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NATIONAL DEFENSE UNIVERSITY

JOINT FORCES STAFF COLLEGE

JOINT ADVANCED WARFIGHTING SCHOOL



**LEADING WHILE BLINDFOLDED: EXAMINING THE DEFENSE BUSINESS
BOARD'S RECOMMENDATIONS TO REFORM THE MILITARY
RETIREMENT SYSTEM**

by

Brent Ruhlen

LTC, U.S. Army

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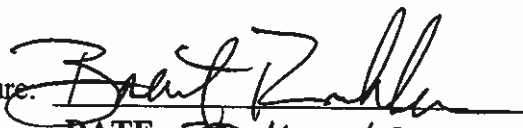
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A paper submitted to the Faculty of the Joint Advanced Warfighting School in partial satisfaction of the requirements of a Master of Science Degree in Joint Campaign Planning and Strategy. The contents of this paper reflect my own personal views and are not necessarily endorsed by the Joint Forces Staff College or the Department of Defense.

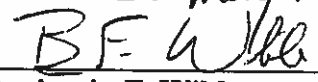
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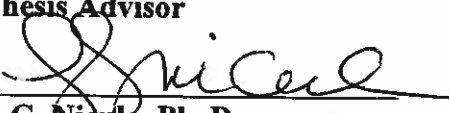
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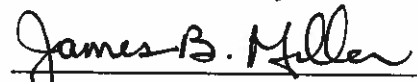
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ABSTRACT

Months after the Defense Business Board's (DBB) proposal to modernize the military's voluntary retirement system, it was very difficult to find any real measurement of how the current and future service members felt about the proposed changes and how the proposal would affect their intentions to join or stay in the military. Lacking sufficient data sources, the author developed and fielded an online survey to gather the necessary data. The survey sought to answer how current and future military members felt about the DBB's proposal and how they might alter their military tenure intentions under various retirement reform scenarios. Survey responses show that the DBB's proposal would have a negative effect on personnel retention, especially among those members who are currently eligible to retire. Other retirement reform options presented in the survey drew varied responses, none of them overly positive.

The author investigates how changes to the military retirement system that delay or reduce the pension payments of current or future retirees will produce increased societal costs. Since the minimum salary of Junior Reserve Officer Training Corps (JROTC) instructors is tied to their military retirement pay, changes that increase the cost to high schools hosting JROTC programs may force schools to abandon their programs due to fiscal constraints in lean economic times. If this happens, many of the at-risk youth targeted by the JROTC programs could lose the mentorship and personal development opportunities the programs provide. Data show that by simply graduating from high school, they have a much better opportunity to break the chains of poverty and reduce the drain on social welfare programs.

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Mr. Ben Wible, thanks for always having an encouraging word when I was struggling with choosing my thesis topic or when I hit the writing doldrums.

DEDICATION

This paper is dedicated to those who lay their life on the line in service to this great country, many of whom have paid the ultimate price in her defense.

Thank you.

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INTRODUCTION

The year is 2010. The world economy is in a severe recession. The economies of Greece, Ireland, Italy and Portugal are in a crisis and at a high risk of collapse if they are not bailed out. The U.S. economy is still in a recession and there is talk that it may head into a double-dip recession. Over \$1 trillion in recent government giveaways as “stimulus,” handouts, bailouts, loans and loan guarantees had a negligible impact on the economy. U.S. unemployment figures remain at or above 9.4% nationwide for the entire year and at or above 9% since April 2009.¹ Interest rates are at all time lows in order to spur the economy. Home foreclosures continue at historically high rates. Congress refuses to reign in uncontrolled deficit spending approaching \$1.3 trillion for FY10.² Funding for the continuing wars in Afghanistan and Iraq (initiated in 2001 and 2003, respectively) is secured through borrowed money. President Obama summed up the domestic economic situation by saying,

Last January, the United States faced an economic crisis unlike any we had known in generations. Irresponsible risk-taking and debt-fueled speculation—unchecked by sound oversight—led to the near-collapse of our financial system. Our Gross Domestic Product (GDP) was falling at the fastest rate in a quarter-century. Five trillion dollars of Americans’ household wealth had evaporated in just 12 weeks as stocks, pensions, and home values plummeted. We were losing an average of 700,000 jobs each month, equivalent to the population of the State of Vermont. The capital and credit markets, integral to the normal functioning of our economy, were virtually frozen. The fear among economists—from across the political spectrum—was that we risked sinking into a second Great Depression.³

¹ Bureau of Labor Statistics, “Employment of the civilian population by sex and age,” U.S. Department of Labor, <http://www.bls.gov/webapps/legacy/cpsatab1.htm> (accessed October 16, 2011), under options chosen: Unemployment rate, seasonally adjusted and Unemployment rate, not seasonally adjusted.

² U.S. Department of the Treasury, “Joint Statement of Timothy Geithner, Secretary of the Treasury, and Jeffrey Zients, Acting Director of the Office of Management and Budget, on Budget Results for Fiscal Year 2010,” U.S. Department of the Treasury, <http://www.treasury.gov/press-center/press-releases/Pages/tg911.aspx> (accessed October 16, 2011).

³ U.S. Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2011*, Government Printing Office (Washington DC, 2010), 1.

It is clear that the increasing federal budget growth, debt and deficit levels cannot continue, especially in a weakened global economy. The President, in trying to express the nation's frustration with Congress and their failure to be fiscally responsible, continued:

For decades, Washington failed to address fundamental weaknesses in the economy: rising health-care costs, a growing dependence on foreign oil, and an education system unable to prepare our children for the jobs of the future. In recent years, spending bills and tax cuts for the wealthy were approved without paying for any of it, leaving behind a mountain of debt. And while Wall Street gambled without regard for the consequences, Washington looked the other way.⁴

With the end of the war in Iraq certain and the end of the war in Afghanistan pending, Congress told the Defense Department to expect budget cuts from \$450 billion to over \$1.2 trillion over the next ten years, starting in 2013. Between these cuts and the increasing manpower budget line, something needed to give or else the nation would end up with the same "hollow" force it had in the late 1970s and mid-1990s.

The Military Voluntary Retirement System has been a target for reform for years. Over a dozen studies have looked at it and proposed various ways that reform could make it more affordable. Several changes to accounting methods helped the Department of Defense (DOD) pay for the future costs, but they did nothing to reduce the growing costs. Congress changed the pension computations, but that only had a negligible impact on the overall cost of the retirement system. Major reform came in 1986, but Congress abandoned that approach a few years later and the old system was brought back. Overall, the DOD was not much further ahead than when it started.

⁴ Ibid, 2.

In August 2011, the discussion forums on military related websites exploded and veteran advocacy groups mobilized. The Defense Business Board (DBB) released a new retirement reform proposal that called for a drastic overhaul of the military's voluntary retirement system. To current active duty members, the most disturbing thing about the proposal was that it did not recommend that those who are currently serving be "grandfathered" under the current system.

Thesis

Implementation of the Defense Business Board's reform proposal will have a negative impact on military retention, in addition to some unforeseen societal costs. The research will answer three questions: 1) how would the DBB's recommended retirement plan affect the military tenure intentions of current active duty service members; 2) how will the military tenure intentions of these members change when presented with alternative retirement plans; and 3) what unintended consequences might result from implementation of the DBB's proposal?

In order to answer the first two questions, the author designed an anonymous online survey for active duty military members. Analysis of the survey results will show how their military tenure intentions change based on implementation of the DBB's proposal and various other retirement plan scenarios. Analysis of the linkage between the military retirement system and the Junior Reserve Officer Training Corps (JROTC) will show how the DBB's proposal will negatively affect the JROTC program and have negative implications for society.

The scope of this research is limited in two areas. First, although the Defense Business Board recommends combining the Active and Reserve component retirement systems, this study will only look at the implications pertaining to the Active component.

Second, since the DBB did not address the disability/medical retirement system in their work, this study will not consider it.

The Survey

The author looked to the Army Research Institute, the Air Force Survey Office and the Navy Survey Office to assist with the development, deployment and online hosting of the survey since they are the organizations responsible for the approval and conduct of surveys within their respective Services. Additionally, by working with these organizations, the survey would reach a much broader population than if the author attempted to publicize the survey on his own. After discussions with the organizations, the author deemed it impractical to work with them for two reasons. First, and most importantly, was the limited time available to develop, conduct and analyze the survey results. All three organizations required significantly more time to conduct these activities than the author had available to complete this project. Second, the Service rules require that a command within the Service sponsor the survey. It would be extremely challenging to find a command within one Service, let alone three, that would deem this thesis topic important enough to sponsor and have their people spend time conducting the survey. Efforts to recruit commanders to sponsor the survey would likely result in a huge expenditure of time and effort with no positive result. The author finally decided to develop the survey and conduct the analysis without the assistance of these Service organizations.

It was the author's intention to include high school seniors in the survey population in order to determine if enactment of the DBB's recommendations would influence their intentions of military service after graduation. Working with the Joint Forces Staff College's Institutional Review Board (IRB) on the development and

approval of the survey, the author learned that the federal government requires that those under the age of 18 have parental consent to participate in a survey for research purposes. This requirement made it impractical to seek the opinions of this group as part of this research effort.

Following approval of the survey questions by the IRB, the author built the survey on a commercial survey-hosting website (www.zoomerang.com). In order to advertise the purpose, availability and location of the survey, the author sent the information to his personal network of active duty military friends and coworkers through email and via social media sites. He also posted the information to various discussion forums on military related websites, including Army Knowledge Online, Military.com and MilSuite.mil. The relatively limited distribution of the survey availability notification is a likely reason that the number of survey responses was limited. Surveys conducted by the DOD or the Services have significantly larger responses due to their ability to notify all Service members or targeted groups of members of survey availability.

It was the author's intent to show how cadets in the Senior Reserve Officer Training Corps programs and Service Academies felt about the DBB's proposed changes and the other options presented in the survey. These students represent the vast majority of officers entering the military over the next several years. If they felt strongly opposed to the DBB's proposal, it could indicate that the Services might encounter recruiting problems over the next several years. Conversely, if they were in favor of the proposal, it could signal to the Services that the proposed retirement plan could make a more effective recruiting tool. Unfortunately, out of the 123 responses submitted to the author's online survey, only nine senior ROTC program or Service Academy cadets were

included. This does not provide enough data to generate any reliable opinion trends, so it is not included in this paper.

