula for increasing retired pay, there would have been situations without the technical amendment where persons retiring after the effective date of the legislation would receive less retired pay than certain individuals in the same circumstances retiring before the effective date of the legislation. The amendment was adopted to insure that those retiring after the effective date of the bill but before the next active duty pay raise (Oct. 1, 1968) would receive as much in retired pay as comparable members retiring before the legislation's effective date.

Although apparently intended as a temporary measure, subsection (e) became permanent law. In practice, this provision permits a military member who retires when first eligible to have his or her retired pay calculated using the pay rate in effect up to 1 year before the member first became entitled to retired pay. The initial amount of retired pay is calculated as: (1) the member's basic pay using the one prior pay scale, but at his current grade and longevity step at date of retirement, times (2) 2.5 percent for each year of service, not to exceed 75 percent of the basic pay rate of the one prior pay scale, plus (3) any cost-of-living adjustments to retired pay which have occurred since that prior pay scale.

While individuals with 20 years of service currently retiring under the October 1, 1981, pay scale will receive more retired pay by using the current pay table than they would by "looking back" to the previous pay table, the following examples illustrate the effect of the 1-year "look-back" provision on an officer and an enlisted person who retired with 20 years of service on March 1, 1981.

	Officer	Enlisted
Pay grade on date of retirement	0-4	E-6
Years of service at retirement	20	20
Monthly active duty pay at retirement	$2,297.70	$1,072.20
Monthly retired pay <u>without</u> 1-year "look back"	$1,179.87	$ 550.57
Monthly retired pay with 1-year "look back"	$1,189.77	$ 555.24
Monthly value of 1-year "look back"	$ 9.90	$ 4.67
Annual value of 1-year "look back"	$ 118.80	$ 56.04

1/Senate Report No. 808, pp. 2, 3, 11 to 14 and 19 (to accompany H.R. 13510 which became Public Law 90-207).

Benefits of multiyear "look back"

Public Law 94-106, enacted October 7, 1975, further amended 10 U.S.C. 1401a by adding subsection(f). This provision, originally proposed as a replacement to subsection(e) but subsequently enacted as an additional provision, permits a member who retires after he or she first becomes eligible for retirement to receive the most favorable rate of retired pay the member would have received had he or she become entitled to retired pay on the earlier date.

While there are almost as many variables that can affect an individual's retired pay calculation as there are retiring service members, the following examples illustrate the value of the multiyear "look back" provision for two hypothetical persons retiring on March 1, 1981. Because the use of "look back" establishes a higher base for calculating future retired pay cost-of-living adjustments, the lifetime cost of this provision can be considerable.

	Officers	Enlisted
Pay grade on date of retirement	0-8	E-8
Years of service at retirement	30	30
Monthly active duty pay at retirement	$4,176.00	$1,626.00
Monthly retired pay <u>without</u> "look back"	$3,216.56	$1,252.43
Monthly retired pay <u>with</u> multiyear "look back"	$3,469.73	$1,279.95
Monthly value of multiyear "look back"	$ 253.17	$ 27.52
Annual value of "look back"	$3,038.04	$ 330.24

If the individuals in the above illustration had retired on March 1, 1982, with the same rank and years of service, they would have received more retired pay using the current pay scales than they would by "looking back" to any previous pay scale.

"Look back," however, does have considerable value to some current retirees depending upon their rank, total years of service, time in grade, and their selected date of retirement. This is especially true for officers and enlisted members with over 30 years of service, particularly if (1) they are senior Admirals or Generals who have had their pay limited for several years by the Federal executive level pay cap or (2) they have been at the top longevity step of their pay grade for several years. For example, a Major General (0-8) with 34 years of service, but with one year in grade, whose active duty basic pay is capped at $57,500, retiring in June 1982, will have his initial annual retired pay increased by $1,231--from $43,426 to $44,657--by "looking back" two previous pay scales and adding the intervening retired pay cost-of-living adjustments. Similarly, a 35-year Lieutenant General (0-9) with 3 years in grade retiring in July 1982, whose active duty basic pay is also capped at $57,500, will have his initial annual retired pay increased by $9,840--from $43,426 to $53,266--by looking back four previous pay scales and adding the intervening retired pay cost of living adjustments.

