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Military Retirement: Background and Recent Developments

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Summary

The military retirement system is a government-funded, noncontributory, defined benefit system that has historically been viewed as a significant incentive in retaining a career military force. The system currently includes monthly compensation for qualified active and reserve retirees, disability benefits for those deemed medically unfit to serve, and a survivor annuity program for the eligible survivors of deceased retirees. The amount of compensation is dependent on time served, basic pay at retirement, and annual Cost-of-Living-Adjustments (COLAs). Military retirees are also entitled to nonmonetary benefits including health care benefits, exchange and commissary privileges, and access to Morale, Welfare and Recreation (MWR) facilities and programs.

There are three general categories of military retiree–active component, reserve component, and disability retiree. Active component personnel are eligible for retirement (i.e., vested) after completing 20 years of service (YOS). Reserve personnel are eligible after 20 years of creditable service based on a points system, but do not typically begin to draw retirement pay until age 60. Finally, those with a disability retirement do not need to have served 20 years to be eligible for retired pay; however, they must have been found unqualified for further service due to a permanent, stable disability.

In FY2022, DOD obligated $65.4 billion for 2.3 million military retirees and survivors. Given the size of the program, some have viewed military retirement as a place where substantial budgetary savings could be made. Others have argued that past modifications intended to save money have negatively affected military recruiting and retention. Military retirees, families, and veterans' interest groups closely monitor potential changes to the retirement system. When considering alternatives to the current system, Congress may choose to consider the balance among (1) the benefits of the military retirement system as a retention incentive, (2) budget constraints, and (3) the needs and concerns of constituents.

Contents

Figures

Tables

Appendixes

Contacts

Overview

The military retirement system is a government-funded benefit system that has been viewed historically as a significant incentive in retaining a career military force. The system includes a defined benefit element for all retirees and a defined contribution element for certain eligible retirees. The defined benefit includes a monthly annuity for qualified active and reserve retirees paid out of the Military Retirement Fund. The defined contribution benefit includes government-matching payments into an individual retirement Thrift Savings Plan (TSP) account. The amount of the retirement annuity depends on years of service (YOS) and basic pay at retirement. It is adjusted annually by a Cost-of-Living Adjustment (COLA) to help protect the annuity from the effects of inflation. Military retirees are also entitled to nonmonetary benefits, which include health care benefits, exchange and commissary privileges, and access to Morale, Welfare and Recreation (MWR) facilities and programs.

The military retirement system has evolved since the late 1800s to meet four main goals.

- To keep the military forces of the United States young and vigorous and ensure promotion opportunities for younger members,
- To enable the Armed Forces to remain competitive with private-sector employers and the federal Civil Service,
- To provide a reserve pool of experienced military manpower that can be called upon in time of war or national emergency to augment active forces, and
- To provide economic security for former members of the Armed Forces during their old age.[1]

Among active-duty personnel, eligibility for a monthly pension is generally based on a service requirement of at least 20 years of (active) service. For reserve component personnel, the system is based on a point system, and reservists do not generally begin to receive retired pay until the age of 60. Both the active and reserve component retirement systems *vest* at 20 years of qualifying service.[2] However, some members who are retired with a physical disability may receive a pension with fewer years of service. Disability retirement offers two retirement compensation options: based either on years of service (longevity) or on the severity of the disability.

In FY2022, DOD obligated $60.9 billion for approximately 2 million military retirees, and an additional $4.4 billion for 304,197 survivors.[3] (see **Table 1).**

[1] U.S. Department of Defense (DOD), *Military Compensation Background Papers: Compensation Elements and Related Manpower Cost Items, Their Purposes and Legislative Backgrounds*, Eighth Edition, July 2018, p. 55.

[2] Vesting in the military retirement system is commonly referred to as "cliff vesting." Until the 20-year point, there is generally no vesting. At 20 years, the servicemember becomes fully vested. However, individuals can receive retirement benefits with fewer than 20 years of service under the disability retirement system and under Temporary Early Retirement Authority (Section 4403, P.L. 102-484, October 23, 1992; 10 U.S.C. §1293 note).

[3] DOD, *Statistical Report on the Military Retirement System*; Fiscal Year Ended September 30, 2022, Office of the Actuary, October 2023, p. 22.

Table 1. DOD Retired Military Personnel, Survivors, and Program Obligations, FY2007-FY2022

Fiscal Year	Recipients and Total Program Cost	Regular Retirees from an Active-Duty Military Career	Disability Retirees	Reserve Retirees	Survivor Benefit Recipients
2022	2,302,649 $65.37 billion	1,428,365 $50.84 billion	133,405 $2.1 billion	436,682 $8.04 billion	304,197 $4.42 billion
2021	2,304,130 $62.60 billion	1,435,420 $48.99 billion	130,013 $1.92 billion	431,033 $7.57 billion	307,664 $4.12 billion
2020	2,321,120 $61.79 billion	1,448,021 $48.63 billion	128,911 $1.88 billion	427,025 $7.32 billion	317,163 $3.97 billion
2019	2,315,870 $60.49 billion	1,459,083 $47.77 billion	125,915 $1.80 billion	417,697 $6.96 billion	313,175 $3.96 billion
2018	2,318,431 $58.69 billion	1,465,692 $46.41 billion	123,251 $1.68 billion	412,400 $6.66 billion	317,088 $3.94 billion
2017	2,315,806 $57.4 billion	1,469,751 $45.51 billion	118,029 $1.59 billion	408,595 $6.40 billion	319,431 $3.95 billion
2016	2,312,880 $57.01 billion	1,472,140 $45.22 billion	116,141 $1.56 billion	401,580 $6.23 billion	323,019 $3.98 billion
2015	2,308,073 $56.49 billion	1,474,116 $44.93 billion	112,260 $1.52 billion	395,808 $6.08 billion	325,889 $3.96 billion
2014	2,297,889 $55.13 billion	1,473,315 $43.92 billion	107,751 $1.46 billion	389,750 $5.85 billion	327,073 $3.91 billion
2013	2,284,233 $54.00 billion	1,470,803 $43.72 billion	103,160 $1.43 billion	383,490 $5.62 billion	326,780 $3.85 billion
2012	2,272,295 $52.61 billion	1,472,087 $42.05 billion	95,910 $1.38 billion	376,052 $5.36 billion	328,246 $3.81 billion
2011	2,260,112 $50.65 billion	1,471,219 $40.53 billion	94,886 $1.36 billion	366,823 $5.06 billion	327,184 $3.70 billion
2010	2,211,580 $50.12 billion	1,467,936 $40.19 billion	92,704 $1.38 billion	356,602 $4.89 billion	299,478 $3.65 billion
2009	2,196,397 $49.16 billion	1,468,377 $39.54 billion	91,460 $1.38 billion	344,393 $4.65 billion	297,558 $3.60 billion
2008	2,170,803 $45.66 billion	1,466,705 $36.90 billion	85,502 $1.29 billion	328,664 $4.20 billion	296,580 $3.27 billion
2007	2,146,961 $43.57 billion	1,461,724 $35.51 billion	85,306 $1.29 billion	312,647 $3.86 billion	293,193 $2.92 billion

Sources: U.S. Department of Defense (DOD), *Statistical Report on the Military Retirement System*, Table: DOD Obligations and Expenditures for Military Retirees and Survivors, p, 22. Statistical reports available by fiscal year through FY2022, http://actuary.defense.gov/.

Notes: Total Program Cost is total DOD obligations for that fiscal year in then-year dollars. Survivors include the spouse, children, and others with insurable interests that are entitled to survivor benefits from the DOD Military Retirement Fund. Disability retirees includes permanently and temporarily disabled retirees.

Congress grapples with constituent concerns as well as budgetary constraints in considering military retirement issues. In the past, some have viewed military retirement as a potential source of substantial savings, arguing that the military retirement compensation is overly generous relative to pension systems in the civilian sector.[4] In particular, they note that active-duty military personnel become eligible for retirement at a relatively young age. In FY2022, the average retirement age for an active-duty, non-disability enlisted retiree was 42.1 years old and the average retirement age for an active-duty, non-disability officer retiree was 46.5.[5]

Other observers argue that the military retirement system contributes to military readiness and is fair given the unique demands of military service.[6] In addition, some have argued that past modifications to the system intended to save money have had a deleterious effect on military recruiting and retention, particularly in times of strong economic performance.

While congressionally mandated changes to the military retirement system have been infrequent, any potential changes are closely monitored by current servicemembers, retirees, survivors, and the organizations that represent them.[7]

Retirement System Eligibility and Pay Calculations

There are currently three separate but related retirement pathways for armed forces retirees: (1) for active-duty members; (2) for reservists; and (3) for those who become medically disabled and are unable to complete a 20-year military career. Each of these systems pathways has distinct eligibility requirements and formulas for calculating the retirement annuity.

Retirement pay calculations are based on the date when the servicemember first entered active duty and their *pay base* at the time of retirement.[8] The defined benefit portion of the active and reserve component retirement systems *cliff-vests* after 20 years of service. This means servicemembers who leave the service prior to completing 20 years of eligible service typically will not receive any nondisability retirement benefit.[9] Members who become eligible for a disability retirement are vested on their disability retirement date regardless of years of service. For those who retired with a disability retirement in FY2022, the average number of years of service was 13.3 years for enlisted members and 14.9 years for officers.[10]

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[4] See, for example, Andrew G. Biggs, *Are Military Pensions too Generous?*, AEI, Blog Post, August 23, 2011, https://www.aei.org/economics/aging/are-military-pensions-too-generous/.

