



Highlights of [GAO-04-1005](#), a report to congressional committees

Why GAO Did This Study

Since September 11, 2001, National Guard and Reserve personnel have served, and will continue to serve, a critical role in the Global War on Terrorism. As a consequence, Congress has focused attention on the fair treatment of reservists and directed GAO to review, among other things, the Department of Defense's (DOD) reserve retirement system. Currently, five legislative proposals exist that would lower the age when eligible reservists can receive their annuities. GAO assessed (1) DOD's reserve retirement system as compared to 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, and (3) the potential costs and effects of the five legislative proposals.

What GAO Recommends

GAO recommends that DOD specify desired metrics for measuring the retention or attrition of senior officer and enlisted reservists most likely to be affected by changes to the reserve retirement system; determine if any gaps exist; identify changes, if any, to the current reserve retirement system that would address these gaps, to the extent that they exist; and evaluate any changes to the reserve retirement system in the context of the total force. In commenting on a draft of this report, DOD concurred with each of GAO's four recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-04-1005.

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.

MILITARY PERSONNEL

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

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.

Estimated 10-Year Increase in Appropriations of Five Legislative Proposals, Fiscal Years 2005-2014 (dollars in billions)

| Increased costs | Immediate annuity | Age 53 on a sliding scale | Age 55 on a sliding scale | Age 55 with reduced annuity |
|-----------------|-------------------|---------------------------|---------------------------|-----------------------------|
| Retirement fund | \$20.45 | \$7.60 | \$2.88 | \$3.59 |
| Health care | \$14.24 | \$6.03 | \$2.49 | NA |
| Total | \$34.69 | \$13.63 | \$5.37 | \$3.59 |

Source: GAO analysis of DOD data.