Defense Report
AUSA

The Bill for Military Retirement Is Growing Larger. Why Not Pay For It in Installments?

The military services carry more than 1,200,000 retirees on their roles. A very small handful of the retirees served in the Spanish-American War at the turn of the century. A larger number served during World War I and a much larger number retired after World War II. The number of retirees whose service encompassed Korea and Vietnam is growing at a steady rate. Quite obviously, the number of wars the United States has been involved in during this century, the very large numbers of people who have served during those wars and the expanded size of our peacetime forces have all contributed to the total of people eligible to retire because of disability or length of service.

It will cost about $11 billion to pay the cost of these retirements during the current fiscal year and even more next year. Defense Department actuaries have looked into the future and have calculated that, based on the expected retiree population and the prediction of six-percent inflation each year, the United States has accumulated a military retirement liability totaling $300 billion. This will have to be paid as it becomes due each year, since no money has been set aside in the past to be applied to this obligation.

Military retired pay is part of the annual Department of Defense budget. As such it represents a past cost of maintaining our military readiness because the benefit of the retirement system is a major factor in encouraging people to join our armed forces and to stay in for a full career. But, unlike some of the other costs of running the defense establishment, the retirement benefit accrues costs that reach far out into the future.

While no one has threatened to renege on the indebtedness already incurred, this long-term cost sporadically becomes the focus for threats to change the retirement system in the future. One of the most obvious changes that becomes apparent to those who have not studied the problem in depth is to make the system contributory so the individual service member pays at least part of the cost. The President's Commission on Military Compensation studied this alternative a couple of years ago. It concluded that by the time the government augmented military pay to offset the loss of income caused by forced retirement contributions and set up the machinery to administer a contributory program there would be no real saving.

There is another, better way to shrink the long-term retirement bill. By undertaking to set aside a specified amount of money each year for every person serving on active duty, the Defense Department would gradually build up a fund to pay for their eventual retirement. This fund could draw interest and be managed like many parallel retirement funds in the civilian sector. Obviously, the fund would not be of much help in supporting the retirement of those service members already well along in their careers, but 20 or 30 years hence it could entirely pay for the retirement of those who enlist after the fund is established.