[5] DOD, *Statistical Report on the Military Retirement System*; Fiscal Year Ended September 30, 2022, Office of the Actuary, October 2023, p. 40.

[6] See for example, Lawrence J. Korb, "The High Cost of Military Pensions; Subsidizing Readiness, not Retirement," *New York Times*, February 17, 1985.

[7] See 38 U.S.C. §5902 and 38 C.F.R. §14.628 regarding federal recognition of such organizations.

[8] The "pay base" is either the amount of basic pay being received at the time of retirement (for those in the Final Basic Pay System) or the average of the highest 36 months of basic pay received (for those in the High-3 System). See 10 U.S.C. §§1406-1407. Basic pay is the principal element of Regular Military Compensation (RMC). The other elements include the Basic Allowance for Housing (BAH) and the Basic Allowance for Subsistence (BAS), which are nontaxable allowances. Basic pay is between 65% and 75% of RMC. RMC excludes all special pay and bonuses, reimbursements, educational assistance, and any value associated with nonmonetary benefits such as health care, commissaries, and post exchanges. For additional discussion of military pay and RMC, see CRS Report RL33446, *Military Pay: Key Questions and Answers*, by Lawrence Kapp and Barbara Salazar Torreon.

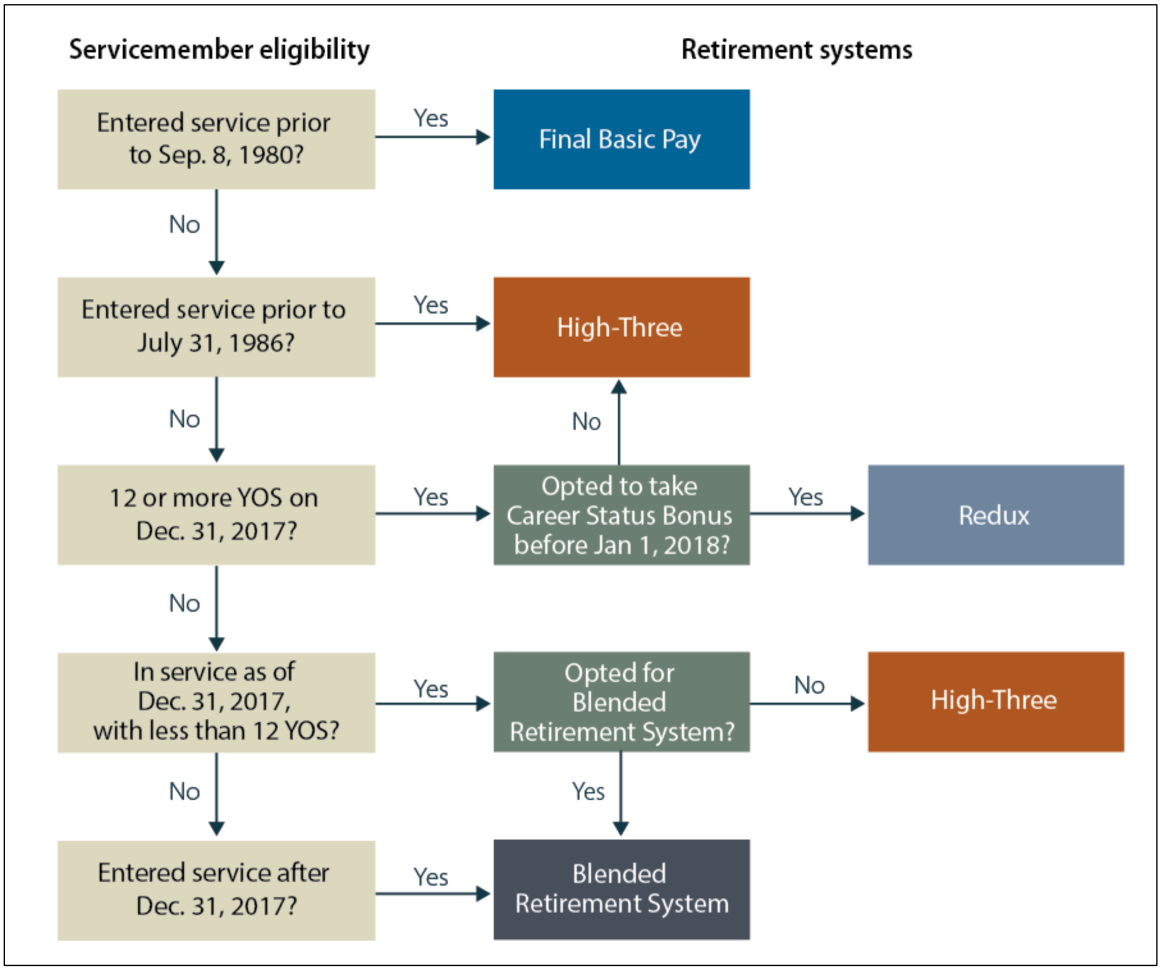
[9] Some individuals may qualify for longevity retirement prior to attaining 20 years of service under Temporary Early Retirement Authority (TERA).

[10] DOD, *Statistical Report on the Military Retirement System*; Fiscal Year Ended September 30, 2022, Office of the Actuary, October 2023, p. 46.

Active Component Retirement[11]

For active-duty military personnel, there are four methods of calculating retired pay based on longevity: the *Final Basic Pay System*, *High Three*, *Redux*, and the *Blended Retirement System* (BRS) (see **Table 4** for a comparison of the benefits under each method). The applicable retirement calculation is based on the date when the servicemember first entered active duty, their pay base at the time of retirement, their years of service, and whether they chose the Redux system or the BRS (if eligible). **Figure 1** shows how eligibility for retirement calculation is determined.

Figure 1. Active-Duty, Non-Disability (Longevity) Retirement Eligibility Flowchart



Source: CRS, derived from Title 10, United States Code.

Note: YOS = Years of Service.

Final Basic Pay (prior to September 8, 1980)

For persons who entered military service before September 8, 1980, the pay base is the final monthly basic pay received by the servicemember at the time of retirement multiplied by 2.5%

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11 This is also frequently referred to as regular non-disability retirement.

for each year of service.[12] The minimum amount of retired pay to which a member is entitled under this formula is therefore 50% of the retired pay computation base (20 years of service times 2.5%). For example, a servicemember who retires at 25 years receives 62.5% of the computation base (25 years of service times 2.5%).[13]

High Three

Those who entered service *on or after* September 8, 1980, and *before* January 1, 2018, have their retired pay base calculated by the High Three system. For this system the computation base is the average of the highest three years (36 months) of basic pay rather than the final basic pay. Otherwise, calculations are the same as under the Final Basic Pay method.

Redux

The *Redux* military retirement system was initiated with the Military Retirement Reform Act of 1986 (P.L. 99-348). The Redux formula reduced the amount of retired pay for which military servicemembers who entered the Armed Forces on or after August 1, 1986, were eligible. This system was broadly unpopular, and by 1997 Congress began to take note of potential recruiting and retention problems associated with the change.[14] In 1998, the Clinton Administration announced that it supported Redux repeal.[15] The National Defense Authorization Act for Fiscal Year 2000 (P.L. 106-65, §§641-642) repealed *compulsory* Redux. It allowed post-August 1, 1986, entrants to retire under the High Three system *or* opt for Redux plus an immediate $30,000 cash payment. The FY2016 NDAA, enacted on November 25, 2015, terminated the Redux option.

Those who entered the service during the time when Redux was an option were required to select one of the following two options for calculating their retired pay within 180 days of reaching 15 years of service.

Option 1: Pre-Redux

Eligible servicemembers can opt to have their retired pay computed in accordance with the pre-Redux formula, described above as High Three.

Option 2: Redux

Eligible servicemembers can opt to have their retired pay computed in accordance with the Redux formula and receive an immediate $30,000 cash bonus called a Career Status Bonus.[16] Those who

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[12] Partial years of service are credited as well, with each month equivalent to one-twelfth of a year. Military Retirement Reform Act of 1986, Section 1405(b), P.L. 99-348, July 1, 1986.

[13] Historically, the maximum, reached at the 30-year mark, was 75% of the computation base (30 years of service times 2.5%). However, the John Warner National Defense Authorization Act for Fiscal Year 2007 (P.L. 99-348, §§601 and 642) extended the previous pay table to 40 years, allowed additional longevity raises, and provided additional retirement credit for service beyond 30 years at the rate of 2.5% per year. In the FY2015 Carl Levin and Howard P. "Buck" McKeon National Defense Authorization Act. (P.L. 113-291, §622), Congress reinstated a cap on retired pay of general and flag officers at the Executive Level II salary ($183,300 for 2015). This change applies only to years served after December 31, 2014.

[14] DOD, *Military Compensation Background Papers: Compensation Elements and Related Manpower Cost Items, Their Purposes and Legislative Backgrounds*, Eighth Edition, July 2018, p. 707.

[15] U.S. Congress, Senate Special Committee on Aging, *Developments in Aging: 1999 and 2000, Volume 1,* 107th Cong., 2nd sess., S.Rept. 107-158 (Washington, DC: GPO, 2001).

[16] 37 U.S.C. §354. If requested, the bonus can be paid in several annual installments for tax purposes.

select the Career Status Bonus (CSB) must remain on active duty until they complete 20 years of service or forfeit a portion of the bonus.

The Redux Formula

Redux is different from the High Three formula in two major ways.

