



Another Attack

on

Cost-of-Living Adjustments

for

Military Retirees

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Another Attack on Cost-of-Living Adjustments for Military Retirees

More than 1.5 million Americans, many of whom spent major portions of their adult lives fighting or training to fight this nation's battles, are once again engaged in the continuing struggle to maintain the value of their retired pay. They are the men and women who have served 20, 30, or more years in the Armed Forces of the United States and are currently entitled to receive the retired pay authorized by Congress.

For many of them, this fight is nothing new. For decades, they have been forced to contend with efforts to balance the budget or to reduce the huge government deficit by capping, cutting, or wiping out the periodic cost-of-living adjustments, or COLAs, that help to ensure that the value of their retired pay will not be diminished by inflation.

A Congressional Commitment

For the most part Congress has done well to guarantee the purchasing power of military retired pay. Every year since 1969, the following commitment has been found in the committee print of Title 37, United States Code, *Pay and Allowances of the Uniformed Services*:

The cost-of-living adjustment (COLA) reflects the progressive effort made by both the Executive Branch and the Congress to develop an automatic mechanism which would provide **every military retired member** the same purchasing power of the retired pay to which he was entitled at the time of retirement and that it would not, at any time in the future, be eroded by subsequent increases in consumer prices.

The Value of the Retirement System

Adherence to that commitment is tacit recognition by Congress that retired military compensation is a major contributor to the system that serves to shape a ready armed force and support mission readiness. For the U.S. Armed Forces the fundamental needs of the retirement system are to:

- maintain young, vigorous and mission-ready forces capable of operating efficiently both in peace and war by providing for a continuing flow of officers and enlisted personnel to meet the services' needs;
- establish the choice of a career in the uniformed services as a reasonable competitive alternative by providing a measure of financial security after release from active or reserve duty (retirement) for service members and their survivors; and

- support a mobilization base of experienced personnel subject to recall to active duty during time of war or national emergency.

Military Service is Different

This must be accomplished under conditions of employment which are not found in any other field in the world. Service members, without recourse, can be:

- legally required to fight anywhere in the world, and may be punished if they refuse to do so;
- exposed to hazards when and as long as the national leadership believes appropriate, without regard to personal preference, and may be used to perform whatever tasks are required without rigid conformance to the occupational specialty of the individual;
- “released”, despite fully satisfactory performance, in mid-career for any momentary convenience to the government, while others are not allowed to leave even though they may desire to;
- retired without regard to personal preference or family circumstance, and may be recalled to active duty when the need arises.

Previous Efforts to Cut COLAs

The frequency of retired pay increases and the formula by which they are computed have both been altered from time to time, but the guarantee of an inflation-adjusted retirement system has been kept consistently for over twenty years. (One exception: The retired pay increase of 3.1 percent for December 1985 was cancelled by the Gramm-Rudman-Hollings Act.) This may appear to be an ideal situation for military retirees, but it does not reflect the numerous attempts to cut federal spending by reducing the amount of the annual COLA or by skipping one or more adjustments altogether.

Just last year, the Office of Management and Budget attempted to eliminate the protection from sequestration of retired military COLAs — the same protection enjoyed by Social Security annuitants, federal civilians and veterans, and by all other COLAs. Congress refused to act on that suggestion and allowed military retirees and their survivors to receive a 3.0 percent COLA, the smallest in six years.

The Impact of Earlier COLA Cuts

Consider what would have befallen military retirees had the sequestration protection been lifted. That happened in 1985 when a military and federal civilian COLA was eliminated (but not the COLA on Social Security). The loss of that 3.1 percent COLA in 1985 had produced the following cumulative results by December 1992:

- The average retired officer had contributed **\$5,603** toward deficit reduction;
- The average retired enlisted member had contributed **\$2,906**;
- The average Survivor Benefit Plan recipient had contributed **\$1,571**;
- Collectively, this segment of the population had already contributed **\$5.4 BILLION** for deficit reduction. Except for federal civilian retirees, who similarly were discriminated against by G-R-H, no other segment of the population, **to include congressional retirees**, has made comparable financial sacrifices to reduce the deficit.

