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U.S. Army Retirees: Retired Pay and Health Care at Risk

Introduction

People—dedicated men and women who sacrifice many comforts of civilian life to answer the call to serve—are the cornerstone of the U.S. military, the all-volunteer force. To attract, retain and fairly compensate those who dedicate their lives to service, the military has long offered its careerists adequate retirement pay packages in return for their dedication. Retirement benefits are a covenant with servicemembers who, despite comprising only a very small percentage of the population, bear much of the nation's burden. However, in today's strained fiscal environment, there are unofficial proposals—citing steady growth of personnel costs—that view the military retirement system as a largess and a target to be overhauled in a business-like manner.



Military Retirement Pay

The calculation of military retirement pay has changed relatively little in many decades. Soldiers who serve at least 20 years receive 2.5 percent of their highest basic salary rate for every year they served*. Effectively, under the standard option, a Soldier who retires on the 20th anniversary of his enlistment is eligible immediately to begin receiving about 50 percent of his basic pay as a retirement benefit (deferred compensation). Those who serve longer than 20 years receive a higher percentage when they retire. Those who do not complete 20 years receive no retirement benefits.

In 1986, Congress attempted to save money by making what appeared to be a relatively minor, non-structural change. Some retirees began earning only 40 percent of their basic pay instead of 50 percent and received smaller cost-of-living adjustments. This plan, referred to as "Redux," aimed to save a few billion dollars without radically altering the system. However, this compensation cut contributed to the military recruitment and retention crisis of the mid-1990s. At the urging of senior leaders, Congress repealed Redux in

Fiscal Year 2000 and repaid retirees the difference in lost benefits.

Today, servicemembers have two retirement plan options. Soldiers can commit to the standard option described above; alternately, at their 15-year mark, they can elect the old Redux plan in return for an immediate cash bonus. This simple, non-contributory, defined-benefit structure has proved effective for many decades.

An Overhaul Proposal

The Defense Business Board, an advisory panel to the Department of Defense (DoD), publicly unveiled a radical overhaul proposal for the military retirement system in late July 2011. Essentially, the board's idea is to "civilianize" military retirement benefits. Each Soldier would be given a 401(k)-like savings account upon joining the force. Like a civilian employer, the military would make defined contributions as the Soldier serves, and the Soldier would be responsible for directing the investment of funds that he or she owns. The 20-year retirement threshold would be abolished; the Soldier would be able to keep and transfer the value of the account upon departure after only a few years of service. The funds would be subject to 401(k)-like

* For Soldiers who entered service prior to September 1980, retirement pay is calculated from their final monthly basic pay. For those who entered after that date, the computation base is the average of the highest three years of basic pay (known as the "High Three" method).

accessibility rules, meaning that in most cases Soldiers would be penalized for withdrawing money from their accounts before Social Security retirement age. Soldiers would lose the financial security of today's defined-benefit structure; many of those who serve the longest would receive significantly less lifetime income. Under this proposal, the federal government shifts the financial risk to the servicemember.

Though retirement reform proposals come and go frequently, and though neither DoD nor Congress has endorsed this idea, observers are paying close attention. Due to the defense-targeting terms of the July 2011 deficit reduction law, DoD is under extreme pressure to curb growing personnel costs; such a radical change promises hundreds of billions of dollars in savings. Perhaps more important, this proposal frames the debate in such a way that less drastic cuts to military retirement could appear more realistic and palatable as Congress decides how to slash discretionary spending.

Military Health Care for Retirees

Interwoven with but distinct from the current debt crisis is the issue of reimbursement rates to civilian providers who accept Medicare patients. (Medicare and the military health care system, TRICARE, are connected.) The Balanced Budget Act of 1997 triggered steadily increasing reductions—to compensate for cost-target overruns—in the reimbursement rate to providers; however, Congress has passed short-term fixes, temporarily postponing the reductions. Such perpetual uncertainty is causing more and more providers to decline access to Medicare beneficiaries—which

Congressional Action on Medicare Reimbursement Cuts

Year	Scheduled Cut	Congressional Action
2003	-4.4%	Substituted 1.6% increase
2004	-4.5%	Substituted 1.5% increase
2005	-3.3%	Substituted 1.5% increase
2006	-4.4%	Froze at 2005 level
2007	-5.0%	Froze at 2005 level
2008	-10.1%	Substituted 0.5% increase
2009	-15.0%	Substituted 1.1% increase
2010	-21.3%	Substituted 2.2% increase
2011	-25.0%	Froze at 2010 level
2012	-30.0%	?

include Medicare-eligible military retirees (TRICARE for Life retirees).

At present, the law mandates a 30 percent reduction on 1 January 2012, severely threatening retirees' access to the care to which they are entitled. Further, several deficit-reduction panels have already proposed substantial fee increases and reductions in program benefits separate from this scenario; because of the debt crisis, Congress may be more willing than in the past to entertain these ideas as well, thereby exacerbating further a most tenuous situation.

What Is Needed

Recent history has demonstrated that cutting military retirement and health care *earned* benefits is unsustainable and counterproductive. Even mild cuts have significantly affected recruitment and retention of experienced personnel. Yet today, just as the nation is asking its Soldiers to do more with less, the incentives for their long-term dedication are at risk. It is imperative that Congress secure and defend the military retirement system that has already proved for decades its value as a cornerstone of readiness and retention. It is equally imperative that Congress protect the full value of military retirees' earned health care benefits in 2012 and beyond. Specifically, Congress must correct the Medicare payment schedule by instituting a realistic long-term plan to dispel the uncertainty in the health care system that robs military families of reliable access.

What You Can Do

Military retirement and health care benefits in place today have been *earned* through blood, sweat, arduous and demanding service and the deep pain of long absences from home—a fact easily forgotten by some during budget debates. Shifting the burden of our nation's fiscal troubles onto the backs of those experienced Soldiers most dedicated to defending our way of life is morally bankrupt. AUSA continues to advocate the preservation of the full value of military retirement and health care benefits.

For the latest developments on these and other personnel issues, please visit the AUSA website at <http://www.ausa.org>. Click on the Legislative Action Center icon to view the latest headlines and contact your elected officials to remind them that we owe a debt of more than just gratitude to those who have willingly given a lifetime of service and sacrifice to the nation.