- Retirees under age 62: First, for retirees under the age of 62, the retired pay multiplier will be reduced by 1% for each year of creditable service less than 30 years. Under this formula, a 20-year retiree will receive 40% of his or her retired pay computation base upon retirement (20 years of service multiplied by 2.5% minus 10%), and a 25-year retiree will receive 57.5% of the computation base (25 years of service multiplied by 2.5% minus 5%). A 30-year retiree will receive 75% of the retired pay computation base (30 years of service multiplied by 2.5% minus 0%, the same as the High Three retiree). The Redux formula, therefore, is "skewed" in favor of the longer serving military member, theoretically providing an incentive to remain on active duty longer before retiring.
- Retirees 62 and older: Second, when a retiree reaches the age of 62, his or her retired pay will be recomputed based on the old formula (2.5% of the retired pay computation base for each year of service). Thus, beginning at 62, the 20-year retiree receiving 40% of his or her pay base under the Redux formula will begin receiving 50% of his or her pay base; the 25-year retiree's annuity will jump from 57.5% of the pay base to 62.5%; and the 30-year retiree's annuity, already at 75% of the pay base under both the old and new formulas will not change.[17]

Blended Retirement System (BRS)

In the FY2016 NDAA (P.L. 114-92), based on recommendations from the Military Compensation and Retirement Modernization Commission (MCRMC), Congress adopted a new retirement system, shifting from a purely defined benefit system to a blended defined benefit plus defined contribution system. Servicemembers with 12 or fewer years of service as of December 31, 2017, were afforded an opportunity to choose the BRS. The BRS is mandatory for individuals who entered the service on or after January 1, 2018. For these servicemembers, the computation base for the defined benefit will be the average of the highest three years (36 months) of basic pay, as in the High Three System; however, the multiplier is reduced to 2.0 from 2.5. This means that the pay base is the high three average at the time of retirement multiplied by 2.0% for each year of service. Therefore, a servicemember retiring at 20 years would receive 40% of his or her pay base under the new formula and a 30-year retiree would receive 60% of his or her pay base.

The Lump Sum Payment

The Blended Retirement System also allows regular retirees (those with non-disability retirements) to receive a portion of their retired pay as a discounted lump sum. An individual entitled to retired pay may, no later than 90 days before the date of retirement, elect to receive

> A lump sum payment of the discounted present value at the time of the election of an amount of the covered retired pay[18] that the eligible person is otherwise entitled to receive for the period beginning on the date of retirement and the date the eligible person attains the eligible person's retirement age.[19]

For those who elect to receive a lump sum payment, after reaching the full retirement age for Social Security (usually 67), they will again receive 100% of their regular monthly annuity, which

[17] This change is an increase in monthly retired pay, not a lump sum at the age of 62.

[18] Covered retired pay is defined as retired pay under title 10, title 14, the National Oceanic and Atmospheric Administration Commissioned Officer Corps Act of 2002 (33 U.S.C. §301 et seq.), and the Public Health Service Act (42 U.S.C. §201 et seq.).

[19] P.L. 114-92, §633. "Retirement age" has the meaning given to the term in Section 2016(1) of the Social Security Act.

will be adjusted for annual cost of living increases.[20] A reservist may elect the discounted lump sum to be calculated from the date the member first became eligible for retired pay (typically 60 years old) until Social Security retirement age. The law also allows retirees to take their lump sum payment as a single payment or up to four annual installments. The lump sum is discounted to the present value based on the annual rate published by DOD in June of each year and which goes into effect on January 1 of the following year.[21] The lump sum discount rate for calendar year 2024 is 6.26%.[22] Lump sum payments are considered earned income and are taxed accordingly.

Members under the BRS with a disability retirement do not have the option of receiving a portion of retired pay as a discounted lump sum. Reserve component members may elect the discounted lump sum option from the date the member first becomes eligible for retired pay (typically 60 years old) until the Social Security full retirement age (typically 67). The DOD Board of Actuaries assumes that for active-duty servicemembers, 5.2% of officers and 22.8% of enlisted members will elect the lump-sum option; for reservists the Board assumes 2.0% for officers, and 8.4% for enlisted.[23]

Calculating the Lump Sum Payment

An eligible retiree can elect one of two options for calculating the lump sum.

- A lump sum of 50% of the discounted present value of retired pay between the date of retirement and the date of Social Security eligibility and a monthly annuity of 50% of the monthly retired pay they are otherwise entitled to. For example, if a retiree was entitled to $4,000 per month in retired pay, the retiree would continue to receive a monthly annuity of $2,000 and would receive a lump sum equal to the discounted present value of the remaining annuity between the time of retirement and the Social Security full retirement age.
- A lump sum of 25% of the discounted present value of retired pay between the date of retirement and the date of Social Security eligibility and a monthly annuity of 75% of the monthly retired pay they are otherwise entitled to. For example, if a retiree was entitled to $4,000 per month in retired pay, the retiree would continue to receive a monthly annuity of $3,000 and would receive a lump sum payment equal to the discounted present value of the remaining annuity between the time of retirement and the Social Security full retirement age.

BRS Defined Contributions

Congress's decision to include a defined contribution element in the BRS was driven by the finding that under the legacy retirement systems, 83% of enlisted and 51% of officers did not complete the 20 years of service and thus received no retirement compensation for their service.[24]

[20] See https://www.ssa.gov/planners/retire/retirechart.html.

[21] The discounted present value will be determined in accordance with the rate that is an inflation adjusted, 7-year average of the Department of the Treasury High-Quality Market (HQM) Corporate Bond Spot Rate Yield Curve at a 23-year maturity plus an adjustment factor of 4.28 percentage points. The inflation-adjustment applied is the Department of the Treasury "Breakeven Inflation Spot Rate Yield Curve." DOD, *Implementation of the Blended Retirement System*, Memorandum, January 27, 2017, https://militarypay.defense.gov/Portals/3/Documents/BlendedRetirementDocuments/FINAL_BRSImplementationGuidance.pdf.

[22] DOD, Office of the Secretary of Defense, *Blended Retirement System Lump Sum Discount Rate for 2024*, Memorandum, June 17, 2023, https://militarypay.defense.gov/Portals/3/Documents/Blended%20Retirement/2024%20LSDR%20Memo%20Signed.pdf?ver=SnisAqQsXTveSpi83bXAHw%3D%3D#:~:text=According%20to%20the%20published%20formula,DoD%20Office%20of%20the%20Actuary.

[23] DOD, Office of the Actuary, *Technical Reference to the FY 2022 Valuation of the Military Retirement Fund*, Data, Methods, and Assumptions, January 2024, pp. 52-53.

[24] Military Compensation and Retirement Modernization Commission Final Report, January 2015, p. 23.

This was at odds with retirement benefits in the private sector where firms increasingly offer a variety of defined contribution packages and are required by law to vest employees within a significantly shorter time period.[25]

Under the BRS, individuals entering service after January 1, 2018, are automatically enrolled in the Thrift Savings Plan at an individual contribution level of 3% from his or her monthly basic pay or inactive duty pay beginning the first pay period after the member's 60th day of service. At that time, the services will also begin automatic monthly contributions of 1% of basic pay to the servicemember's TSP account. In addition, DOD will match servicemembers' contributions up to 4% of the servicemember's basic pay starting at two years and one day after the member first enters service and ending at 26 years of service.[26] The servicemember is required to make individual total contributions of 5% in order to receive government matching of 4% (see **Table 2** for government matching percentages). The servicemember is fully vested after two complete years of service and able to take ownership of the 1% contributions as well as any subsequent matching contributions. Any earnings on government contributions are immediately vested when they accrue. Servicemembers are immediately fully vested in any personal TSP contributions.

Table 2. Government Automatic and Matching Contributions

Individual Contribution Rate of Basic Pay or Inactive Duty Pay	Government Automatic Contribution Rate of Basic Pay or Inactive Duty Pay	Government Matching Contribution Rate of Basic Pay or Inactive Duty Pay	Total Rate of TSP Monthly Contribution of Basic Pay or Inactive Duty Pay
0%	1%	0%	1%
1%	1%	1%	3%
2%	1%	2%	5%
3%	1%	3%	7%
4%	1%	3.5%	8.5%
5%	1%	4%	10%

Source: DOD, *Guidance for Implementation of the Blended Retirement System for the Uniformed Services*, Memorandum from the Deputy Secretary of Defense, January 27, 2017.

The services also automatically enroll new servicemembers in the TSP program for individual contributions at a default amount of their basic pay unless the servicemember opts out. If the servicemember declines to make individual contributions, he or she will automatically be reenrolled every year at the default amount of 3% individual contribution. This requires the individual to make a decision every year to *not contribute* to the TSP.

Continuation Pay

To provide a mid-career retention incentive under the BRS, Congress authorized continuation pay for members who are between 8 to 12 years of service, in return for a three-year service

[25] The Employee Retirement Income Security Act (ERISA) requires firms to vest employees in company-provided defined benefit retirement plans either gradually over a period of seven years or by five years for cliff-vesting. In addition, a defined contribution plan must cliff vest within three years or up to six years for gradual vesting.

[26] This 4% is in addition to the 1% automatic government contribution, therefore the total government contribution would not exceed 5% of the member's basic pay.

obligation.[27] The pay may be distributed in a lump sum, or in a series of not more than four payments.[28] The law allows an active duty (regular component) member or reserve component member who is performing active Guard or Reserve duty[29] to receive a minimum amount of continuation pay equal to 2.5 times their monthly basic pay. For reserve component members not on active duty, the minimum continuation pay is equal to at least 0.5 times the monthly basic pay of an active component member of similar rank and longevity.