DOES "LOOK BACK" IMPROVE RETENTION AND IS IT NEEDED FOR THAT PURPOSE?

As previously discussed, the legislative history of the 1-year "look back" indicates that it was intended to remedy a possible temporary inequity. Nevertheless, the services have contended that both "look-back" provisions are needed to help keep highly qualified military personnel on active duty beyond when they first become eligible to request retirement. Although not currently an official DOD position with regard to the 1-year "look back," military service officials told us that, in their opinion, eliminating either provision would cause a mass exodus of senior career personnel.

Because we could find no quantitative evidence to support the services' belief that either the 1-year or multiyear "look back" provision has retention value, or that a mass exodus of careerists would occur if either were revoked, we asked each service and the Office of the Assistant Secretary of Defense (Manpower, Reserve Affairs and Logistics) to provide data which would show that either "look-back" provision has resulted in retaining highly qualified officers and enlisted members who would otherwise have retired. The services responded that they do not know either the cost of "look back" or its benefits in terms of the numbers of people who remain on active duty longer because of the provisions. However, they stated that, in their judgment, these provisions are relevant to an individual member's decision to retire or remain on active duty. The Air Force best expressed the services' views by stating, in part, that:

> "[Both] look back provisions help keep senior NCOs and officers on active duty longer. * * * Retirement is a motivator for a military career; more specific features of the retirement system, such as the look back provisions, take on growing importance as the member reaches 20 years of service; look back becomes critically important to the decision to remain past 20 years. While difficult to quantify, the look back features are a factor in the individual's decision to enlist in the first place, in that some individuals are probably

> not going to commit to a military career of any length if they are going to be restricted to a 20-year maximum career, which is what the financial result of loss of look back would produce."

* * * *

> "It is important to keep in mind that both of these look back provisions are intended to reduce the incentive for highly experienced personnel to retire earlier in their careers. They do not provide such members any substantial monetary gain in return for serving longer, but merely help protect them against incurring serious financial penalty in return for longer, invaluable service."

In our opinion, the services' argument that the 1-year "look back" provision serves as a retention incentive is not reasonable since those who benefit the most from it are those who retire with only 20 years of service. Because the 1-year "look back" feature is used by the services to permit retired pay to be calculated using the pay scale in effect before an individual is entitled to receive retired pay, it could, in fact, serve as a retention disincentive under some circumstances. For example, if a large active duty pay increase was received in an individual's 19th year of service, but in the 20th year the retired pay cost-of-living adjustment was greater than the active duty pay adjustment, the services could make it financially advantageous for the individual to retire in his or her 20th year rather than remain on active duty.

ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301

MANPOWER,
RESERVE AFFAIRS
AND LOGISTICS

11 JUN 1982

Mr. Clifford I. Gould
Director, Federal Personnel and
Compensation Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Gould:

We have reviewed the GAO draft report dated May 5, 1982, "Military Retirement "Look-Back" Provisions Not Justified: Substantial Savings Could Result From Elimination" (Code 967005; OSD Case #5972). This reply confirms the results of the May 13 meeting between representatives of your office and this Department.

We are not opposed to the recommendation for repeal of section 1401a(e) of title 10, United States Code, concerning the one-year "look-back" in the computation of initial amounts of military retired pay. This recommendation is consistent with a legislative proposal of the Administration.

We do not agree with the recommendation to revoke the multiyear "look-back" provision authorized by section 1401a(f) of title 10, United States Code, in the calculation of initial amounts of military retired pay. That feature was expressly provided to preclude the situation whereby a member would face financial penalty in retired pay for continued active service.

We appreciate the opportunity to provide these comments and to meet with your staff.

Sincerely,

James N. Juliana

James N. Juliana
Principal Deputy Assistant Secretary of Defense
(Manpower, Reserve Affairs & Logistics)

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