The author did not develop the survey with the intent of the responses being analyzed using scientific or statistical methods. Rather, it would serve as a market research tool to determine general opinion trends. Research using these other methods with a larger response population is a recommendation for future study.

CHAPTER 1: HISTORY OF THE VOLUNTARY MILITARY RETIREMENT SYSTEM

Any nation that has a standing, professional military, especially one manned solely by volunteers rather than draftees, needs to have some incentive to retain those who decide to make it a career. Since the military typically does not pay the same compensation for a comparable job in the private sector, it relies, in part, on deferred compensation (through a retirement system) to retain these trained and experienced personnel. Many career military members spend almost half or more of their working years risking their lives, spending time deployed away from home and often living in what are sometimes less than desirable or even deplorable conditions. The promise of a pension following retirement helps to keep experienced members in the military when they could take an easier and better paying job in the civilian sector.

Development of the Military Retirement System

In 1860, there was a feeling of growing tension within the country regarding slavery and states' rights. Feeling that there was no other recourse, the South formally seceded from the United States in December of 1860. The battle lines were drawn and in February 1861, the Confederate States of America officially formed. A civil war now appeared inevitable. Foreseeing this likely event, Congress provided the first legislative authority that provided for either the voluntary or the involuntary retirement of active-duty members of the Armed Forces from military service. Prior to this, the only law that

provided any legal basis for retirement from the military was an 1855 statute that provided for the compulsory retirement of certain Navy officers.¹

In April 1861, President Lincoln declared a ‘state of insurrection’ and called for 75,000 volunteers to serve for a three-month period.² Battles ensued for the remainder of the year with battle victories and losses on both sides and the Union casualties mounting. In an effort to recruit new troops and with the perspective that this was not going to be a short war, Congress implemented measures to build out the forces and reward those who committed to making the military a career. “The Act of August 3, 1861 [An Act Providing for the Better Organization of the Military Establishment], ch. 42, § 15 (officers of the Army and Marine Corps) and § 21 (officers of the Navy), 12 Stat. 287 , 289, 290 (1961), authorized the voluntary retirement, at the discretion of the President, of regular officers of all branches of service after 40 years of duty.”³

World War I began in 1914, with the United States a supporter of the Allied forces, but not a combatant. This did not stop the Germans from sinking American cargo ships running equipment, food and supplies across the Atlantic to support the Allies. In 1916, President Wilson threatened the Germans with military action if they continued to sink American ships. Not wanting the United States to declare entry into the war, the Germans stopped their unrestricted attacks on American shipping. That same year also saw the start of major battles, including the Battles of Verdun (the longest battle in WWI), the Battle of Jutland (the largest naval engagement of the war) and the Battle of

¹ U.S. Department of Defense, *Military Compensation Background Papers, Seventh Edition*, Under Secretary of Defense for Personnel and Readiness (Washington DC, 2011), 577.

² Smithsonian Institution, “CivilWar@Smithsonian Timeline,” Smithsonian Institution, <http://www.civilwar.si.edu/timeline.html> (accessed January 31, 2012).

³ *Military Compensation Background Papers*, 577.

the Somme, which produced over one million casualties and no breakthrough for the Allies.⁴

The U.S. Congress could sense that the nation was being dragged into a war it did not want to join. It may have been this sense that caused them to look at the personnel policies of the Armed Services and determine that some personnel policies needed to change in order to retain the best officers and enlisted members while rewarding them for long-term service.

The Act of August 29, 1916 (Naval Service Appropriation Act of 1917), ch. 417 [Public Law 241, 64th Congress], 39 Stat. 556, 578-579 (1916), brought two new principles to the non-disability retirement system. First, it established a retirement program integrated with an up-or-out selective promotion plan. Second, it initiated use of the formula that was, until 1980, the basis for determining retired pay entitlements- namely, 2.5 percent of final monthly basic pay for each year of service up to 30, or a maximum of 75 percent of basic pay.⁵

The next year, President Wilson asked Congress for a declaration of war against Germany.

Following World War II, the U.S. military went through significant changes. Not only was there a drastic drawdown in troop strength as part of the “peace dividend,” but there were significant structural changes to the national defense institutions. The “peace dividend” was short lived as the Soviet Union, an ally of the United States a few years prior, now stood as the biggest threat to world peace with its attempt to spread Communism through annexation of the Baltic States and establishing pro-Soviet dictators in the eastern European countries. A buildup of U.S. forces was the only way to counter the Soviet threat.

⁴ Community Television of Southern California, “The Great War . Timeline . 1916,” Public Broadcasting System, http://www.pbs.org/greatwar/timeline/time_1916.html (accessed January 30, 2012).

⁵ *Military Compensation Background Papers*, 579.

The National Security Act of 1947 renamed the Department of War to the Department of the Army and created a new branch of military service when the Army Air Corps became the Department of the Air Force. These services, along with the Department of the Navy, fell under a new Cabinet-level authority called the National Military Establishment (renamed to the Department of Defense in 1949). Although Congress' intent with the National Security Act of 1947 was "to provide for the integrated policies and procedures for the departments, agencies, and functions of the Government relating to the national security,"⁶ the differences in voluntary retirement rules between the Services remained. Under existing law, Army officers were authorized to voluntarily retire after only 15 years of service (Act of July 31, 1935, ch. 422 [Public Law 225, 74th Congress], §5, 49 Stat. 505, 507 (1935)), while Navy officers were required to serve at least 20 years to qualify for retirement (Act of June 23, 1938 [An Act to Regulate the Distribution, Promotion, and Retirement of Officers of the Line of the Navy], ch. 598, *id.*, § 12(e), 52 Stat. at 949).⁷ Congress rectified this with,

the Army and Air Force Vitalization and Retirement Equalization Act of 1948, ch. 708 [Public Law 810, 80th Congress], §202, 62 Stat. 1081, 1084 (1948), authorized the voluntary retirement of Army and Air Force officers after 20 years of active service at least 10 years of which consisted of commissioned service, with retired pay computed by the standard 2.5 percent formula. This law resulted, for the first time in history, in uniform voluntary retirement authority among the officers of all branches of service.⁸

The late 1970s into the early 1980s were difficult economic times for the United States. President Carter faced a recession and skyrocketing inflation and consumer

⁶ National Security Act of 1947, Public Law 80-253, 80th Cong., 1st sess. (July 26, 1947), § 2, codified at U.S. Code 50 (1947), § 401.

⁷ *Military Compensation Background Papers*, 580.

⁸ *Ibid*, 581.

interest rates⁹ during his watch (see fig. 1). To make matters worse, the Iranians had overtaken the U.S. Embassy in Tehran and taken U.S. citizens hostage. This resulted in a break of diplomatic relations with Iran and an embargo on Iranian oil imports. The shortage of imported oil caused rationing of gas that drove car owners to wait in line for hours just to fill their tank on their designated day to buy gas. Reacting to the shortage of gas, the markets reacted by increasing the price of gas, further hurting an already depressed economy. In 1976, gas had risen to \$0.60 per gallon and by 1980 – 1981, gas prices rose to \$1.35.¹⁰ These factors, combined with the botched military raid to rescue the hostages in Iran, led to President Carter losing his re-election bid.

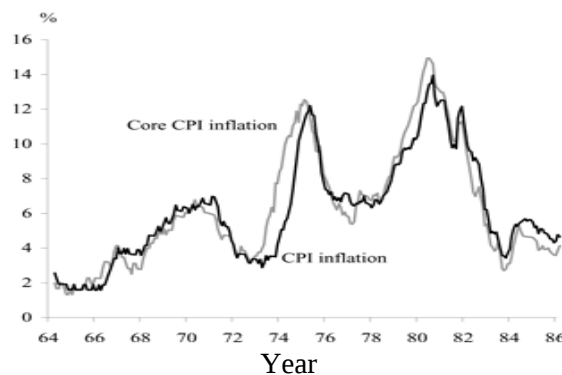


Figure 1. Percent of economic inflation as measured by the Consumer Price Index.

Source: Federal Reserve Bank of San Francisco.

With President Reagan now in office, Congress had some mounting concerns regarding the escalating costs of the military retirement funding, especially in light of the ongoing recession. This is the first time that Congress took any action to reform the military retirement system due to fiscal concerns. The Department of Defense

⁹ Board of Governors of the Federal Reserve System, “Bank Prime Loan Rate Changes: Historical Dates of Changes and Rates,” St. Louis Federal Reserve Bank, <http://research.stlouisfed.org/fred2/data/PRIME.txt> (accessed January 30, 2012). The Prime Loan Rate (rates that banks charge each other for loans) when President Carter took office was 6.75% and peaked at 21.5% the month before he left office.

¹⁰ Inflationdata.com, “Gasoline Prices – Inflation Adjusted,” Inflationdata.com, http://inflationdata.com/inflation/inflation_rate/gasoline_inflation.asp (accessed January 30, 2012).

Authorization Act of 1981 changed the retirement computational model from computation on final base pay to the highest 36 months of base pay (also known as the “High 3” plan). While this measure did not save the country from deficit spending, it did have a positive impact on reducing future retirement liabilities. Those currently serving in the military were exempt from this plan, so they saw no change in their pension payments.

Although the U.S. economy significantly improved during President Reagan’s time in office, Congress felt the military retirement system still needed improvement. The next change to the voluntary retirement system occurred with the passage of the Department of Defense Authorization Act of 1984. This law included one major change to the accounting of future voluntary retirement pension payments (this had no impact on the retiree’s pension amount) and three minor changes to the computation of retirement pension (these had only a negligible impact on future retiree’s pension amount). Until 1984, the Congress appropriated funds for military retirement as part of the Defense Department’s annual budget. The 1984 Act required that the Defense Department implement an accrual system for the payment of future retirement entitlements – today known as the Department of Defense Military Retirement Fund.