The law also authorizes an additional amount of continuation pay, at the discretion of the Secretary concerned (see **Table 3**).[30] For active component members that would be the amount of monthly basic pay multiplied by no more than 13.[31] This flexibility awarded to military department Secretaries on the amount of additional continuation pay is intended to aid force-shaping by allowing the Secretaries to offer higher continuation payments to those in occupational specialties that are undermanned.

Table 3. Potential Continuation Pay Multipliers

(by Component and Duty Status)

Component and Status	Minimum Continuation Pay	Additional Discretionary Continuation Pay
Active Component	2.5 times monthly base pay	Up to 13 times monthly base pay
Reserve Component on Active Duty as defined in 10 U.S.C. §101(d)(6)	2.5 times monthly base pay	Up to 6 times monthly base pay
Reserve Component *not* on Active Duty as defined in 10 U.S.C. §101(d)(6)	0.5 times monthly base pay	Up to 6 times monthly base pay

Source: 37 U.S.C. §356.

Note: Monthly base pay for reservists is calculated as the monthly base pay of an active component member of similar rank and longevity.

Under the blended system, reserve component members within the window of eligibility receive the minimum continuation pay as discussed above (2.5 or 0.5 times the monthly basic pay of an active component member), plus an additional amount at the discretion of the Service Secretary that would be the amount of monthly basic pay multiplied by no more than six.

[27] Congress first required a four-year obligation for continuation pay in the 12th year of service in the FY2016 NDAA (Section 634). This was amended in the FY2017 NDAA to provide more flexibility in the timing of this pay as "not less than 8 and not more than 12 years of service" and changed the service obligation to a minimum of 3 additional years of service following acceptance of continuation pay.

[28] 37 U.S.C. §356(d).

[29] As defined in 10 U.S.C. §101(d)(6).

[30] Continuation pay rates for each service, as of February 11, 2022, https://militarypay.defense.gov/Portals/3/Documents/Reports/Continuation%20Pay%20Rates%202022%20Revised%2018FEB.pdf.

[31] Section 634 of P.L. 114-92 states, "(b) AMOUNT.—The amount of continuation pay payable to a full TSP member under subsection (a) shall be the amount that is equal to—(1) in the case of a member of a regular component—'(A) the monthly basic pay of the member at 12 years of service multiplied by 2.5; plus ''B) at the discretion of the Secretary concerned, the monthly basic pay of the member at 12 years of service multiplied by such number of months (not to exceed 13 months) as the Secretary concerned shall specify in the agreement of the member under subsection (a). (2) in the case of a member of a reserve component—(A) the amount of monthly basic pay to which the member would be entitled at 12 years of service if the member were a member of a regular component multiplied by 0.5; plus (B) at the discretion of the Secretary concerned, the amount of monthly basic pay described in subparagraph (A) multiplied by such number of months (not to exceed 6 months) as the Secretary concerned shall specify in the agreement of the member under subsection (a)."

Table 4. Retirement System Comparisons

	Final Basic Pay	High Three	Redux	Blended Retirement System
Applies to	Servicemembers entering before September 8, 1980	Servicemembers entering from Sept. 8, 1980, through July 31, 1986, and persons entering after July 31, 1986, but opting not to accept the 15-year CSB	Servicemembers entering after July 31, 1986, and accepting 15-year Career Status Bonus with additional 5-year service obligation	Servicemembers entering on or after January 1, 2018, and those with 12 or fewer YOS on December 31, 2017, who choose to opt in.
Basis of Computation	Final rate of monthly basic pay	Average monthly basic pay for the highest 36 months of basic pay	Average monthly basic pay for the highest 36 months of basic pay	Average monthly basic pay for the highest 36 months of basic pay
Defined Benefit Multiplier	2.5% per YOS	2.5% per YOS	2.5% per YOS, less 1% for each year of service less than 30 (restored at age 62)	2.0% per YOS
Defined Contribution	Individual contributions to TSP, no matching	Individual contributions to TSP, no matching	Individual contributions to TSP, no matching	1.0% minimum contribution into TSP from Service with up to 4.0% matching contributions
Lump Sum Option	Monthly annuity only	Monthly annuity only	Monthly annuity only	Option for partial lump sum payment at retirement with full monthly annuity restored at eligibility age for full Social Security payments
Additional Continuation Benefit	None	None	$30,000 CSB payable at the 15-year anniversary with 5-year obligation to remain on active duty	Minimum incentive pay between 8 to12 YOS w/3-year service obligation

Sources: Adapted by CRS from *Military Compensation Background Papers*, DOD, Seventh Edition, November 2011, and FY2016 NDAA.

Notes: YOS = Years of Service; CSB = Career Status Bonus.

Reserve Component Retirement[32]

There are many similarities between the active and reserve retirement systems. First, reserve component (RC) members must also complete 20 *qualifying years* of service to become eligible for a defined retirement benefit.[33] Second, the reserve retirement system also accrues at the rate of 2.5% per *equivalent year* of qualifying service (explained below) at retirement eligibility for those who entered service prior to January 1, 2018, and 2.0% for those who enter on or after January 1, 2018. The primary difference between the reserve and the active system is the points

[32] Also referred to as non-regular retirement. For additional information on reserve pay and benefits, see CRS Report RL30802, *Reserve Component Personnel Issues: Questions and Answers*, by Lawrence Kapp and Barbara Salazar Torreon.

[33] *Reserve Component* generally describes the six reserve components of the DOD: the Army National Guard, the Army Reserve, the Navy Reserve, the Marine Corps Reserve, the Air National Guard and the Air Force Reserve.

system used to calculate qualifying years and equivalent years of service, as well as the age at which the retirement annuity begins. Also, Redux is not an option for reservists.

For retirement purposes, a *qualifying year* of service is a year in which a member of the RC earns at least 50 retirement *points*. Points are awarded for a variety of reserve activities

- one point for each day of active service, which includes annual training;[34]
- fifteen points a year for membership in the Ready Reserve;
- one point for each inactive duty training (IDT) period;[35]
- one point for each period of funeral honors duty; and
- one point for every three satisfactorily completed credit hours of certain military correspondence courses.

With multiple opportunities to earn points, a participating member of the selected reserve normally can accrue the requisite 50 points per year and thus earn a qualifying year for retirement. The maximum number of points per year, exclusive of active duty, has varied over time but is currently capped at 130 points.[36] When active-duty points are added to this total, the reservist cannot earn more than 365 points a year. The number of points is critical in determining both the number of years of qualifying service and the number of equivalent years of service for retired pay calculation purposes.

A reservist may retire after completing 20 years of qualifying service; there is no minimum age. However, the reservist will usually not become eligible for retired pay until age 60, at which time he or she also becomes eligible for military medical care.[37] Upon retirement, the individual is normally transferred to the Retired Reserve and is entitled to a number of military benefits to include commissary and exchange privileges; access to Morale, Welfare and Recreation programs and facilities; and limited space available travel on military aircraft. Reservists in the Retired Reserve, but not yet retired pay eligible, are referred to as *gray area* retirees. Time spent in the Retired Reserve counts for longevity purposes and ultimately results in higher retired pay. For example, a lieutenant colonel who transitions to the Retired Reserve at age 45 will have his or her retired pay at age 60 calculated on the basic pay of a lieutenant colonel with an additional 15 years of longevity.

The date the reservist became a member of the Armed Forces determines whether their retired pay is calculated based on the Final Basic Pay, High Three, or Blended Retirement System. Those entering before September 8, 1980, are eligible to be retired under the Final Basic Pay system while those entering after September 8, 1980, but before January 1, 2018, are eligible for the High Three system. Those who first performed Reserve Component service (with no prior regular or reserve service) on or after January 1, 2018, will retire under the Blended Retirement System. Those reservists with prior service who had accumulated less than 12 *equivalent years of service* (< 4,320 points) were eligible to elect the BRS.

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[34] Annual training is a two-week period of active service that usually results in 14 or 15 retirement points.

[35] A day of inactive duty for training typically includes two Unit Training Assemblies (UTAs). The normal drill weekend consists of four UTAs and therefore results in four retirement points. A year of weekend drills earns 48 UTAs/retirement points.

[36] P.L. 110-181, §648.

[37] Section 647 of the FY2008 National Defense Authorization Act (P.L. 110-181) reduced the age for receipt of retired pay by three months for each aggregate of 90 days of specified duty performed after January 28, 2008 (the date of enactment of the FY2008 NDAA). This authority was not made retroactive to September 11, 2001. The retired pay eligibility age cannot be reduced below 50 and eligibility for medical benefits remains at age 60.

Calculation of Reserve Retired Pay

The calculation of reserve retired pay parallels the active-duty system but requires adjustment to reflect the part-time nature of reserve duty. For example, consider a reserve component lieutenant colonel with 5,000 points who joined the military in January 1980 and transferred to the Retired Reserve in 2000 after completing 20 qualifying years of service. In 2015, after reaching 60 years of age, and becoming eligible to receive retired pay, the process for calculating her retired pay would be

- **Step 1:** Divide the total points by 360 to convert the points to *equivalent years of service* (5,000 / 360 = 13.89).
- **Step 2:** Multiply the equivalent years of service by the 2.5% multiplier (13.89 times 0.025 = 0.3472). Using the Final Basic Pay option, the 2015 pay base for a lieutenant colonel with 35 years of service (20 years of qualifying service plus 15 years in the Retired Reserve) is $8,762.40 per month.[38]
- **Step 3:** Multiply the pay base by the retired pay multiplier ($8,762.40 times 0.3472) to produce a monthly retirement annuity of $3,042 per month.

