



AUSA Torchbearer Issue: Military Retirement – The Redux Dilemma

The armed forces are showing signs of difficulty in attracting qualified individuals to volunteer for military service. Those who do volunteer for military service are not reenlisting at a rate sufficient to meet the services' requirements for seasoned personnel. These issues of military recruiting and retention in turn have a deleterious effect on the readiness of the armed forces to conduct a diverse range of military operations. Simply, if there are not enough trained individuals to operate a weapon system in a deploying unit, the shortage is made up by moving personnel from another unit, thus degrading the second unit's readiness to operate if called upon.

In testimony before the Senate Armed Services Committee on 29 September 1998, the Chairman of the Joint Chiefs of Staff, General Henry Shelton, pointed out that servicemember pay has been allowed "to fall well behind that of their civilian counterparts." (This topic is addressed in *Defense Report 98-7*.) He went on to say, "Another key factor affecting our force today is the different retirement system for the most junior two-thirds of our force."

The chairman stated that the area of greatest need for additional defense spending is "taking care of our most important resource, the uniformed members of the armed forces." To meet this need, he enjoined the committee members to "close the substantial gap between what we pay our men and women in uniform and what their civilian counterparts with similar skills, training and education are earning" and to "fix the so-called Redux retirement system and return the bulk of our force to . . . a retirement system that provides 50 percent of the average base pay upon completion of 20 years of service."

While there is no analytical statistic that has predicted soldiers, sailors, airmen and marines are leaving the service because of the inequitable retirement systems, or that those who serve for 20 years will not

serve longer, the anecdotal evidence is becoming increasingly visible. Much of this has come to the surface during Secretary of Defense William Cohen's recent visits to military installations, where he has had open discussions with servicemembers. Military retirement is the primary topic of discussion. In response, Secretary Cohen has made a commitment to seek congressional action to redress the retirement inequity.

Currently there are three military retirement systems in effect. The "traditional" system (applicable to those who entered the service prior to 8 September 1980) provides 50 percent of final basic pay after 20 years of military service; a "high-three" system (for those who entered the service between 8 September 1980 and 31 July 1986) provides 50 percent of the average basic pay received over the three years when basic pay was highest; the third version, referred to as "Redux" (applicable to those who have joined since 1 August 1986), provides 40 percent of average basic pay. Full annual cost-of-living adjustments (COLAs) based on the rate of inflation are provided under the traditional and high-three systems; under Redux, the COLA is reduced by one percentage point.

The Military Retirement Reform Act of 1986 changed the method of calculating retirement for anyone entering military service after 31 July 1986. The resulting Redux system was designed to encourage service beyond 20 years; the incentive is an additional 3.5 percent of basic pay for each year of service beyond 20, up to 75 percent for 30 years' service, the same as the two older systems.

The critical assumption of this 1986 act was that more potential 20-year retirees would serve longer in order to reap the additional retirement benefits. However, this was a Cold War assumption, made when the armed forces were considerably larger and there was

more . . .

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stability in the manning levels. The reductions in manpower since the end of the Cold War have greatly reduced the opportunities to pursue longer military careers, particularly beyond 20 years.

More and frequent operational deployments, family separations, degradation in quality of life — particularly health care, compensation and the less attractive Redux retirement system — are acting in synergy to make longer careers less attractive.

The table summarizes the important characteristics of each of the three retirement systems. By way of example, the table reflects the differences in real retirement pay (expressed in constant 1998 dollars) for an E-7 under each retirement system. In the first year of retirement, the E-7 retiring under the Redux system receives 25 percent less retirement pay; in the 22nd year of retirement, the reduction of COLA by one percentage point has taken a greater toll. Now the Redux E-7's retirement pay is 35 percent less than that of E-7s retiring under the other two systems.

At age 62 the retirement pay of the Redux retiree is increased to the 50 percent level enjoyed by the high-three retiree; however, subsequent annual COLAs will remain one percentage point below those received by the traditional and high-three retirees. Over time, the Redux retiree will again fall farther behind retirees in the other two categories of retirees with each passing year.

Redux has created a morale problem among soldiers who see those retiring under the other programs enjoying a more substantial retirement. Diminished benefits in other arenas — particularly soldier pay — and

the reduced future benefits of retirement are disincentives to reenlistment and longer military careers. For the soldier who enlisted after 1 August 1986, military service is less valued by the nation.

System	% Basic Pay	Age 39	Age 61	Age 62	Age 76
Traditional	50	14,366	14,366	14,366	14,366
High-Three	50	13,486	13,486	13,486	13,486
Redux	40	10,789	8,714	13,486	11,772

(Source: The Retired Officers Association)

What needs to be done? The Chairman of the Joint Chiefs of Staff and each of the service chiefs have pointed out the importance of returning to the system of 50 percent of basic pay for 20 years' service. Several congressional leaders have voiced their support, and the momentum for legislative relief is building for action by Congress in 1999. The bottom line would require Congress to legislate a return to the 50/20 retirement system by authorizing and appropriating *additional* defense dollars and not simply shifting funds from other already stretched defense programs.

Resolving this issue — along with other quality-of-life issues, particularly the pay gap (addressed in *Defense Report 98-7*) — will do much to make service in the Army more attractive to qualified potential soldiers and reenlistment and continued service more attractive to seasoned soldiers.

Summary and Talking Points

- 🔦 The Army and other services are showing signs of difficulty in attracting qualified individuals to volunteer for military service and seasoned soldiers to reenlist.
- 🔦 Anyone who entered military service after 1 August 1986 falls under the Redux retirement system, which provides 40 percent (as opposed to 50 percent for earlier enlistees) of basic pay and reduces annual COLAs by one percentage point.
- 🔦 The less attractive Redux retirement makes military careers less attractive and contributes to a perceived inequity when compared with the more generous retirement for those who entered service prior to 1 August 1986.
- 🔦 A typical E-7 retiring under Redux will receive 25 percent less retirement pay the first year; this increases to 35 percent at age 61.
- 🔦 The momentum for a return to the 50/20-retirement system is building as civilian and military leaders call for congressional action.
- 🔦 The bottom line requires congressional action to legislate a return to the 50/20 retirement system by *adding* the needed funds to the defense budget rather than shifting funds from other already stretched defense programs.



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