Under the accrual accounting system, an additional percentage of the annual appropriation for basic pay for members of the Armed Forces—amounting in 1986 to approximately 51 percent of the basic pay account for all members of the Armed Forces—is separately appropriated for the Department of Defense Military Retirement Fund in order to defray the future costs of retirement benefits earned during the year covered by the appropriation.¹¹

The three minor changes were cost savings measures that required: 1) the pay scale current at the time of a member’s retirement must be used in computing retirement

¹¹ *Military Compensation Background Papers*, 585.

entitlements; 2) retirement pay be rounded down to the next whole dollar and; 3) partial months of service be rounded down when computing retirement entitlements.

The Department of Defense Authorization Act of 1984 drove the next change to the military retirement system a couple of years later. “Armed with information gained from the new accrual accounting system, Congress next took action to require a \$2.9 billion reduction in non-disability retirement cost accruals for fiscal year 1986.”¹² The Department of Defense Authorization Act of 1986 directed the Secretary of Defense to develop a two-tier retirement system, one for members already serving and one for those who would join after the change was enacted. The Military Retirement Reform Act of 1986 enacted by Congress called for a new retirement system that had two structural changes. First, it kept the 2.5% multiplier for years of service for up to 30 years, but deducted a percentage point for every year under 30 that the member served. This deduction was eliminated when the retiree reached age 62. Second, rather than having a cost of living increase indexed directly to the Consumer Price Index (CPI), it would now be indexed to the CPI minus 1 point. At age 62, there would be a one-time restoration of lost purchasing power. This plan is known as the “Redux” retirement plan.

The Redux plan, however, appeared to have some unintended consequences. In January 1999, General Charles C. Krulak, Commandant of the United States Marine Corps, testified to the House Armed Services Committee that the Redux plan was having a negative effect on the morale and retention of young Marines. They felt short-changed on their retirement, having made the same level of sacrifice as those more senior to them and serving under the old system.

¹² Ibid, 701.

Breaking away, as was done in 1986, from historical retirement plans and benefit services conveys a message to our Marines that the nation does not appreciate their many sacrifices.

As Marines make their career decisions, the erosion of benefits translates into a growing perception that military careers are less advantageous than civilian employment. Our unit commanders routinely cite dissatisfaction with the 40 percent retirement pension at 20 years of service (called Redux) as one of the foremost reasons for separations prior to retirement eligibility. Originally intended to keep our military personnel in for longer periods of time, it has had the exact opposite effect! Marines who entered the service after 1986 are, twelve years later, just beginning to understand the importance of their future retirement. They note the disparity between their pension benefit and the 50 percent, "traditional" pension at 20 years afforded to their predecessors, and they wonder why their service is considered less significant. They are asking themselves whether 40 percent of basic pay at the earliest retirement date is adequate compensation for the level of sacrifice our nation demands from them and their families. Their answer is not to stay in longer, as was the goal of "Redux" ... their answer is to get out after the first enlistment. Their answer is not to make the services a career. The commanders' assessments indicate that Redux considerably reduced enticements for having a military career and will increasingly become a deciding factor regarding continued service. The negative impact on retention, in turn, will degrade the stability and quality of our officer and non-commissioned officer force.¹³

General Krulak's testimony provided no empirical data to show the negative effects that Redux was having on the force, especially to the degree he described. Even so, repeal of the Redux plan became the top priority of the Joint Chiefs of Staff.

On February 25, 1999, Dan L. Crippen, Director of the Congressional Budget Office (CBO), provided analysis of the impact of Redux on military personnel retention to the Senate Committee on Armed Services. The CBO's analysis indicated "that the Military Retirement Reform Act of 1986 is unlikely to be the cause of any marked change in retention patterns. If large declines in retention are observed, other possible explanations—such as frequent, unscheduled deployments or attractive civilian job

¹³ General Charles Krulak, Commandant of the U.S. Marine Corps, "Marine Corps Commandant's Testimony to the Senate Armed Services Committee" (remarks delivered to the Senate Armed Services Committee, January 5, 1999).

opportunities—may merit investigation.”¹⁴ The CBO expected to see a 3% drop in retention rates of enlisted members across the force due to Redux. Their analysis generally confirms their expectations, although it cannot positively tie implementation of Redux to this drop.¹⁵

General Krulak’s testimony, along with that of other senior Defense Department officials, was enough to convince Congress that the Redux plan was no longer an adequate retirement system for the military. The challenge that Congress faced was that by reversing Redux, the expected cost of pensions for new retirees would significantly increase. However, the timing was perfect for Congress to fix the problem. The nation ran surplus budgets in fiscal years 1998-2001, ranging from \$69.3 billion to \$236.2 billion,¹⁶ so the surplus funds in the Treasury could offset these additional outlays from the military retirement system. The likelihood that budget surpluses would continue to cover the additional cost of the retirement system liabilities in the long term was not high, but that was a problem for a future Congress to resolve. The National Defense Authorization Act of 2000 amended the military retirement system for those who entered active service between September 9, 1980 and August 1, 1986. Service members would have the choice of: 1) electing to remain under the Redux plan and receive a \$30,000 Career Status Bonus at their 15-year service anniversary, with their commitment to serve

¹⁴ Senate Armed Services Committee, *Letter to the Honorable John W. Warner regarding the effects of the 1986 Military Retirement Reform Act*, 106th Cong. 1st sess., March 2, 1999.

¹⁵ For additional information on this topic, see House Committee on Armed Services, Subcommittee on Military Personnel, *Testimony on Military Pay and Benefits*, 106th Cong. 1st sess., February 25, 1999.

¹⁶ U.S. Office of Management and Budget, *Historical Tables, Budget of the U.S. Government – Fiscal Year 2011*, U.S. Office of Management and Budget (Washington DC, 2010), 22.

until at least their 20-year service anniversary; or 2) revert to the previous “High 3” plan.¹⁷

From 1861 until today, there has been little structural change in the military’s retirement system as it affects a retiree’s pay. Changes to the system’s accounting methods significantly changed the way that DOD funds the system, but these did not affect the retiree’s pay or the overall cost of the system. The affordability of the retirement system has been looked at numerous times and many improvements recommended. Whether the lack of significant change is due to impractical recommendations or a lack of political will to implement the change is open for debate.

Retirement Reform Initiatives

Both Congress and the DOD realize that the bill for the current military voluntary retirement system is not affordable in the long-term. Since 1948, the DOD commissioned over a dozen commissions or boards to make recommendations on how to modify the system to make it affordable¹⁸. These commissions and boards made recommendations that covered retirement eligibility, retirement pay formulas, employee required contributions, vesting criteria, severance pay, Social Security offsets, transition and Save Pay, and adjustment mechanisms (cost of living adjustments).

For the most part, the five major studies maintained the status quo of eligibility for retirement at 20 YOS [years of service] minimum and a pension plan beginning at age 60, with varying formulas for retired pay. Most of the studies proposed beginning vesting at about 10 YOS, with the exception of the Fifth Quadrennial Review of Military Compensation (Fifth QRMCI), which recommended continuing the current vesting at 20 years.¹⁹

¹⁷ National Defense Authorization Act of 2000, Public Law 106-65, §641, 106th Cong., 1st sess. (October 5, 1999), 662-664.

¹⁸ Library of Congress, Federal Research Division, *A Summary of Major Military Retirement Reform Proposals, 1976-2006*, by Alice R. Buchalter, Library of Congress (Washington DC, 2007), 5-14. See this document for a summary of the numerous retirement reform proposals since 1948.

¹⁹ *Ibid*, 70.

Despite all of the resources expended on these groups to develop viable recommendations, Congress adopted only two of them, the High-3 plan and the brief excursion to the Redux plan. Although there is no evidence as to why none of the other proposals were pushed by the DOD nor adopted by Congress, one could surmise that a politician who voted to reduce the benefits to career military members would be seen as weak on defense and not supportive of military veterans. In recent times, neither of these positions was a popular platform on which to run a re-election campaign, especially when the military receives a much higher approval rating than Congress.²⁰

The latest proposal on reforming the military's retirement system, and the one on which this paper focuses, came from the Defense Business Board (DBB). According to one of the DBB's reports:

The Defense Business Board provides the Secretary of Defense and the Chairman of the Joint Chiefs of Staff with independent advice and recommendations on best business practices to improve the overall management of the Department of Defense. The Board is comprised of highly respected, proven leaders and subject matter experts from the private sector and is appointed by the Secretary of Defense.²¹

The number of tasks undertaken by the DBB is subject to the needs of the Secretary of Defense and varies from year to year. Since 2002, the Board has produced 61 reports covering a variety of topics. Broadly categorized, these topics include general business management (19), resources management (13), financial management (8), human

²⁰ Lydia Saad, "Congress Ranks Last in Confidence in Institutions," Gallup, <http://www.gallup.com/poll/141512/congress-ranks-last-confidence-institutions.aspx> (accessed February 11, 2012). A Gallup poll taken in July 2010 found that the U.S. military was the highest ranked institution in America in terms of level of confidence with a score of 76%. In the same poll, the President scored 36% and Congress only 11%. The author states, "The military has been No. 1 in Gallup's annual Confidence in Institutions list continuously since 1998, and has ranked No.1 or No. 2 almost every year since its initial 1975 measure."

²¹ U.S. Department of Defense, Defense Business Board, *Focusing a Transition, A Report by the Defense Business Board*, Report FY09-4, by Richard Spencer, Government Printing Office (Washington DC, 2009), 1.

logistics/supply chain management (8), relations between the Department of Defense and businesses (4), quality of life issues (3), healthcare (2), transition to a new Presidential administration (2), export controls and spectrum management.

According to the DBB's charter:

The Board shall be composed of not more than 25 members, who possess: (a) a proven track record of sound judgment in leading or governing large, complex private sector corporations or organizations; and (b) a wealth of top-level, global business experience in the areas of executive management, corporate governance, audit and finance, human resources, economics, technology and healthcare.²²

Appointed members of the DBB may include current federal government employees.