Disability Retirement[39]

Servicemembers who, due to a disqualifying medical condition, are no longer able to perform their military duties, may qualify for disability retirement, commonly referred to as a *Chapter 61 retirement*. Eligibility is based on having a permanent and stable disability rated at 30% or more under the standard schedule of rating disabilities in use by the Department of Veterans Affairs at the time of determination.[40] Some disability retirees are retired before becoming eligible for longevity retirement, while others have completed 20 or more years of service.

Formulas for Calculating Disability Retired Pay

A servicemember retired for disability may select one of two available options for calculating their monthly retired pay.[41]

- **Longevity Formula.** Retired pay is computed by multiplying the years of service times 2.5% or 2.0% (for those joining on or after January 1, 2018) and then times the pay base (either final pay or high three, as appropriate).
- **Disability Formula.** Retired pay is computed by multiplying the DOD disability percentage by the pay base.

The maximum retired pay calculation under the disability formula cannot exceed 75% of basic pay.[42] Disability retirees are not authorized to receive a lump sum payment under the Blended Retirement System.

Retired pay computed under the disability formula is subject to federal income tax, unless one or more of the following conditions applies: (1) the member's disability is the result of a combat-

[38] 2015 Military Pay Chart, http://www.dfas.mil.

[39] For additional information on DOD's disability process, see CRS Report RL33991, *Disability Evaluation of Military Servicemembers*, by Christine Scott and Don J. Jansen.

[40] 10 U.S.C. §1201(b)(3)(B). Prior to the FY2008 NDAA (P.L. 110-181, §1641), disability retirement required at least eight years of service or a disability that resulted from active duty or was incurred in the line of duty during war or national emergency. Under current statute, members must be on active duty for more than 30 days and the disability was either (1) not noted at the time of the member's entrance on active duty (unless clear and unmistakable evidence demonstrates that the disability existed before the member's entrance on active duty and was not aggravated by active military service); (2) the proximate result of performing active duty; (3) incurred in line of duty in time of war or national emergency; or 4) incurred in line of duty after September 14, 1978.

[41] 10 U.S.C. §1401.

[42] 10 U.S.C. §1401.

related injury, or (2) the individual was eligible to receive disability retirement payments prior to September 25, 1975, or (3) the individual was in the Armed Services prior to September 25, 1975, and later became eligible for disability retired pay.[43] Retired pay under the longevity formula (for those entering after September 24, 1975) is taxable only to the extent that it exceeds what the individual would receive for a combat related injury under the disability formula.

Extraordinary Heroism Pay

Retired enlisted members of military services with less than 30 years of service may be eligible for a 10% increase in retired pay when credited with extraordinary heroism in the line of duty as determined by the Secretary of his or her service.[44] This increase is subject to a maximum of 75% of the member's retired or retainer pay base. In 2002, Congress extended this benefit to enlisted members of the reserve component who are eligible for reserve retired pay.[45]

Military Retired Pay, Social Security, and Federal Income Tax

Military retirees receive full Social Security benefits in addition to their military retired pay. Current military personnel do not contribute a portion of their salary as part of the military retirement pay accrual. However, servicemembers have paid taxes into the Social Security trust fund since January 1, 1957, and are entitled to full Social Security benefits based on their military service. Military retired pay and Social Security are not offset against each other.

Military retired pay is not subject to withholding for Social Security tax. However, all non-disability retired pay is subject to withholding of federal income tax. A portion of the Social Security benefit may also be subject to federal income tax for individuals who have other income.

Retired Pay and the Cost-of-Living Adjustment (COLA)

Military retired pay is adjusted for inflation by statute (10 U.S.C. §1401a). The Military Retirement Reform Act of 1986, in conjunction with changes contained in the FY2000 National Defense Authorization Act (P.L. 106-65), provides for COLAs as indicated below. Congress has not modified the COLA formula since 1995.[46] However, policymakers regularly discuss COLA modifications, typically with the aim of reducing costs. The COLA for most retirees for 2024 is 3.2% and took effect on December 1, 2023.[47]

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[43] 26 U.S.C. §104. The term "combat-related injury" means personal injury or sickness which is incurred (1) as a direct result of armed conflict, (2) while engaged in extra hazardous service, or (3) under conditions simulating war; or which is caused by an instrumentality of war.

[44] See 10 U.S.C. §3991(a)(2) (Army), §6330(c)(3) (Navy and Marine Corps), and §8991(a)(2) (Air Force); and DOD, *Financial Management Regulation,* DOD 7000.14-R Volume 7B, Chapter 1, March 2018.

[45] P.L. 107-314.

[46] The actual index used to adjust COLA is the CPI-W; the index for urban wage earners and clerical workers. It represents the buying habits of approximately 32% of the non-institutional population of the United States, *Military Compensation Background Papers,* Seventh Edition, November 2011, p. 637.

[47] DOD Memorandum, *Adjustments to Military Retired and Retainer Pay, Survivor Annuities and Premiums,* November 9, 2023,
(continued...)

COLAs for Pre-August 1, 1986, Entrants

For military personnel who first entered military service before August 1, 1986, each December a COLA equal to the percentage increase in the Consumer Price Index for Urban Wage Earners (CPI-W) between the third quarters of successive years will be applied to military retired pay for the annuities paid beginning each January 1.[48] This number is rounded to the nearest one-tenth of 1%.[49] The COLA is applied to the monthly benefit amount and the final payment is rounded down to the nearest $1.00.[50]

COLAs for Personnel Who Entered Service on or After August 1, 1986

For those personnel who first entered military service on or after August 1, 1986, their COLAs will be calculated in accordance with either of two methods, as noted below.

Non-Redux Recipients

Those personnel who opted to have their retired pay computed in accordance with the pre-Redux (High Three) formula will have their COLAs computed as described above for pre-August 1, 1986, entrants. Participants in the Blended Retirement System will also have their COLAs calculated in this manner.[51]

Redux/$30,000 Cash Bonus Recipients

Those personnel who opted to have their retired pay computed in accordance with the Redux formula, have their COLAs computed using a different formula. Annual COLAs are held one percentage point below the actual inflation rate. For example, the December 2017 COLA increase was 2.0% and Redux retirees saw a COLA increase of 1.0%. When a retiree reaches the age of 62, there is a one-time recomputation of his or her annuity to make up for the lost purchasing power caused by holding of annual COLA adjustments to the inflation rate minus one percentage point.[52] This recomputation of COLA, in combination with the recomputation of the retired pay multiplier (discussed earlier), is a one-time increase in the member's monthly retired pay to parity with that of a similarly retired member who did not take the Redux option. After the recomputation at age 62, however, future COLA increases continue to be computed annually on the basis of the inflation rate minus one percentage point.

Military Retirement Budgeting and Costs

Military retirement costs, which include all payments to current retirees and survivors, have risen modestly each year, due to a gradual increase in the number of retirees and survivors coupled with cost-of-living adjustments. DOD budgets through FY1984 reflected the costs of retired pay

https://militarypay.defense.gov/Portals/3/Documents/COLA/2024%20MILITARY%20RETIRED%20AND%20SURVIVOR%20COLA-UPR003060-23.pdf?ver=iHTiclpKUkzgFJWYTIvSPg%3d%3d.

[48] The CPI-W is calculated and published by the Bureau of Labor Statistics. The third quarter ends on September 30th of each year.

[49] 10 U.S.C. §1401a.

[50] 10 U.S.C. §1412.

[51] 10 U.S.C. §1401a(b)(5).

[52] 10 U.S.C. §1410.

actually being paid out to personnel who had already retired. That is, Congress appropriated the amount of money required to pay existing retirees as part of each annual defense appropriations bill. In September 1983, as part of the Department of Defense Authorization Act, 1984, Congress modified the retired pay accounting methodology and established a Military Retirement Fund (MRF).[53]

Since FY1985, the *accrual accounting* concept has been used to budget for the costs of military retired pay. The unfunded liability resulting from the change in accounting practices is discussed in the next section. Under the accrual accounting system, the DOD budget for each fiscal year includes a contribution to the MRF sufficient to finance *future* retirement payouts to current uniformed personnel when they retire, not the amount of retired pay actually paid to current retirees.[54] In the William M. (Mac) Thornberry National Defense Authorization Act for Fiscal Year 2021 (FY2021 NDAA, P.L. 116-283), Congress added the U.S. Coast Guard (USCG) to the MRF and USCG contributions began in FY2023.[55]

Under the accrual accounting method, changes to military end-strength, increases or decreases in basic pay tables, or changes to retirement pay formulas, in any given year will result in same-year budget obligations for military retired pay. Once military personnel retire, payments to them are disbursed from the MRF, not from annual appropriations. As such, military retiree payments typically continue to be disbursed during a lapse in appropriations.[56]

Common Misperceptions about the MRF

The MRF does not represent a repository of past accumulated tax receipts, as some might assume, but rather "future tax receipts that will be allocated to pay principal and interest on government bonds being held by the MRF." According to the DOD Board of Actuaries, the MRF can be conceived of as an internal cost accounting system.[57] The Board states, "[w]hile the nation has not actually set aside money to pay the benefits of those who have served in uniform, the MRF can be viewed as earmarking future tax receipts for the benefit of military retirees. As such, the existence of the MRF promotes a measure of 'psychological security' for military members."

The MRF itself is a non-revolving trust fund inside the unified budget of the federal government.[58] The sources of income for the MRF are

- Normal cost payments (NCPs) from the armed forces in annual appropriations to account for future retirees;
- U.S. Treasury payments to amortize unfunded liabilities and concurrent receipt obligations, (see); and

[53] P.L. 98-94, §925, 97 Stat. 644; 10 U.S.C. §1461 et. seq.