Current Proposals

This year the COLA-cutting knife is wielded by the House Budget Committee who, without benefit of public hearings on the matter, wrote into the 1994 Concurrent Budget Resolution proposals that would: (1) cancel a planned 2.2 percent military and federal civilian pay raise; (2) put a \$400 cap on retirees' 1994 COLA; (3) restrict COLAs for retirees under age 62 to half the rise in the Consumer Price Index (DIET COLA); and (4) hold COLAs for those over age 62 to one percentage point less than the CPI through 1997, at which time full inflation-matching increases would resume.

In a conference between the House and Senate it was decided to reduce COLAs only for federal retirees under the age of 62. Cost-of-living adjustments for military and federal civilian retirees under age 62 would be limited to 50 percent of the increase in the Consumer Price Index (CPI), while full COLAs would be provided to retirees over 62 and to Social Security annuitants and recipients of veterans' disability compensation. To compound the discrimination, full COLAs would be provided to federal civilians who are forced to retire before age 62 (i.e., firefighters, law enforcement officers and air traffic controllers), but not to military personnel in similar circumstances.

The Latest Change

In its mark-up of the 1994 Defense budget, the House Armed Services Committee would scrap the Budget Resolution proposal for an under-62 DIET COLA in favor of a plan to give full but delayed cost-of-living increases to military retirees of all ages in 1994 through 1999. Current law gives COLAs to retirees each December 1 and makes them payable each January 1. The Armed Services Committee's alternative is called a "rolling COLA." It would delay the 1994 COLA until May and then give full COLAs every 15 months, instead of every 12 months. The result would be that retirees would forgo one and one-third COLAs in the five-year period. Survivors and disabled retirees would be exempt from the delays.

Who Really Pays the Bill?

Military retirees will carry the brunt of the first proposal since they almost always retire before 62, while most federal civilian employees retire at about age 62. With few exceptions, military personnel do not have the option of remaining on active duty until age 62. Most of those who even qualify for retirement are forced out of the service in their early to mid-40s. This situation is greatly exacerbated in the current Defense drawdown environment which is forcing thousands of service members to retire prematurely during an era plagued by high unemployment in the private sector. **This means that, of the estimated savings of \$2.7 billion, military retirees can be expected to shoulder about \$2.3 billion.**

Some Specific Examples

Take the case of a sergeant first class, age 40, who retires this year after 22 years in the Army. His retired pay is \$1,236.02 per month. (If he happens to have a wife and two children — the average size family of retirees — his annual retired pay is \$14,832.24, which puts him right at the poverty level for a family of four.) Assuming a four percent annual inflation rate and a full COLA, he would be receiving \$2,929.26 per month by age 62.

If, however, the sergeant first class were required to subsist on the DIET COLA (half the assumed inflation rate, or two percent), his monthly retired pay at 62 would be \$1,910.85. That's a difference by then of \$1,018.40 per month or \$12,220.81 per year less than he would receive with the full COLA. In all, the imposition of the 50 percent COLA (with four percent annual inflation) would cause him to forfeit \$115,289.43 in the first 22 years of his retirement.

Another Way of Looking at It

In a year when the CPI rises three percent, a 55-year-old retiree would be allowed half that, or a 1.5 percent COLA. If that person's retired pay were \$20,000, he would realize an increase of \$300 rather than a full COLA of \$600. By the time that retiree reached age 62, compounding would have caused him to lose a total of \$9,189.94 in benefits.

Even with the proposed catch-up benefit at age 62 to bring the retiree's COLA to the level it would have been had there been no reduction, **he or she would never recover the \$9,189.94.** That benefit would be lost forever.

Why Are Military Retirees Targeted?

Senate Budget Committee Chairman Jim Sasser (D-TN) has said that military retirement should not escape scrutiny while Congress is trying to control spending because it looks generous in comparison to other federal benefits. He is quoted in the March 22, 1993 *Congressional Record* as saying: "Ask these lieutenant generals, who are sitting around drawing these large retirements right now, how much they paid into their retirement funds. Not one dime."

Or consider the words of Rep. Christopher Shays (R-CT) from the March 16, 1993, Congressional Record: "It makes no sense for the private sector to work to age 65 so that a public employee can retire at age 55. And it certainly makes no sense to provide a cost-of-living increase for someone age 40 when by the time they are 55, they will be making more in retirement than they made when they were actually working."