While it is not necessary to have uniformed military experience in order to be a member of the DBB, there may be issues they investigate where this experience would be helpful in understanding the impact of the recommendations on the military culture. However, one could also argue that having board members with military experience could prejudice their views, as they are products of "the system" and could try to protect the status quo within the area under inspection. On issues such as export controls, having military experience would be of negligible value, as changes in this process do not affect the life of a significant number of military members. On the other hand, recommendations on changing the military retirement system directly affect every member of the military and potentially all military retirees, depending on the scope of their recommendations. Of the seven Task Group members assigned to develop recommendations on modernizing the military retirement system, only one of them, Mr. Jack Zoeller, shows any military experience in his biography posted on the DBB's website. Four other DBB members

²² Defense Business Board, "Defense Business Board," U.S. Department of Defense, <http://dbb.defense.gov/charters.shtml> (accessed January 28, 2012).

show uniformed military experience and several more have civilian experience within the Department of Defense.²³

Saving money is not at the core of all of the DBB's assigned tasks. Most of the tasks aim to create efficiencies through improved business processes by reducing or streamlining bureaucratic requirements. These may or may not result in cost savings if enacted. The intent of the stated deliverable for this task, "Provide recommendations that will enable the [military retirement] system to be fiscally sustainable"²⁴ is clearly to reduce defense manpower costs through "modernizing" the military retirement system.

On November 10, 2010, the Chairman of the Defense Business Board tasked a group to develop some alternatives to the current military retirement system "in order to better align defense dollars with real-world military needs."²⁵ Specifically, he tasked the team to "provide recommendations that enable the system to be fiscally sustainable while recruiting and retaining the highest performing personnel required for our Nation's defense."²⁶

After "reviewing the current reform thinking on military pay and benefits,"²⁷ interviews with numerous current and former senior DOD and other government officials, think tanks, the Defense Ministries of France and Canada, the Task Group briefed the Defense Business Board on their findings, assessments and recommendations on July 21, 2011. Broadly stated, the Task Group concluded the following:

²³ Defense Business Board, "Defense Business Board," U.S Department of Defense, http://dbb.defense.gov/board_members/jack_zoeller.shtml (accessed January 28, 2012). According to Mr. Zoeller's biography, he served in the Army through at least the rank of Captain. It is not known if he retired from the military, but it seems unlikely, since there is no mention of him having attained a higher rank.

²⁴ U.S. Department of Defense, Defense Business Board, *Modernizing the Military Retirement System*, Report FY11-05, by Richard Spencer, Government Printing Office (Washington DC, 2011), 1.

²⁵ Ibid, Tab B.

²⁶ Ibid.

²⁷ Ibid.

- Findings
 - o DOD has maintained the structure of its retirement benefits which were created before the All Volunteer Force
 - o Military retirement is more generous and expensive compared to the private sector
 - o The “one size fits all” retirement plan has structural disadvantages
- Assessments
 - o The retirement plan is unfair - 83% of those who serve receive no retirement benefit.
 - o The retirement plan is unaffordable
 - o The retirement plan is inflexible
- Recommendation: replace the current defined benefit plan with a defined contribution plan for both active and reserve components.

Key elements of the plan include:

- Establishing a mandatory Thrift Savings Plan program for all military service personnel
 - o The government contributions would be funded at a percentage comparable to the highest end of a private sector pension plan
 - o The plan would vest after 3-5 years, payable at age 60 to 65
 - o Allow partial withdrawals to cover education, healthcare, or other specified emergencies
- The plan would be risk adjusted to recognize combat roles, family separation and other unusual duty
- Like most private sector severance plans, the option of a time formulated transition payment should be considered to facilitate the change to a new career.²⁸

²⁸ Ibid, Tab C: 5-9, 12-14.

CHAPTER 2: TODAY'S MILITARY

The Missing Link

The Defense Business Board's (DBB) report states that they conducted many interviews during the conduct of their research. The one group that they did not interview or survey is the current force. Since their recommendations could directly affect the current force, it would only make sense to discuss the proposed options with them to determine what the impact on service member retention might be. If their recommendations polled well with the current force, it could signal to the Department of Defense (DOD) and Congress that the current force was comfortable with the changes to their promised retirement benefits and that there would be minimal negative impact on their retention levels. Conversely, if the recommendations polled poorly, it could signal that retention and morale would take a dangerous plunge. Moreover, what about the future force – those who are in high school and college today? Would the proposed changes to the retirement system make them more or less likely to enlist or pursue officer-producing programs? Without having had this discussion with these two groups, the DBB essentially turned in a product providing no evidence to prove it contains viable options from the recruiting or retention perspectives. The options they provide certainly meet the objective of reducing future personnel costs, but if they cause the current force to separate from the military en masse or cause a huge drop in recruiting, they fail to accomplish the task they were given.

Following the release of the DBB's proposal, there was significant discussion about the proposal in many online forums. However, what was very difficult to find was any real measurement of how the current and future service members felt about the

proposed changes. The only survey regarding the DBB's proposal that the author could find was one conducted by the Fleet Reserve Association. This online survey asked the organization's members (both current and retired enlisted military members of the Coast Guard, Navy and Marine Corps) how the change would affect their military tenure intentions, whether they preferred the current or proposed retirement plan, whether they thought the proposed plan was appropriate for military members, whether they felt the current plan was fair and how they thought the proposed plan would impact future recruiting and retention efforts. These questions were not sufficient to provide the basis of research into the issue of the DBB's proposed retirement reform, as they did not adequately address the individual's likely actions to various aspects of the proposal or alternative military retirement reform scenarios. Additionally, almost three quarters of the 1,795 survey respondents indicated they were retired military, a group unaffected by the DBB's proposal.¹

In order to fill the knowledge gap between on-hand data and that needed to measure the feelings of current and future military members regarding reformation of the military retirement system, the author designed and implemented an anonymous online survey. The survey focused on three areas to document the survey respondent's attitudes toward the DBB's proposal and other retirement reform scenarios. The three focus areas were: 1) the influence of the military's current retirement system on the individual's decision to join the military; 2) an individual's military tenure intentions if Congress

¹ Lauren Armstrong, Communications Manager at the Fleet Reserve Association, e-mail message to author, November 17, 2011.

reformed the military retirement system, given different reform scenarios; and 3) the “fairness” of the current system and the DBB’s recommendations.²

Survey Population Demographics

The survey was open to all active duty military (including the U.S. Coast Guard) and cadets from both ROTC and the Service Academies. There were 114 surveys completed from active duty service members and nine from cadets. Two responses were outside the target group and deleted.³ The age of survey participants ranged from 18 to 68, with an average age of 36.7 and a median age of 38. Length of active military service ranged from one to 36 years, with an average of 14.8 years and a median of 16 years. Pay grades of active duty members ranged from E3 to O6, with the majority of the results trending toward the senior non-commissioned officer and commissioned officer pay grades (see fig. 2). The spike in the number of responses from those at the O5 pay grade may tend to skew some results as most of them are, or will soon be, eligible for retirement. The larger response from members of the Army is not expected to skew the results in any appreciable manner.

² The survey responses served as the basis for much of the author’s research and could help the DOD shape the DBB’s proposal and/or future reform proposals to minimize recruiting and retention problems created by a change in retirement benefits.

³ Responses excluded from the results pool included those where the respondent indicated that they were a minor or those with data elements that were grossly out of line with what was expected based on other data elements. For example, if a respondent said that their pay grade was O5, their age was 25 and they had 10 years of active military service, this response was not included in the results because it is impossible for a person to have all of these attributes. As every service member’s situation and experience is unique, responses that seemed unlikely, but within the realm of the possible, remained in the results pool.

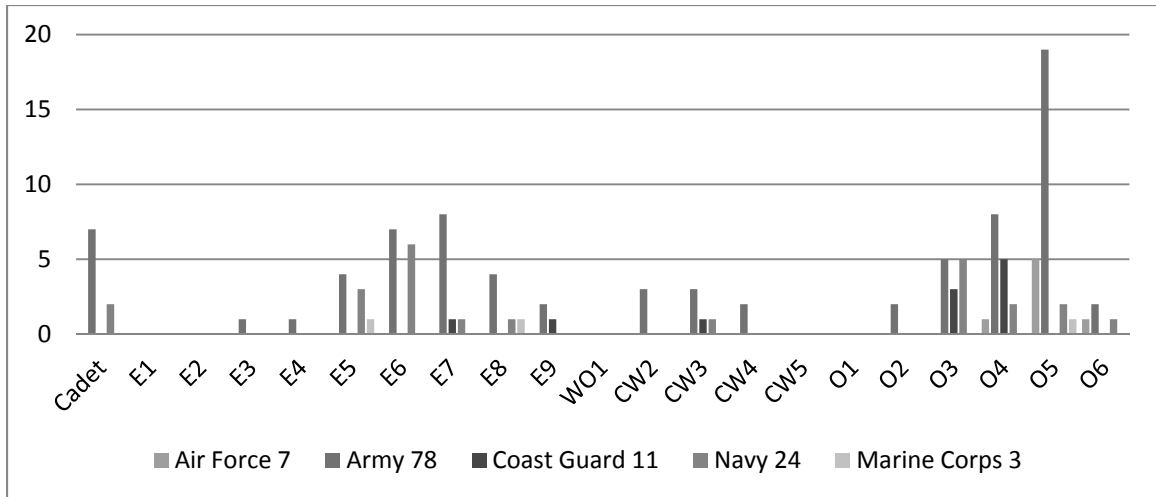


Figure 2. Survey respondents by Service and Pay Grade

For purposes of categorizing respondents according to their progress toward a military retirement, active duty respondents fall into one of three groups: Early Career, Mid-Career and Career. These are arbitrary groups with author-selected years of service criteria and not tied to any Service’s categorization for retention efforts. Table 1 shows the category criteria and the number of respondents that fell into each category. The figures that follow in this chapter show survey responses grouped by these categories. The number of survey responses from Early Career service members was not significant enough to generate any useful analysis or conclusions. However, the figures in this chapter do show their responses for representative purposes.