[54] The Military Retirement Fund is located in the Income Security Function of the federal budget. Individual retirees receive their retired pay from the Defense Finance and Accounting Service (DFAS). Technically, however, because this money paid to individuals comes not from the DOD budget, but from the fund, it is paid out of the Income Security function of the federal budget. Actual payments to current retirees thus show up in the federal budget as outlays from the federal budget as a whole, not from DOD.

[55] P.L. 116-283, Division G, §§8222-8225; and DOD, Office of the Actuary, *FY2022 Valuation of the Military Retirement Fund, September 30, 2022*, January 2024, p. 6.

[56] CRS Insight IN12244, *Armed Forces Compensation During a Lapse in Appropriations*, by Kristy N. Kamarck and Brendan W. McGarry.

[57] DOD, Office of the Actuary, *FY2020 Valuation of the Military Retirement System, September 30, 2020*, February 2022, p. 36.

[58] GAO defines the unified budget in part as "a comprehensive budget in which receipts and outlays from federal and trust funds are consolidated." See GAO, *A Glossary of Terms Used in the Federal Budget Process*, GAO-05-734SP, September 2005, p. 99, https://www.gao.gov/assets/gao-05-734sp.pdf.

- Investment (interest) income from government securities.[59]

The amount that DOD, DHS, and the Treasury must allocate to the MRF each year to cover future retirement costs is determined by a presidentially appointed Department of Defense Board of Actuaries.[60] The DOD Board of Actuaries estimates future retirement costs using a model that incorporates past rates at which active-duty military personnel stayed in the service until retirement and assumptions regarding the overall U.S. economy, including interest rates, inflation rates, and military pay levels. The model helps determine the level percentage of basic pay (normal cost percentage) for each active servicemember that DOD and DHS must contribute annually through appropriations to cover future retirement costs—approximately 30 cents on every dollar of basic pay for full-time members.[61] DOD's NCPs are shown in **Table 5** and trends in DOD and Treasury NCPs are shown in **Figure 2**.

Table 5. DOD Normal Cost Percentages (NCPs) for FY2017 and FY2023

Benefit Formula	Full-time (active component)		Part-time (reserve component)	
	FY2017	FY2023	FY2017	FY2023
Final Pay	35.4%	NA	24.8%	NA
High-3	32.3%	32.9%	23.5%	24.7%
CSB/Redux	31.7%	32.5%	NA	NA
BRS	23.7%	26.7%	18.3%	20.2%

Source: DOD, Office of the Actuary, Valuation of the Military Retirement System reports.

Note: Full-time and part-time NCPs are calculated for each of the separate benefit formulas. Only full-time personnel are under the CSB/Redux benefit formula; thus an analogous part-time NCP is not applicable. There are no longer active-duty retirees who are retiring under the Final Pay system. Because the multiplier for those retiring under the Blended Retirement System is reduced from 2.5 to 2.0, the NCP for those retiring under the new system is lower than the NCPs under legacy systems. Estimates of the magnitude of cost savings vary under the new system; however, all estimates suggest increased annual savings for DOD as the BRS is implemented.

Should NCPs Vary by Service?

The DOD Actuary calculates separate NCPs for the active and reserve components; however, by law the Actuary applies a single NCP across all of the military services.[62] The conference report (H.Rept. 115-404) accompanying the FY2018 NDAA (P.L. 115-91) contained a provision directing the Government Accountability Office (GAO) to evaluate whether this method to calculate DOD retirement contributions accurately reflects estimated service retirement costs, and what effects, if any, may result from calculating a separate NCP for each of the services. The GAO's December 2018 report found that, due to differing continuation rates among the services, "the mandated

[59] The FY2004 NDAA (P.L. 108-136, §641), which authorized concurrent receipt of military retired pay and veterans disability benefits, also required the U.S. Department of the Treasury to pay into the MRF at the beginning of each year the normal cost arising from increased concurrent receipt benefits. See CRS Report R40589, *Concurrent Receipt of Military Retired Pay and Veteran Disability: Background and Issues for Congress*, by Kristy N. Kamarck and Mainon A. Schwartz.For more information on concurrent receipt, see CRS Report R40589, *Concurrent Receipt of Military Retired Pay and Veteran Disability: Background and Issues for Congress*, by Kristy N. Kamarck and Mainon A. Schwartz.

[60] The DOD Board of Actuaries consists of three members appointed by the Secretary of Defense to staggered 15-year terms, and is authorized by 10 U.S.C. §183.

[61] DOD, Office of the Actuary, *FY2022 Valuation of the Military Retirement System, September 30, 2022*, January 2024, p. 16.

[62] 10 U.S.C. §1465.

single, aggregate contribution rate does not reflect service specific retirement costs."[63] In particular, the analysis found that the probability of reaching 20 years of service was more than three times higher for the Air Force than the Marine Corps.

Section 631 of the Senate version of the FY2020 NDAA would have changed how military retirement contributions are calculated, by requiring separate NCPs for each of the services and components.[64] Some analysts who have studied the issue have argued that this change would improve resource allocation efficiency, manpower decision-making, and accuracy in budget estimates at the service level.[65] On the other hand, the GAO report notes that military service officials stated that their "workforce decision making processes would not change."[66] Section 655 of the enacted bill did not change the funding process, but required the Secretary of Defense to deliver an implementation plan to the House and Senate armed services committees by April 1, 2020.

The DOD Actuary's 2020 Quadrennial Review recommended against this proposal to require service-specific NCPs. In a September 2019 letter to the Chairman of the Senate Armed Services Committee, the Board stated, "Our concern is that the development of service-specific NCPs will greatly increase the complexity, and therefore the cost to taxpayers, of the annual valuations prepared by [the Office of the Actuary], while leaving the aggregate contribution to the MRF substantially unchanged."[67]

Military Retirement Budget-Related Issues for Congress

The DOD Board of Actuaries and other analysts have raised concerns about the long-term costs of the military retirement system and how these costs are accounted in the federal budget. Some of these issues include: MRS unfunded liabilities, responsibility for concurrent receipt payments, and relationships between retired pay and military compensation.

MRS Unfunded Liability

Debates over military retirement have included some discussion of the *unfunded liability*, which consists of future retired pay costs incurred before the creation of the MRF in FY1985 (the initial unfunded liability) and liabilities incurred due to: (1) modifications to military benefits; (2) changes in actuarial assumptions; (3) deviations in actual from expected gains and losses; and 4) the addition of the USCG to the MRF.[68] The initial unfunded liability as of September 30, 1984, was $528.7 billion.[69] Obligations for the initial unfunded liability are being liquidated by the payment to the fund each year of an amount from the General Fund of the Treasury and are expected to be fully amortized in calendar year 2025.[70] According to the DOD Actuary, the initial unfunded liability is amortized over time to,

[63] GAO, *Military Retirement: Service Contributions Do Not Reflect Service Specific Estimated*, GAO-19-195R, 2018, p. 6, https://www.gao.gov/assets/700/695789.pdf.

[64] A similar provision was included in the Senate-passed version of the FY2018 NDAA (S. 1519, §1002); however, the provision was not adopted.

[65] According to GAO reporting, DOD's Office of Cost Assessment and Program Evaluation (CAPE) led an assessment of the current retirement contribution method as part of a larger effort. See also, James Hosek, Beth J. Asch, and Michael Mattock, *Toward Efficient Military Retirement Accrual Charges*, RAND Corporation, Santa Monica, CA, 2017.

[66] GAO, *Military Retirement: Service Contributions Do Not Reflect Service Specific Estimated*, GAO-19-195R, 2018, https://www.gao.gov/assets/700/695789.pdf.

[67] DOD Board of Actuaries, *2020 Report to the President and Congress*, December 2020, Appendix D, https://actuary.defense.gov/Portals/15/Quadrennial%20Report%202020%20BOARD%20FINAL.pdf.

[68] DOD, Office of the Actuary, *FY2022 Valuation of the Military Retirement Fund, September 30, 2022*, January 2024, p. 17.

[69] Ibid.

[70] Ibid.

> avoid imposing a crippling cash contribution (or expense for financial reporting purposes) requirement on the plan sponsor in the first year of the plan. However, because this plan is included in the federal budget and is only "funded" with U.S. government securities (i.e., a promised allocation of future tax revenues), the Board is aware that the MRF could theoretically be fully funded (i.e., immediately recognizing its entire liability in the national debt).[71]

Congressional action to change basic pay, retired pay, or associated benefits (e.g., concurrent retired pay and veteran disability compensation,[72] or the survivor benefit program) may affect the unfunded liability (see **Figure 2**). For example, the implementation of the Blended Retirement System *reduced* the unfunded liability by $800 million.[73] In the FY2018 NDAA, Congress made a benefit called the Special Survivor Indemnity Allowance (SSIA) permanent, which led to an actuarial loss of approximately $8.1 billion from the fund.[74] Subsequently, in 2019, Congress initiated the 3-year phase-out of a requirement that DOD survivor benefits be offset by a benefit called Dependency and Indemnity Compensation (DIC) from the Department of Veterans Affairs.[75] The removal of this offset, allowing beneficiaries to eventually receive the full amount of both benefits increased unfunded liability by $13.5 billion.[76]

Concurrent Receipt Payments by the Treasury

Since FY2005, following Congress's authorization of concurrent receipt benefits, the Treasury has had to contribute to the normal costs of these benefits. DOD's Board of Actuaries has been vocal about their opposition to this change, stating

> The Board is deeply concerned about any legislative efforts to make Treasury, not DOD, pay for additional benefits to military retirees. [...]
>
> While the Board understands that current budget demands on DOD are burdensome, removing DOD's responsibility to recognize, disclose, and include in manpower decisions the full cost of military personnel is short-sighted. Burying such information as an obligation of the general Treasury is misleading and leaves the door open to unrestricted enhancements because DOD has no incentive to hold down retirement benefit costs.
>
> The Board recommends that all future legislation require DOD to pay the full normal costs of all the benefits it promises and pay any past service costs associated with benefit increases.[77]

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71 DOD Board of Actuaries, *2020 Report to the President and Congress*, December 2020, p. 11, https://actuary.defense.gov/Portals/15/Quadrennial%20Report%202020%20BOARD%20FINAL.pdf.