Also on March 16, Rep. Jim Kolbe (R-AZ): "We would not change the military retirement system that allows someone to retire after 20 years of service or 25 years or 30 years. All we would do is say that once they retire they do not draw the cost-of-living adjustment every single year until they reach age 62. Ninety-five percent of people who retire from the military go on to get another job and have another income."

The proposal to limit retiree COLAs was raised by Rep. John Kasich (R-OH) and it was quickly endorsed, in turn, by some conservative House Democrats, then by the House Budget Committee, by the White House and finally by both the House and the Senate as part of the 1994 Budget Resolution.

Considering the above, the basic argument for cutting military retired pay seems to be: (1) it's too generous; (2) it's noncontributory; (3) most military retirees get second jobs; (4) all are eligible for Social Security; and (5) everybody must sacrifice. All these arguments indicate a lack of understanding of the purposes and processes of the military retirement system, including the long-standing guarantee of protection from inflation.

What's Wrong With Those Arguments?

The contention that military retired pay is too generous comes from the mistaken impression that all service people retire at half pay after just 20 years' service. To begin with, only about 13 percent of all those entering active service ultimately retire. During their entire careers each has been subjected to continuous quality screening (promotion boards, bar to reenlistment, etc.) to the point where those reaching a 20-year career represent the top 10 percent of all service personnel, the top two percent at 30 years or more. Clearly they are not average individuals.

When comparing military retirement with that of civilians, the majority of whom work in one place until their 60s, keep in mind that military personnel **DO NOT** retire at half their military "salary". Military retired pay is calculated on the basis of the active duty **basic** pay and considers neither housing and subsistence allowances nor the tax advantage resulting therefrom. **For a sergeant first class retiring at 20 years, retired pay replaces only about *one-third* of active-duty income.**

Who Contributes? Who Doesn't?

There are two aspects of Senator Sasser's comments, cited above, that bear comment. The first is the senator's use of "these lieutenant generals who are sitting around drawing these large retirements" for which they haven't paid "one dime". The proposed COLA cuts would do a lot more

damage to the purchasing power of the more junior NCOs and officers who retire at 20 years than to the much smaller numbers of generals and admirals, most of whom are near the 62-year-old mark when they retire. Nearly 58 percent of military retirees are under age 62, while only 15 percent of civil service retirees are under 62. The average officer retires at age 45 and the average enlisted person at 40. The average civil service or postal worker retires at 61.

A half-COLA would mean that military people, who are forced to retire in their early 40s, would see their retired pay value cut almost in half by age 62. Before the legislators vote another reduction in the value of military retired pay, they need to be reminded of the contributions previously made by military retirees. In general, pay raise caps in the late 70s and mid-80s have already depressed military pay and retired pay nearly 12 percent below comparable civilian compensation.

But these monetary contributions don't come near telling the whole story. In no other profession are the employees required to endure the hardships inherent in military service: the frequent government-ordered moves which require numerous school changes for children and make working spouses start new careers every few years; the family separations; exposure to the hazards of training and combat; forfeiture of personal freedoms; and, as one retiree put it: "For what other American is saying no to the boss literally a federal offense?"

The Need For Second Jobs

Reps. Kasich and Kolbe justified capping COLAs for under-62 retirees on the basis that these people don't need the annual inflation protection because so many of them obtain post-retirement employment. In fairness, the congressmen should have stated why so many of the younger retirees must go to work. It's because they can't live on their retired pay, given that **their retirement income is often two-thirds less than their active duty pay.**

In the most recent survey conducted by AUSA, nearly 25 percent of the enlisted retirees with a spouse and one child were receiving retired pay that put them below the poverty level. Add one more dependent for a family of four, the most common size family of retirees, and that number increases to nearly 64 percent; with a family of five, 82 percent of the enlisted retirees were below the poverty level. Consequently the average retiree must work at a post-retirement job, **if** he or she is able to obtain employment in periods of depressed job markets. Neither Rep. Kasich nor Rep. Kolbe seems to have considered the lack of vacancies in their home districts for former platoon sergeants, artillery section chiefs or Bradley master gunners.

In the matter of Social Security benefits, yes, it is additive — but not until the beneficiary reaches age 62 at the earliest, which makes the matter nongermane in the current debate. Also, keep in mind that **military personnel pay into Social Security all their working lives just like everyone else.**

It's Just Not Fair!