Table 1. Categories of survey respondents

Category	Years of Service	# of Respondents
Early Career	0 – 7	12
Mid-Career	8 - 12	22
Career	13 or more	80

The Defense Business Board Proposal

One of the things that may make a career in the U.S. military appealing is the current retirement system. In a world of uncertain investment markets and corporations

going bankrupt, there is a certain appeal to joining the military, working hard for 20 or more years and getting a guaranteed pension as soon as you retire. It is rare, if not impossible, to find such a guarantee in the private sector today. For the 18 to 20-something year old who enters the military, a 20-year career sounds like a long commitment which they may not be ready to make when they join. Some may choose to join for one or two tours in order to obtain job skill training, receive college education benefits or the Department of Veterans Affairs (VA) benefits offered to active duty members and veterans. The survey results show that over a third (39%) of those joining the military come in with the intention of making the military a career, one third (33%) are committed to not making the military a career and just under a third (28%) were undecided as to how long they would remain in the military.

Seventy-two percent of the respondents said that the military retirement system was either a very or a somewhat positive factor in their decision to join the military. This would indicate that the current military retirement system was an incentive to join the military even for some of those who indicated that they did not intend to make a career out of the military. This data point leads to two interesting observations.

First, the *2000 Military Exit Survey* asked departing service members the following, “Which of the following best describe the primary reason why you joined?” Grouped by the member’s pay grade,⁴ the senior officer group rated “retirement pay and benefits” the highest, by a significant margin compared with the other groups.⁵

Considering this with the spike in responses from the O5 pay grade to the author’s survey

⁴ The pay grades were grouped as follows: E1-E4; E5-E9; W1-W2/O1-O3 and W3-W5/ O4-O6.

⁵ U.S. Department of Defense, Defense Manpower Data Center, *Tabulation of Responses from the 2000 Military Exit Survey*, DMDC Report No. 2001-003, by John Helmick and Elizabeth C. Hoover, Government Printing Office (Washington DC, 2001), 169-171.

may explain why the retirement system seemed to have such a positive influence on survey respondents joining the military.

Second, the DBB's report states, "Surveys consistently report that military retirement has little value in recruitment or retention for at least the first 10 years of service."⁶ What the DBB is saying is that for those who do not intend to make the military a career, the lure of the retirement system will not convince them to change their mind and it is therefore of no value to them. Table 2 provides information that the DBB left out of their finding.⁷ Survey respondents ranked "Retirement Pay and Benefits" among 20 other factors as the primary reasons that they joined the military. The same responses to the previous question from the *2000 Military Exit Survey*, when tabulated differently, show that the retirement system is of moderate to significant value in recruiting and retention, even in the first 10 years of service, *for those who intend to retire or end up retiring from the military.*

Table 2. Importance of retirement pay and benefits

Respondent Categories	Ranking of retirement pay and benefits
Planned to Retire & Actually Retired	3
Planned to Retire & Separated Prior to Retirement	12
Planned to Stay for Term/Obligation & Actually Retired	18
Planned to Stay for Term/Obligation & Separated Prior to Retirement	21
Unsure & Actually Retired	14
Unsure & Separated Prior to Retirement	21

Source: 2000 Military Exit Survey.

Around the 10-year point in a member's military career is considered the time when a decision should be made as to whether or not to serve another 10+ years of

⁶ *Modernizing the Military Retirement System*, Tab C: 7.

⁷ *Tabulation of Responses from the 2000 Military Exit Survey*, 173.

service in order to receive military retirement benefits. Many factors weigh on this personal decision, including job satisfaction within the military, a satisfying family life, the amount of time spent away from home for training and deployments and the potential to collect military retirement benefits immediately upon retirement. One respondent to the author's survey made this comment about the retirement system acting as a critical decision factor for those undecided about whether to exit the military at the mid-career point:

The retirement system is VERY effective at keeping members in service at the critical 10-12 year point. Most people who have stayed in that I talk to all hit career "doldrums" at 10-12 years and only stay because of the retirement benefits. Without those benefits, a lot of O4s will be walking out the door and taking their newly accrued experience and judgment with them.⁸

Considering the average accumulated time of active military service for all active duty respondents is 14.7 years, it is not surprising that 86% of the respondents indicated that they would remain in the military long enough to qualify for the military retirement. Of those indicating they did not have plans to retire from the military (6%), the average time in service is just over six years, with one of the respondents having 14 years of service, an anomaly to the 10-year rule. Nine respondents (8%), having an average of just over five years of active service, responded that they were undecided on their military career plans. Two of these respondents were also anomalies to the 10-year rule, with 12 and 15 years of active service.

A viable retirement plan must be one that service members believe appropriately rewards them for their long and dedicated service. A retirement plan that does not

⁸ Brent Ruhlen, "Survey on Effects of Proposed Military Retirement Reform," 2012. Survey respondents were given the opportunity to provide comments regarding current or previous military retirement reform initiatives and these comments are quoted throughout this paper. The names of the respondents are withheld by mutual agreement.

provide this discourages people from committing to a military career or causes them not to join the military in the first place. One of the benchmarks this paper will use to judge how effective alternative retirement plans are as a recruiting and/or retention tool is what we will call the Neutral-Positive (NP) Index. The NP Index is the sum of two numbers - the percentage of responses that indicate a presented option has no bearing on an individual's decision to retire from the military and the percentage of responses indicating a presented option makes them more inclined to commit to a longer length of service, possibly until retirement. Theoretically, the higher the number, the better the plan is as a recruiting or retention tool. Of note, the use of the index against the pool of survey respondents does invite the possibility of skewing its intended use as a fair measurement tool due to the large percentage of respondents in the O5 pay grade.

The core of the DBB's recommendation was to change the retirement system from a defined benefit (DB) plan to a defined contribution (DC) plan. There is no doubt that this proposal would have a positive impact on reducing the future of the DOD's liabilities, but would the current force be willing to accept such a drastic change or would they "vote with their feet" and depart the military? When asked what influence this change would have on their plans to continue service to qualify for retirement benefits, over 69 respondents (61%) reacted negatively, 27 respondents (24%) were neutral, and 17 respondents (15%) reacted positively (see fig. 3), giving the DC plan a NP rating of 39.⁹

⁹ Responses of "Would definitely serve until retirement," "More likely to serve until retirement" and "Currently retirement eligible; would continue serving" are categorized as positive responses; "No change in plans" is categorized as a neutral response; "Would definitely not serve until retirement," "Less likely to serve until retirement" and "Currently retirement eligible; would retire at earliest opportunity" are categorized as negative responses throughout this paper.

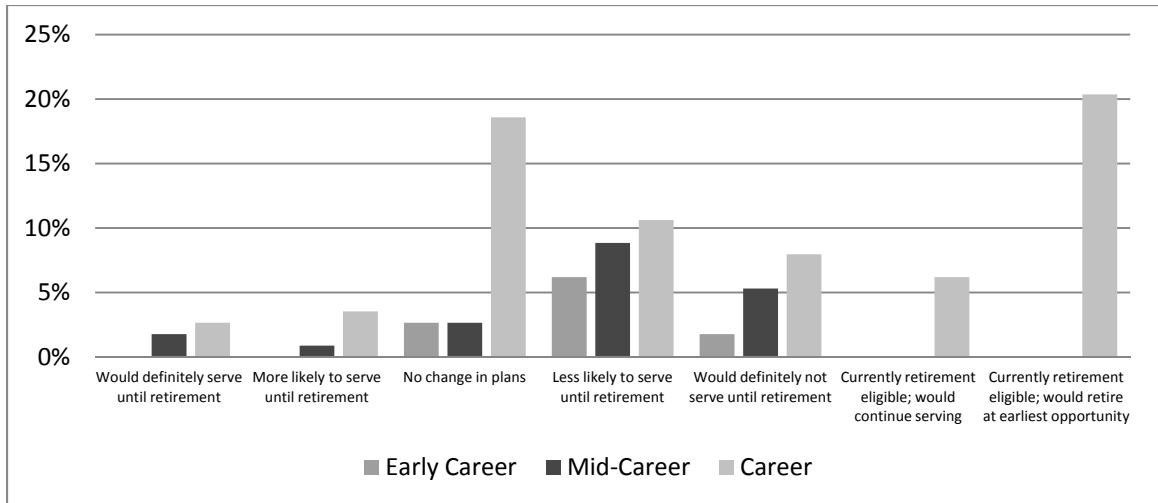


Figure 3. Defined contribution plan

Note: This graph and all subsequent graphs show polling data as a percentage of the total active duty service member responses received.

By an almost 3.5:1 margin (78%), respondents who are currently eligible for retirement, say they will leave the military at the earliest opportunity rather than remain in the military. These numbers should certainly give pause to the DOD leadership if they are considering endorsing the DBB’s proposal. No Service or organization could expect to remain combat effective after losing 78% of its most senior people. Left unchecked, departures of this magnitude from the military will be disastrous to national security. The retirement approval process will need control measures in place to determine which and how many retirement requests receive approval. These control measures should consider the level of performance spanning the individual’s career in order to align with the Secretary of Defense’s task to the DBB Task Group to “retain[ing] the highest quality personnel for our Nation’s defense.”¹⁰ Another factor for consideration is that those wanting to retire, but who are not approved, are less likely to retain a high level of morale, possibly causing organizational performance to suffer as a result.

¹⁰ *Modernizing the Military Retirement System*, Tab B.

The impact of these large-scale senior grade departures becomes more evident and pronounced as one moves from the tactical to the operational levels of command. As a matter of necessity, as the echelon of military command increases, so does the experience and grade of the commander. There is also a corresponding increase in the size, experience and grade of the supporting staff. An Army Combined Arms Battalion (CAB), commanded by a Lieutenant Colonel (O5 pay grade), is authorized 628 personnel.¹¹ The headquarters of the Army Service Component Command to U.S. Central Command (ARCENT), commanded by a Lieutenant General (O9 pay grade), is authorized 1,055 military personnel.¹² Filtering the personnel authorizations for likely retirement eligible senior ranks (pay grades E7-E9, W3-W5 and O5-O9, for this example) yields 25 personnel in the CAB and 476 personnel in the ARCENT Headquarters. Since it is impossible to determine from an authorization document the years of service of the individuals serving in a given position, this example assumes that 50% of the personnel in the senior ranks are eligible to retire.¹³ Applying the indicated exit ratio of 3.5:1 (78%) on those senior staff eligible for retirement results in a loss of 10 senior grades for the

¹¹ U.S. Department of Defense, Department of the Army, *Modified Table of Organization and Equipment, Combined Arms Battalion: 2^d Battalion, 7th Cavalry Regiment; Document #07205RFC40; EDATE: November, 17, 2011*, Department of the Army (Washington DC, 2011). The Modified Table of Organization and Equipment (MTOE) is the document that the Army uses to authorize units military personnel and equipment.