72 See CRS Report R40589, *Concurrent Receipt of Military Retired Pay and Veteran Disability: Background and Issues for Congress*, by Kristy N. Kamarck and Mainon A. Schwartz.

73 DOD, Office of the Actuary, *FY2016 Valuation of the Military Retirement System, September 30, 2018*, April 2020, Table 7, p. 26.

74 DOD, Office of the Actuary, *FY2017 Valuation of the Military Retirement System, September 30, 2018*, April 2020, p. 8.

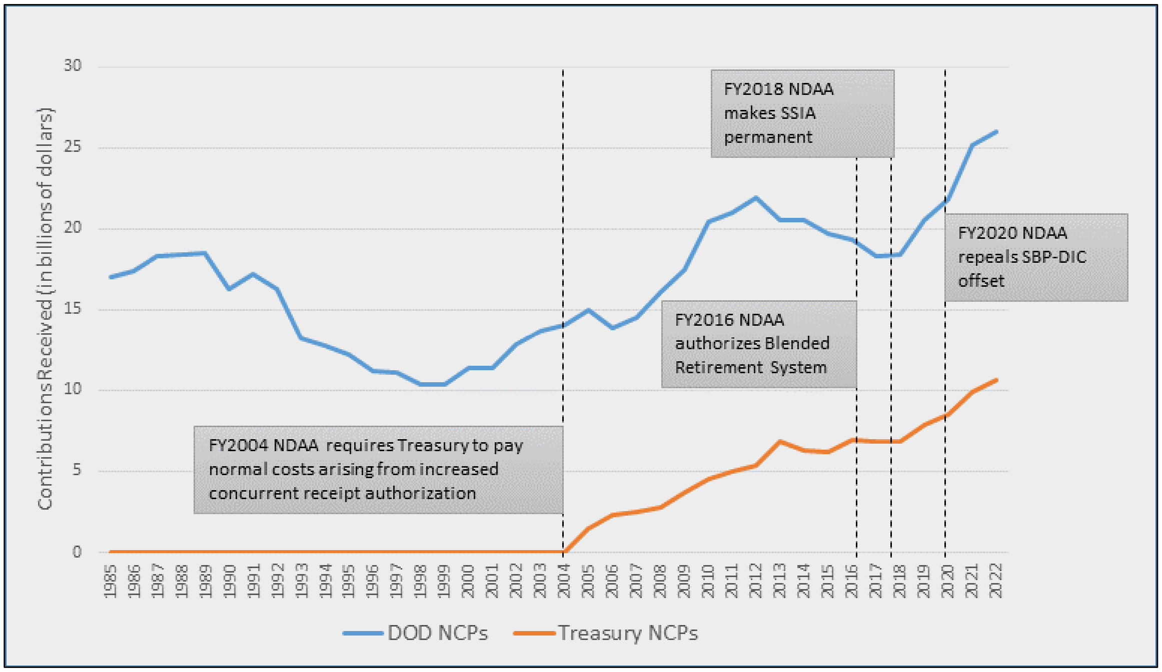
75 For more background on the SBP-DIC offset, see CRS Report R45325, *Military Survivor Benefit Plan: Background and Issues for Congress*, by Kristy N. Kamarck and Barbara Salazar Torreon.

76 DOD, Office of the Actuary, *FY2019 Valuation of the Military Retirement System, September 30, 2018*, April 2020. p. 7.

77 DOD Board of Actuaries, *2020 Report to the President and Congress*, December 2020, p. 16, https://actuary.defense.gov/Portals/15/Quadrennial%20Report%202020%20BOARD%20FINAL.pdf. For further discussion see *Concurrent Receipt* in CRS Report R47582, *FY2024 Defense Budget Request: Context and Selected Issues for Congress*, by Cameron M. Keys and Brendan W. McGarry.

Figure 2. Normal Cost Contributions to the MRF, FY1985-FY2022

Impact of Selected Legislative Actions



Source: CRS figure based on DOD, Office of the Actuary, *FY2022 Valuation of the Military Retirement Fund, September 30, 2022*, January 2024, Table 8, p. 22; P.L. 108-136, §641; P.L. 114-92, §631; and P.L. 115-91, §621, P.L. 116-92 §622.

Notes: SSIA is the Special Survivor Indemnity Allowance, a cash benefit for survivors of military servicemembers impacted by the offset of Survivor Benefit Plan (SBP) payments and Dependency and Indemnity Compensation (DIC). The FY2020 NDAA (P.L. 116-92, §622) repealed the SBP-DIC offset and the SSIA as of January 1, 2023.

Relationship of Retired Pay to Regular Military Compensation

The retired pay calculation is based on the amount of basic pay that a servicemember was eligible to receive at the time of retirement. As such, changes to pay tables, especially at higher grades (when servicemembers generally become eligible for retirement) can have broader cost implications.

In addition, when considering the adequacy of retired pay, policymakers might look at comparisons between military and civilian pension programs. Basic pay is the principal element of cash compensation for servicemembers; however, comparisons with private-sector pay are usually made using a statutorily defined metric called regular military compensation (RMC). RMC is the sum of (1) basic pay, (2) housing allowance, (3) subsistence allowance and, (4) the tax advantages accruing to these allowances because they are not subject to federal income tax. As retired pay is based on the high 36-month average of *basic pay* only; the monthly disbursement to a retiree is actually a smaller percentage of the *total* cash compensation that the member is receiving at the time of retirement (see **Table 6**). Because RMC rather than basic pay better represents public- and private-sector salary levels, the DOD Board of Actuaries recommends considering these relationships when comparing military retired pay to civilian pension programs.[78]

[78] DOD Office of the Actuary, *Technical Reference to the FY 2022 Valuation of the Military Retirement Fund*, Data, Methods, and Assumptions, January 2024, p. 7.

Table 6. Relationship of Military Retired Pay to RMC

Years of Service at Retirement	Basic Pay as % of RMC	Retired pay as a % of Basic Pay*	Retired Pay as a % of RMC
20 years	Basic pay is approximately 67% of RMC	Retired pay is 50% of basic pay (40% for those under BRS)	Retired pay is approximately 34% of RMC
30 years	Basic pay is approximately 73% of RMC	Retired pay is 75% of basic pay (60% for those under BRS)	Retired pay is approximately 55% of RMC

Source: Adapted from discussion in DOD, Office of the Actuary, *Technical Reference to the FY 2022 Valuation of the Military Retirement Fund*, Data, Methods, and Assumptions, January 2024, p. 7.

Note: * Retired pay is based on the high 36-month average of basic pay.

Concerns about Implementation of the BRS

Some advocacy groups and servicemembers have expressed concerns about the implementation of the Blended Retirement System, in particular the reduced multiplier for the defined benefit (monthly annuity) and the lump sum payment option. These groups note potential impacts of the BRS on recruitment and retention, as well as on the financial well-being of military personnel. Since the average military retiree upon retirement is in his or her 40s, many choose to pursue a second civilian career and may also accrue retirement savings and benefits from his or her new employer. Estimates of retirement funds available are contingent on the amount a member contributes to the TSP and the return on investment for TSP accounts.

Retention Effects

There is uncertainty as to whether the reduced multiplier for the defined benefit offers an adequate retention incentive for mid-career personnel. A 2016 study for the Marine Corps that modeled potential retention outcomes found relatively small effects on force profiles, with predicted officer retention being somewhat more sensitive to changes in the retirement system than enlisted retention.[79] The study also noted that retention may vary by occupational specialty—supporting the notion that flexibility may be needed for the services to vary the continuation pay, to offer other retention bonuses, or to lengthen minimum service requirements for high-demand fields. DOD officials also expressed concerns that the lump sum option might entice a larger number of individuals to retire at the 20-year mark, resulting in manpower deficits.[80]

In 2023, a DOD spokesperson noted that it is still too early to determine whether the new system is having an impact on retention but that, "preliminary analysis shows that the BRS is having little or no effect on retention to date."[81] Some analysts have suggested that DOD's messaging on

[79] James Grefer et al., *The Military Compensation and Retirement Modernization Commission's Blended Retirement Plan: Implications for Marine Corps Force Management Objectives*, CNA, October 2016.

[80] U.S. Government Accountability Office (GAO), *Military Pensions: Servicemembers Need Better Information to Support Retirement Savings Decisions*, GAO-19-631, September 2019, p. 29, https://www.gao.gov/assets/710/701524.pdf.

[81] Hope Hodge Seck, "Is Blended Retirement Making a Difference?," *Air & Space Forces Magazine*, March 31, 2023, https://www.airandspaceforces.com/article/is-blended-retirement-making-a-difference/.

the BRS has been "counterproductive and self-defeating."[82] They have suggested that DOD can improve its marketing of the benefit by comparing it to civilian alternatives which are broadly less-generous, rather than comparing it to the legacy system with the more generous multiplier.