The final argument made in Congress — that everyone must sacrifice — stands in contradiction to the wording of the FY94 Budget Resolution. The proposal to limit cost-of-living adjustments to 50 percent of the Consumer Price Index (CPI) for personnel under 62 unfairly targets service members who are not allowed to serve until age 62 like most federal employees.

Under the proposal, all FY94 COLAs are capped at half the CPI or \$400, whichever is less. It's after '94 that the proposal becomes discriminatory. No sacrifice is asked of military and federal civilian retirees over 62, of Social Security annuitants, or of veterans who are paid by the Department of Veterans Affairs, all of who would receive full COLAs. Full COLAs would also go to federal civilians such as firefighters, law enforcement officers and air traffic controllers who are forced to retire before age 62.

The fact that the current proposal discriminates against military retirees bears repeating. Military "up or out" personnel policies, which insure that only the most competent are promoted, preclude the majority of service personnel from serving beyond their early to mid-40s. At the same time only about 15 percent of federal civilian employees retire before reaching age 62. Thus, 85 percent of the projected savings must be borne by military retirees. Can that be called equitable?

What Needs To Be Done?

In the first place, this year's COLA-cutting plan was spawned in the House Budget Committee in a mad scramble to counter some of the tax increases proposed by President Clinton's FY 1994 budget. That such a major change to the military retirement system should be proposed without benefit of open hearings is incredible. Both the House and Senate Armed Services Committees should hold extensive hearings on the matter, with the services' chief personnel officers providing perspective on the retention and readiness implications of cutting the muscle out of the Armed Forces' primary retention incentive.

The Association of the United States Army is opposed to the half-COLA and has joined with The Military Coalition, which represents 24 military-oriented organizations, in urging all members to send the "COLA Alert Message" printed below to both senators and the representative in each member's state and congressional district. This can be easily accomplished by calling our **COLA ACTIONHOTLINE** at **1-800-392-5700**. The total cost for your three messages is \$7.25. This can be charged to your phone bill or VISA or MASTERCARD.

To use the COLA ACTION HOT LINE:

- **Dial Western Union's toll-free hot line number: 1-800-392-5700. This service is available seven days a week, 24 hours a day.**
- **Give the operator your full name, address, zip code and telephone number. Ask the operator to send the prestored message to your senators and representative. It is not necessary to know their names or addresses to send the message. The operator has this information.**
- **The total cost of your three messages is \$7.25. This can be charged to your phone bill or VISA or MASTERCARD.**
- **Those callers whose phone services are provided by US WEST will receive an invoice directly from Western Union instead of charges on their phone bill.**

ACT NOW TO SAVE YOUR COLA!

Send this message today!

WESTERN
UNION

Dear Senator/Representative _____:

The FY94 Budget resolution redefines the term, "COLA discrimination." Under the resolution, cost-of-living adjustments (COLAs) for military and Federal civilian retirees under 62 would be limited to 50 percent of the increase in the Consumer Price Index (CPI), while full COLAs would be provided to retirees over 62, Social Security annuitants and recipients of veterans' disability compensation. To compound the discrimination, full COLAs would be provided to federal civilians who are forced to retire before age 62 (that, is firefighters, law enforcement officers and air traffic controllers), but not to military personnel in similar circumstances.

It is incredible that the resolution did not formally recognize that career military members have no opportunity to remain on active duty until age 62 (average enlisted retirement age 40; average officer retirement age 45). Dramatic defense force reductions are forcing others to retire before completing 30 years of service. How can anyone possibly justify such singularly discriminatory treatment of military personnel, let alone such an extraordinary financial penalty?

The military retirement system is the Services' most powerful retention incentive. Such a major change should not be implemented without extensive hearings by the Armed Services Committees to assess the readiness impacts.

The Budget Resolution also violates the statutory guarantee contained in the Omnibus Budget Reconciliation Act of 1986, which guaranteed military and Federal civilian retirees they would receive the same COLAs as those provided to Social Security annuitants. In the interest of fairness, I ask that you sustain the commitment made by Congress in 1986 and eliminate the one-half COLA provision contained in the 1994 Budget Resolution.

Awaiting your reply with kind regards, I am,

Sincerely,