¹² U.S. Department of Defense, Department of the Army, *Modified Table of Organization and Equipment, Main Command Post: Headquarters, US Army Central; Document #51600G3A01; EDATE: October, 16, 2012*, Department of the Army (Washington DC, 2012); U.S. Department of Defense, Department of the Army, *Modified Table of Organization and Equipment, Operational Command Post: Headquarters, US Army Central; Document #51600G3A02; EDATE: October, 16, 2012*, Department of the Army (Washington DC, 2012). Together, the Operational Command Post and the Main Command Post make up the ARCENT Headquarters. The numbers in this example represent MTOE authorizations for both elements and do not reflect civilians assigned to the headquarters.

¹³ Promotions within the enlisted ranks in the combat arms fields are frequently earned faster than non-combat arms fields. This can result in a larger number of senior ranking members with a lower average YOS than found in the force as a whole. The ARCENT Headquarters is designed as a multi-functional organization, so many of its senior enlisted personnel will typically have a higher average years of service. This will likely cause the stated assumption to be over-inflated for the Combined Arms Battalion and under-inflated for the ARCENT Headquarters (since it is a multi-disciplined organization). However, this is acceptable for illustrative purposes.

CAB and 186 for the ARCENT Headquarters. As a percentage of the entire unit, this loss equals just 1.6% of the Combined Arms Battalion and 17.6% of the ARCENT Headquarters. Although the loss of the senior personnel at the battalion level certainly leaves a hole in the unit's leadership and may slightly degrade the unit's ability to carry out its mission, losses of this magnitude are tolerable across the battalion. However, at ARCENT, the effects are much more significant and will certainly have an impact on the unit's ability to conduct its mission. Clearly, the impact of a large exodus of senior grade personnel becomes more significant as the echelon of command increases.

The trend for the Mid-Career category respondents is somewhat more worrisome than those of the Career category. This category is at the point of deciding whether or not they will commit to making the military a career. Of the Mid-Career respondents, 45% said they were less likely to continue serving until retirement and 27% said that they would definitely not serve until retirement upon a change to a DC retirement plan. If a change to the retirement plan is seen as a disincentive to continue service to 20 years, this group could depart the service en masse, leaving a gaping hole in mid-level leadership. Data shows that this is clearly a possibility as 72% of this category views the DBB's plan in a negative light. Given this possibility, it is likely that targeted incentives could sway enough of them to commit to serving until retirement to meet required personnel targets.

The DBB proposed an immediate transition option to their recommended reform proposal. This transition locks in currently accrued benefits for currently serving personnel, but future benefits accrue in the new system. From the future liabilities standpoint, the immediate transition has a larger and quicker impact. The downside of this option is that it "breaks the faith" with the current force. Contracts signed by

military members upon entry into the military do not obligate the government to provide a specified retirement benefit after a given period of service. However, the understanding of military members is that the retirement plan in place when one enters the military will be the one honored when one makes the decision to retire from the service. Leon Panetta, the Secretary of Defense when the DBB published its report, commented about an immediate transition to a less generous retirement plan, “People who have come into the service, who have put their lives on the line, who have been deployed to the war zones, who fought for this country, who have been promised certain benefits for that -- I'm not going to break faith with what's been promised to them.”¹⁴ General Martin Dempsey, the Chairman of the Joint Chiefs of Staff, echoed the Secretary’s sentiments in his recent *Chairman’s Strategic Direction to the Joint Force*, “Going forward, we must honor our commitment while reforming compensation and benefits.”¹⁵ The majority of the current force strongly agrees with the Secretary and the Chairman. Survey responses show they overwhelmingly support a gradual transition (73%) over an immediate transition (6%), while nearly a quarter (21%) are undecided (see fig. 4).

¹⁴ Andrew Tilghman, “Panetta says that he will seek to protect benefits,” *Air Force Times*, August 19, 2011.

¹⁵ U.S. Department of Defense, The Joint Staff, *Chairman’s Strategic Direction to the Joint Force*, by General Martin Dempsey, Government Printing Office (Washington DC, 2012), 12.

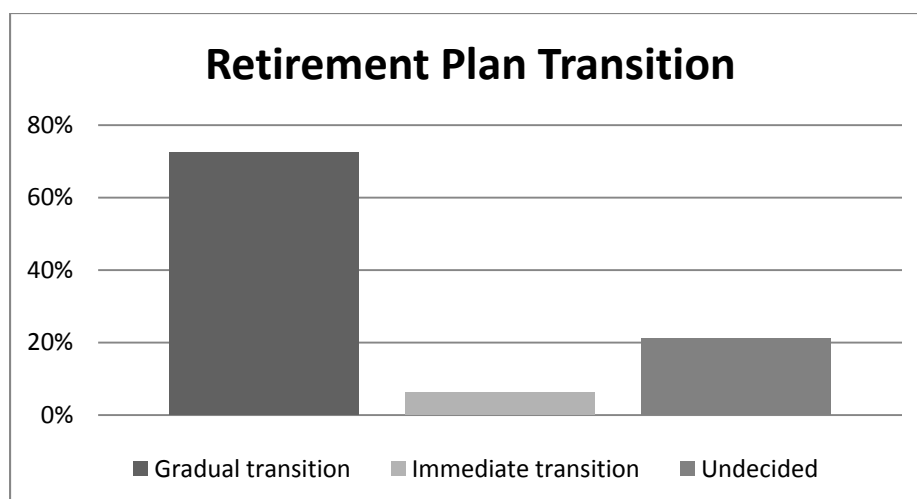


Figure 4. Transition Plan Preference

Comments left by survey respondents express their feelings on changing the plan for those currently serving. One commented, “It is about communication and expectation setting. Those individuals who entered into the military under one system should be afforded the opportunity to stay under that system.”¹⁶ Another said, “The board is breaking faith with those who joined and have honorably served by even recommending changing the system while so many of us are not retirement eligible under the current system. This shell game math is an insult.”¹⁷

The DBB report states that the “average private sector pension contributions range from 4-12% [of annual pay] per year.”¹⁸ It goes on to state that the “average DOD contribution under revised system includes all extra incentives (16.5% of total pay).”¹⁹ Given a range of contribution options from 4-18%, over one-third (35%) of survey respondents felt that a 10-12% government contribution to their individual Thrift Savings Plan (TSP) account was a fair amount, 22% felt that 16-18% was a fair amount and 17% felt that 13-15% was a fair amount (see fig. 5). These numbers generally support the

¹⁶ “Survey on Effects of Proposed Military Retirement Reform.”

¹⁷ Ibid.

¹⁸ *Modernizing the Military Retirement System*, Tab C: 6.

¹⁹ Ibid, Tab C: 22.

DBB’s proposal to have the government provide contributions “comparable to the highest end of a private sector pension plan.”²⁰

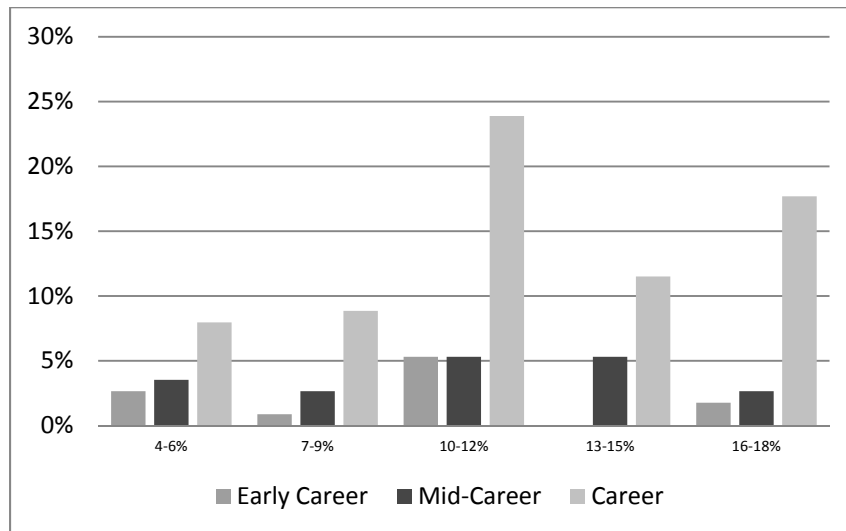


Figure 5. Government contribution to TSP account

In addition to the basic government contribution to the TSP account, the DBB proposes additional TSP contributions or plan adjustments for those who meet certain criteria, including family separation (due to a deployment or assignment to a dependent-restricted location) or assignment to a combat role. Service members assigned to a designated combat zone currently receive \$250/month in Imminent Danger/Hostile Fire Pay. Additionally, if they have dependents and remain deployed (or are on a dependent-restricted tour) for more than 30 days, they receive a Family Separation Allowance of \$250/month. The DBB does not make clear if they intended for the additional TSP contributions to be in addition to the current payment, as they do not mention these special pays in their report. If the intent is for the additional TSP contributions to be in addition to the current special pay, it raises the issue that it is unfair that qualifying individuals receive multiple payments for meeting a single criterion. Additionally, if

²⁰ Ibid, Tab C: 13.

these extra TSP contributions are based on a percentage of the service member's pay, it equates to higher special pay compensation for those of higher rank. Both of these issues seem contrary to the DBB's plan to make the system "enhance fairness."²¹ These issues need resolution if the DBB's proposal is advanced by the DOD.

Regarding assignment to "combat roles," the DBB is ambiguous in their use of this phrase. One time they use the term "combat roles" (assumed to be referring to a Military Occupational Skill (MOS) that is likely to be involved in direct contact with the enemy, e.g. Infantry) and in another they use it in referring to those personnel serving in "combat zones or in high risk positions." The DBB needs to clarify this, as there is a significant difference between them.