Effects on Financial Well-Being

Concerns with respect to financial well-being under the BRS include the effects of servicemember decisions about individual contributions to the TSP and election of the lump sum option. The Marine Corps study cited above found that, in general, those who retire after a 20-year career and contribute to the TSP throughout their career, will have lower take-home pay from retirement to age 60 than those in the legacy retirement system, but will be better off after the age of 60 when eligible to start drawing from the TSP without penalty.[83] The total lifetime benefit was estimated to be slightly higher under the legacy retirement system than under the BRS.[84] Lifetime benefits depend on the amount the member contributes to the TSP, including taking full-advantage of government matching by making contributions at the 5% level.

The 13th Quadrennial Review of Military Compensation (QRMC) in 2020 included a review of TSP contribution patterns for active component members under the BRS. The review revealed that older and higher income servicemembers saved at higher levels. The report authors noted that, "service members from all four services frequently failed to maximize the amount of matching funds that they were eligible to receive."[85]

Lump Sum Option

Advocacy groups have also expressed concerns about the lump sum option and DOD's discount rate, which is higher than discount rates for similar pension programs in the private sector.[86] This could lead to a substantially lower lifetime benefit for those military retirees who elect the lump sum. In addition, experts have warned that those most likely to take the lump sum are those with the greatest financial need, and lower levels of financial literacy.[87] Proponents of the lump sum option have argued that the feature will allow servicemembers more flexibility to use their retirement benefits to, for example, start a business, purchase a home, or make other investments to help transition into civilian life or a second career.[88]

In its 2020 Quadrennial Report to the President and Congress, the DOD Board of Actuaries recommended that Congress modify the lump-sum provision, stating,

> We have already provided our general concerns about the use of a personal discount rate and we continue to have significant concerns about the DOD [lump sum] policy as it is

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[82] *Symposium on the Opportunities + Implications of the Blended Retirement System*, August 2023, p. 5, https://www.marines.mil/Portals/1/Docs/Report-Symposium_on_the_Opportunities_and_Implications_of_the_Blended_Retirement_System.pdf.

[83] Ibid., p. v.

[84] Ibid., p. 70.

[85] *Report of the Thirteenth Quadrennial Review of Military Compensation*, Volume 1: Main Report, December 2020, p. 29.

[86] Higher discount rates generally mean a lower benefit for the recipient and higher savings for the employer. MOAA, *Beware the Lump Sum: An Update on the New Blended Retirement*, June 14, 2018, https://www.moaa.org/content/publications-and-media/news-articles/2018-military-update/beware-the-lump-sum-an-update-on-the-new-blended-retirement/.

[87] GAO, *Military Pensions: Servicemembers Need Better Information to Support Retirement Savings Decisions*, GAO-19-631, September 2019, p. 30, https://www.gao.gov/assets/710/701524.pdf.

[88] Ibid.

> being implemented. As this new feature is better understood, some may conclude that the use of such a high discount rate is taking advantage of service members. [...] we strongly recommend that Congress anticipate the ramifications that may arise from the use of these high discount rates and replace the personal discount rate with a more market-based rate similar to those used in the private sector.[89]

Effectiveness of Financial Literacy Training

One of the ways that Congress addressed these concerns was to require financial literacy training for servicemembers with the authorization for the new retirement system in the FY2016 NDAA.[90] At Congress's behest,GAO conducted a review of DOD's financial literacy training programs and, in particular, how this program was helping members to make decisions about retirement savings.[91] GAO found that the BRS training was delivered in accordance with effective practices. However, the training programs lacked adequate pre- and post-assessment mechanisms to determine whether the training had an impact in individual mastery of the topics. The report authors noted that online/computer-based training, or large group sessions may not be as effective in delivering content, particularly for very junior members with limited life experience and low baseline financial literacy. The GAO's recommendations were

1. The Secretary of Defense should evaluate the results of its financial literacy training assessments to determine where gaps in servicemembers' financial knowledge exist and revise future trainings to address these gaps.
2. The Secretary of Defense should provide servicemembers disclosures that explain key pieces of information about the lump sum payment, including some measure of its relative value, the potential positive and negative financial ramifications of choosing the lump sum payment option, and a description of how it was calculated.
3. The Executive Director of the Federal Retirement Thrift Investment Board should work with the Secretary of Defense to explore alternative options (including online resources) for servicemembers to receive their initial Thrift Savings Plan password so that servicemembers can access and manage their online accounts without added delays.[92]

DOD has indicated that it has fully implemented these recommendations as of March 2023.[93]

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[89] DOD Board of Actuaries, *2020 Report to the President and Congress*, December 2020, p. 16, https://actuary.defense.gov/Portals/15/Quadrennial%20Report%202020%20BOARD%20FINAL.pdf.

[90] P.L. 114-92, §661. For more on servicemember financial literacy, see, CRS Report R46983, *Military Families and Financial Readiness*, by Kristy N. Kamarck.

[91] GAO, *Military Pensions: Servicemembers Need Better Information to Support Retirement Savings Decisions*, GAO-19-631, September 2019, https://www.gao.gov/assets/710/701524.pdf.

[92] Ibid.

[93] See GAO Recommendations for Executive Action at, https://www.gao.gov/products/gao-19-631.

Appendix. Retirement Reform Recommendations in Selected Prior Reviews

Every four years, the President is required by law to direct a comprehensive review of the military compensation system and to forward the review, along with his recommendations, to Congress.[94] This review is known as the Quadrennial Review of Military Compensation (QRMC). The Military Compensation and Retirement Modernization Commission (MCRMC) served as the 12th QRMC.[95] The sections below summarize the recommendations of these commissions.

10th QRMC Recommendations

In the 10th Quadrennial Review of Military Compensation (QRMC), one of the directed areas of assessment was "the implications of changing expectations of present and potential members of the uniformed services relating to retirement."[96] To accomplish this, the QRMC suggested a major revision of both the active and reserve retirement systems. Selected options were

1. A defined benefit plan similar to the current High Three system that would vest personnel at 10 years of service, with benefits to begin either at age 60 (for personnel who have served less than 20 years of service) or age 57 (for those that served more than 20 years of service). Retirees could opt to receive the retirement annuity immediately upon retirement but the annuity would be reduced by 5% for each year under age 57.
2. Combined with the above defined benefit plan would be a defined contribution plan that would require the services to contribute up to 5% of annual base pay into a retirement account for each servicemember. The contribution would start at 2% for those with two years of service and increase incrementally until it reached 5% for those with five or more years of service. This plan would also vest at 10 years of service but withdrawals could not begin until age 60.
3. A system of *gate* pays would be established at specified career points to retain selected personnel in specified skill areas.
4. Separation pay would be used to encourage personnel in over-manned skills to separate prior to vesting at the 10-year point or becoming eligible for an immediate annuity at 20 years.

11th QRMC Recommendations

DOD submitted the 11th QRMC final report in 2012. While this QRMC did not have the same focus on the entire retirement system as the previous QRMC, DOD recommended more closely aligning active and reserve retirement systems with the goal of eventually transitioning to a *total force* single-system approach for both the active and reserve components. The report recommended the following modification to the reserve retirement system:[97]

94 37 U.S.C. §1008(b).

95 Presidential memorandum, Subject: Twelfth Quadrennial Review of Military Compensation, January 9, 2015.

96 Presidential memorandum, Subject: Tenth Quadrennial Review of Military Compensation, August 2, 2005.

97 Report of the 11th Quadrennial Review of Military Compensation, June 2012.

> Reserve component members who have attained 20 qualifying years for retirement benefits could begin receiving retired pay on the 30th anniversary of their service start date or at age 60, whichever comes first. Reserve members would receive one retirement point for each day of service, and the points needed for a qualifying year would be reduced from the current 50-point requirement to 35.

12th QRMC: Military Compensation and Retirement Modernization Commission (MCRMC)

The National Defense Authorization Act (NDAA) for FY2013 (P.L. 112-239) established a Military Compensation and Retirement Modernization Commission (MCRMC) to provide the President and Congress with specific recommendations to modernize pay and benefits for the armed services. In terms of retirement, the commission was mandated to provide recommendations to "Modernize and achieve fiscal sustainability for the compensation and retirement systems for the Armed Forces and the other Uniformed Services for the 21st century."[98] Notably, Section 674 of P.L. 112-239 mandated that the commission comply with conditions that would grandfather existing servicemembers and retirees into the existing retirement system, stating

> (i) For members of the uniformed services as of such date, who became members before the enactment of such an Act, the monthly amount of their retired pay may not be less than they would have received under the current military compensation and retirement system, nor may the date at which they are eligible to receive their military retired pay be adjusted to the financial detriment of the member.
>
> (ii) For members of the uniformed services retired as of such date, the eligibility for and receipt of their retired pay may not be adjusted pursuant to any change made by the enactment of such an Act.

The commission delivered its final report and recommendations to Congress on January 29, 2015. Congress adopted many of the MCRMC's recommendations in the FY2016 NDAA. Several of the most prominent changes include, reduction of the retired pay multiplier, government matching contributions, and the lump sum option.

The MCRMC did not make any recommendations changing the 20-year eligibility for retirement; however, it recommended that the Secretary of Defense be given authority to modify the years-of-service requirement to shape the force profile as long as it does not impose involuntary changes on existing servicemembers. DOD expressed opposition to this proposal and Congress did not adopt a provision based on this MCRMC recommendation. The 20-year eligibility remains in current law.

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[98] National Defense Authorization Act for FY2013, P.L. 112-239, subtitle H, 126 Stat. 1632, 1787 (2013).

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