If the recent war in Iraq and the current war in Afghanistan have taught us anything, it is that on the non-linear battlefield, everyone is at equal risk of taking part in combat action. A case in point involves the disastrous events surrounding a convoy of the U.S. Army's 507th Maintenance Company near the city of An Nasiriyah, Iraq on March 23, 2003. During the fight to Baghdad, the 507th Maintenance Company was at the tail end of a 600-vehicle convoy moving from Kuwait towards Baghdad. Their convoy march unit consisted of 33 Soldiers and 18 vehicles. A number of factors culminated to cause the company commander to errantly direct that the vehicles depart the convoy route, a mistake that would soon prove to be costly. Upon realizing that they departed the designated convoy route, he turned the vehicles around to get back on the correct route. While moving back through the city of An Nasiriyah, chaos erupted when the convoy started to receive sporadic small arms and rocket-propelled grenade fire. Convoy integrity was quickly lost and almost all of the weapons in the unit

²¹ Ibid, Tab C: 13.

malfunctioned due to the environmental conditions and inadequate weapons maintenance. This left the vehicles with no cohesive convoy defense. In the fighting that ensued, the Iraqis eventually disabled half of the vehicles, killing 11 Soldiers, capturing seven and wounding nine (including some of those captured).²² This is just one instance of many that would occur during the wars where Soldiers (in this case maintenance personnel), who are typically not directly involved in direct combat, had to fight for their lives and those of their comrades, many paying the ultimate price.

Another example of non-direct combat related MOS Soldiers performing in high risk positions in Iraq during Operation Iraqi Freedom involved many of the food service personnel. Since food service contracts provided the vast majority of the food service operations in theater, most of the military food service personnel found themselves assigned to other tasks. Many found themselves assigned as part of a battalion or brigade commander's personal security detail. These Soldiers provided vehicle escort and security for the commander whenever he departed the Forward Operating Base. With the unit commander considered a high payoff target for the enemy forces, this brought increased risk for the security detail as they moved about the country and populace. One survey respondent summarized his feelings about the increased compensation for direct combat MOSs by saying, "MOS should NOT have any effect on pension contributions....11B [Infantry] is every soldier's MOS. IEDs and bombs wound non-combat MOS soldiers the same as combat soldiers."

At military training bases, one finds the opposite end of this issue – high-risk MOSs assigned to very low risk jobs. Frequently, mid-level to senior ranking officers

²² Department of the Army, "Attack on the 507th Maintenance Company," U.S. Department of Defense, <http://www.army.mil/features/507thMaintCmpy> (accessed December 29, 2011).

and Non-Commissioned Officers become instructors at military schools. Although they may be assigned to a dangerous MOS, the life of the instructor is benign compared to those who are deployed to a combat zone. They do not face incoming artillery, small arms fire or roadside bombs during a typical day. Do these high-risk MOS instructors deserve additional TSP contributions just because they have a high risk MOS? That is a question that the DOD should ask of the force before implementing any changes along these lines.

The current force does not agree with the DBB that higher risk MOSs should receive more retirement compensation, nor do their career plans appear significantly swayed with this addition to the retirement plan. The survey asked whether those serving in higher risk job skills (e.g., Infantry) should get higher retirement contributions than someone who might have a lower risk job skill (e.g., Food Service), even though those individuals might be performing tasks of comparable risk in a combat environment. The majority (65%) said that this would not be fair, while 21% said it would be fair and 14% were undecided (see fig. 6). This may be reflective of the fact that for every person in a position likely to engage in direct combat, there are numerous personnel assigned to “safer” support roles.

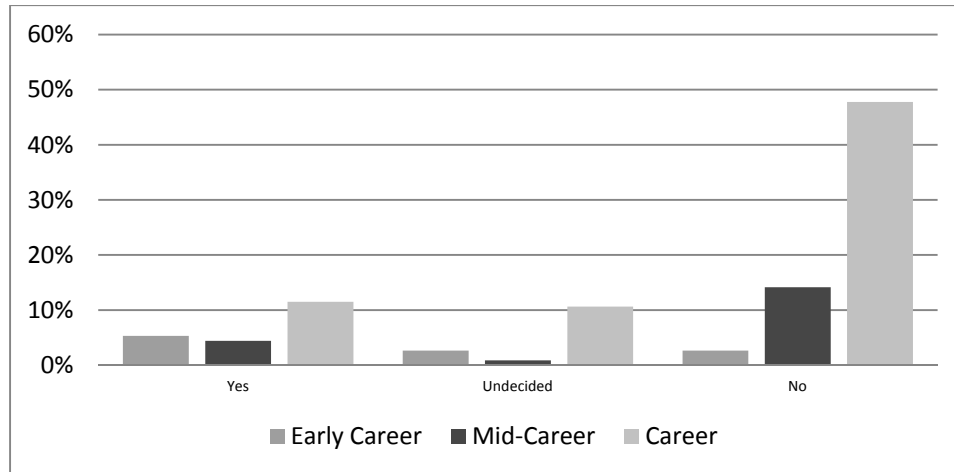


Figure 6. Additional compensation for a high risk MOS vs. high risk job

When asked if their career plans would be influenced by the government providing additional retirement contributions to those in higher risk job skills (e.g., Explosive Ordnance Disposal, flight crew member or Infantry), 49% of the respondents said that it would have no influence on their career plans (see fig. 7). The rest of the force is more inclined not to serve until retirement (32%) than they are to extend their service until retirement (19%). The Career category respondents clearly show a more negative reaction to this aspect of the DBB's proposal than the rest of the current force who remain almost evenly split on the issue. The demographic questions in the survey did not ask to what MOS/branch/career field the respondents belonged in order to determine whether or not the respondents would benefit from this particular proposal.

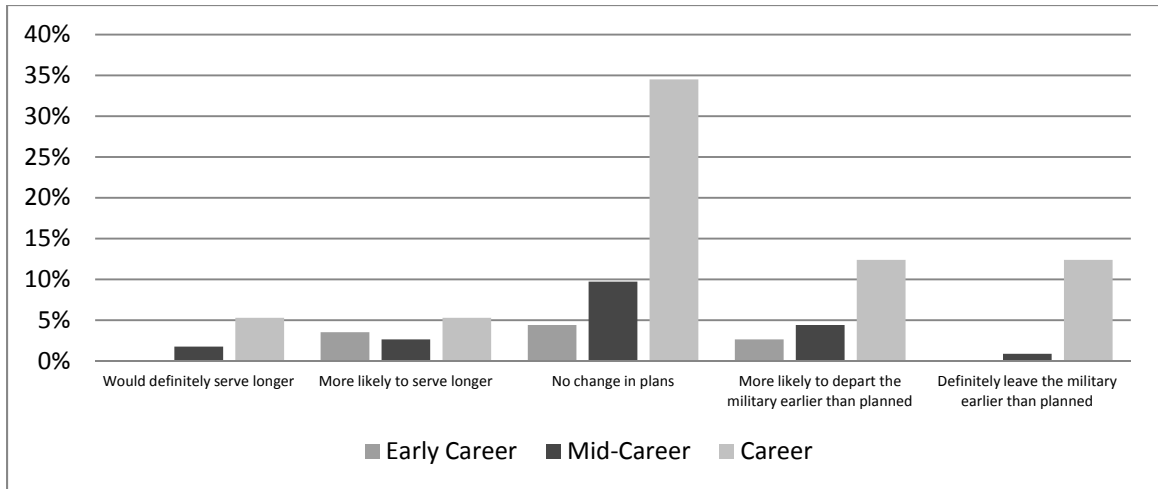


Figure 7. Higher risk = Higher TSP contributions

The prospect of receiving additional government contributions to an individual's TSP account for months served in a combat zone or on an unaccompanied tour had virtually no effect on a respondent's military career plans. When asked about the additional contributions for time served in a combat zone, half of the respondents (50%) indicated the additional compensation would have no impact on their military career plans (see fig. 8). The rest of the current force had only a slight leaning to increased service duration with this benefit in place (27% indicated they would be inclined to serve longer vs. 24% indicating they would be inclined to serve a shorter period).²³

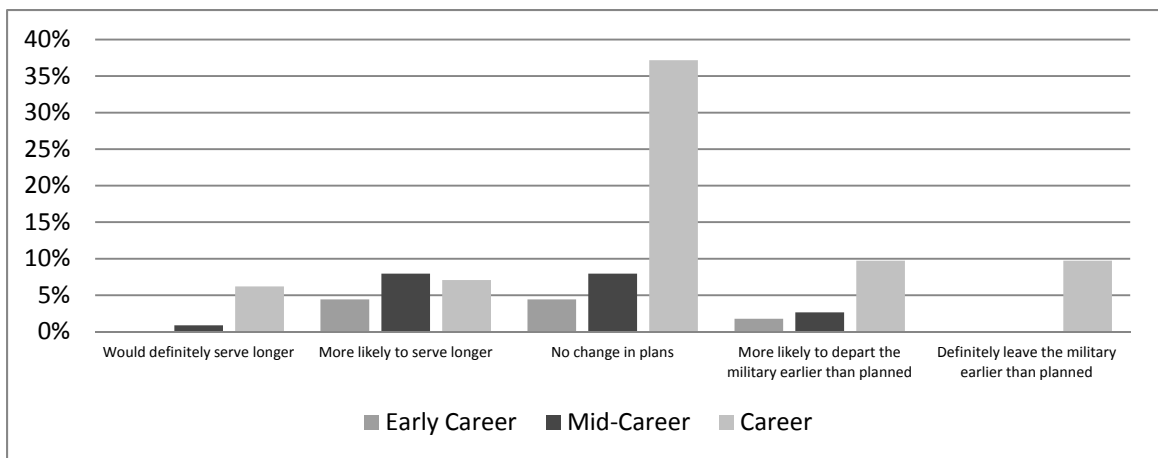


Figure 8. Higher contributions for time in a combat zone

²³ Rounding error causes these numbers to total more than 100%.

When asked how they felt about additional contributions for the months served on unaccompanied tours, the voting profile was almost the inverse of the combat zone response. More than half (54%) indicated that the change would have no impact on their career plans, while 26% indicated they would be more inclined to leave the military early and 20% indicated they would be more inclined to serve longer (see fig. 9). Neither of these options appears to have much effect on the retention or career plans of Mid-career or Career service members. If these options are neutrally received, it might be better for the DOD to divert these funds to other areas of the retirement plan that have a higher likelihood of encouraging extended service length.

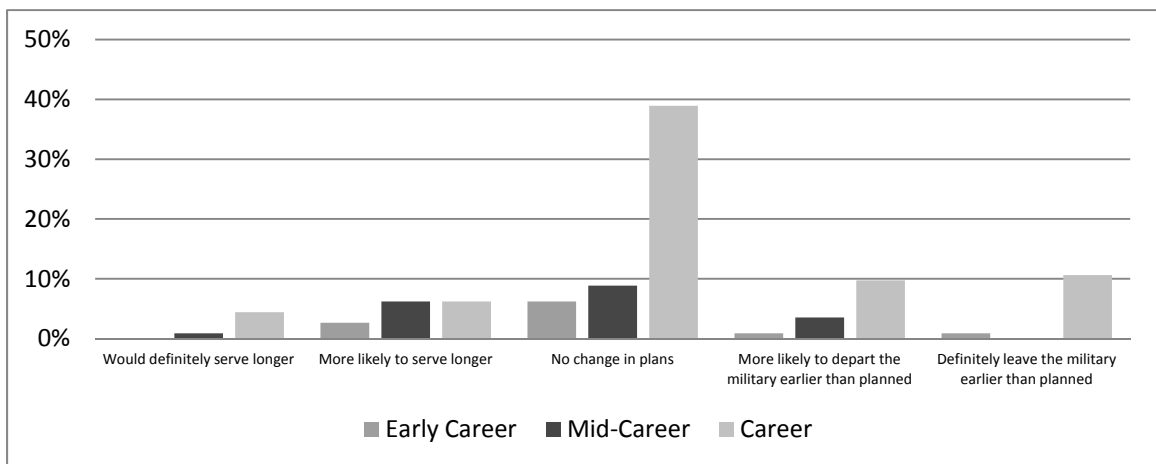


Figure 9. Higher contributions during unaccompanied tours

The DBB clearly felt that the current system was unfair to the 83% of the veterans who do not serve long enough to receive the non-disability retirement pension. They believe that these veterans put their lives on the line just like those who serve 20 years and should therefore receive compensation beyond a paycheck. Extending the current DB system to them would further exacerbate the future DOD liabilities problem, but a DC system would allow all veterans to benefit, regardless of how long they serve (after accounting for a recommended 3-5 year vesting period). What the DBB did not appear to

take into consideration is that with as little as 24 months of military service (unless discharged under dishonorable conditions), all veterans are entitled to the many benefits offered by the VA for the rest of their lives. Among the benefits offered through the VA are education and training benefits through the Montgomery and Post-9/11 GI Bills, home loan guarantees, burial and memorial benefits, insurance, health care and a pension.²⁴ The value of the Post-9/11 GI Bill alone can reach over \$100,000.²⁵ These benefits are rarely, if ever, offered in the private sector, especially after separating from the employer. When asked whether these VA benefits made up for the lack of benefits for the 83% of those who do not serve until retirement, 58% responded that they did, 27% said they did not and 15% were undecided. The DOD must factor VA benefits into any retirement reform that seeks to expand the group of those eligible to participate in the retirement system.

Alternate Proposals

Research of previous military retirement reform proposals found the same major flaw that the DBB's proposal had – no discussion of the changes with the current force or future force. The author's survey included recommendations from a few of the previous proposals to determine how they would impact retirement decisions of the current force in comparison with the DBB's DC plan. The alternative proposals presented included: 1) the Redux plan; 2) a High-5 plan; 3) delay of pension payments until age 65; 4) the Federal Employee Retirement System and 5) a Social Security payment offset.

²⁴ U.S. Department of Veteran Affairs, "Benefits Fact Sheets," U.S. Department of Veteran Affairs, <http://www.vba.va.gov/VBA/benefits/factsheets/index.asp> (accessed February 18, 2012). Some of these benefits have additional qualifying requirements.

²⁵ U.S. Department of Veteran Affairs, "Welcome to the GI Bill Website, Comparison of Monetary Benefits," U.S. Department of Veteran Affairs, http://www.gibill.va.gov/resources/benefits_resources/comparison_of_monetary_benefits.html (accessed February 19, 2012).

The DOD and Congress tried the Redux plan and discarded it as the primary plan for the retirement system a few years later because it reportedly created morale problems in the force. The Redux plan remains an option for today's force, although one would be hard pressed to find many service members who know anything about it or have heard of it before. One survey respondent reflected on the first incarnation of the Redux plan:

When I first entered active duty I barely qualified for the High 3 plan, and I remember discussing this issue with many of my peers who entered the service under the revised 40% retirement system. This was definitely a morale issue and until this was corrected later by Congress I'm convinced that many of these officers who might have served to retirement age planned not to do so under the old 40% system.²⁶

Overall, 42% of the respondents said that implementation of this plan would likely cause them to get out of the military earlier than planned (see fig.10). Only 25% said that this plan would likely make them extend their service. One third of the respondents (33%) indicated that reestablishing the Redux retirement plan would not change their career plans. The Redux plan scores 58 on the NP index.

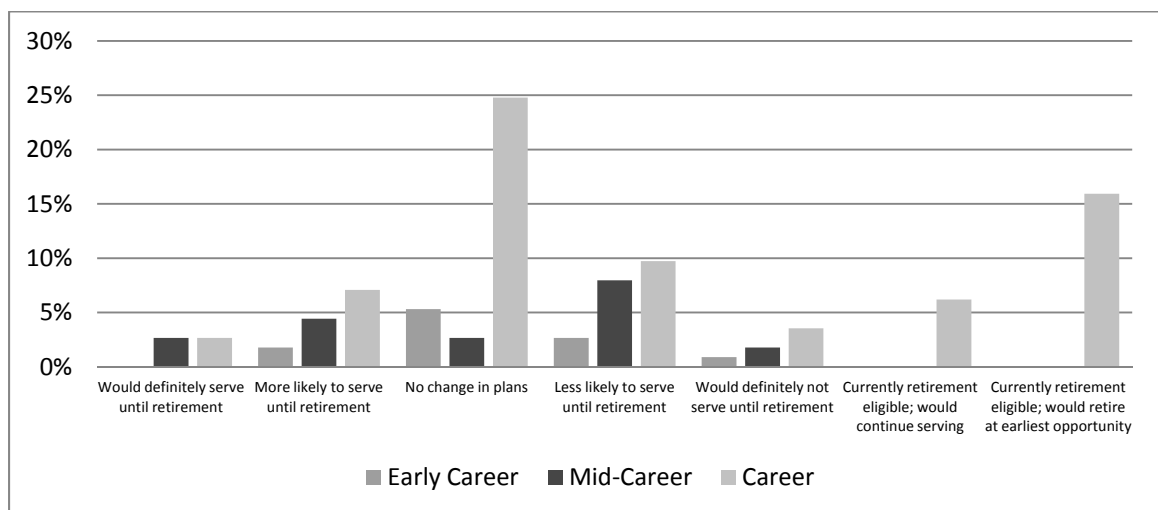


Figure 10. Redux plan

²⁶ Ruhlen.

The High-5 Plan is a variation of the current High-3 Plan. This plan averages out the base pay over the final 60 months of one's career and then multiplies it by the appropriate factor for years of service to determine the monthly pension. Of all of the alternative plans presented here, this one would have the least impact on reducing DOD's personnel costs and on the individual's pension payments. The major factors that affect the pension amounts for this retirement plan are the annual cost of living increases approved by Congress and any promotions an individual receives within the last five years of service. Over one-third of the respondents (39%) said that this plan would have no impact on their career plans (see fig. 11). Twenty-seven percent (27%) of respondents indicate they are inclined to extend their service and 35% indicate they will shorten their service. Of those who are retirement eligible, the negative influence gap drops to a 2:1 ratio. When this group is excluded from the calculations, this is a neutral proposal as the positive/negative difference drops to 0%. The High-5 plan's NP rating is 66.

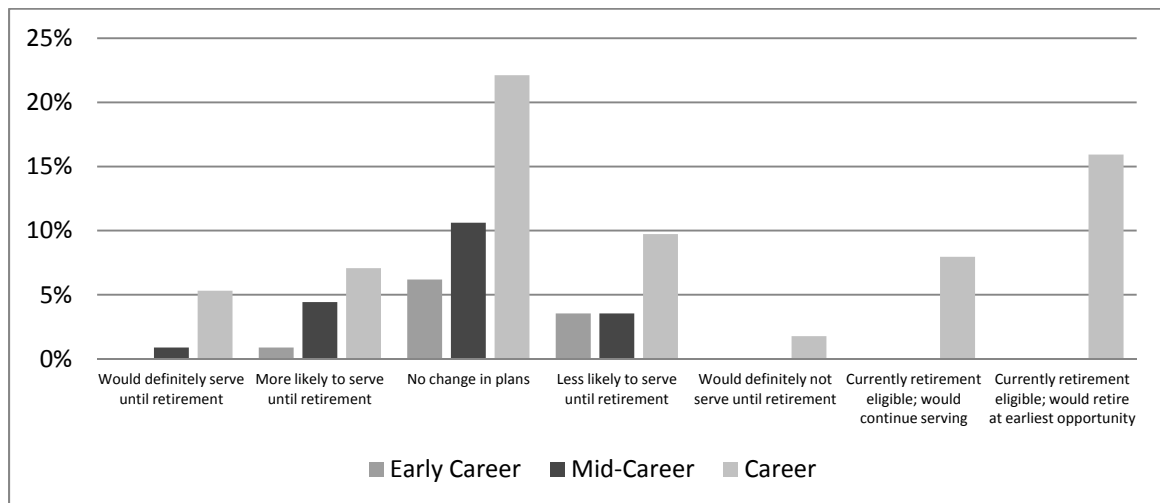


Figure 11. High-5 plan

In the DBB’s proposal, it mentions that the military retirement plan, with an “immediate payout after 20 years has no comparison in the private sector.”²⁷ One survey respondent countered with this, “Those who serve in the military are not like corporate America, and therefore our retirement should not be treated as such.” The DBB also notes that today second careers are more common than when the retirement system was designed 100 years ago. Using this line of thinking, it might seem reasonable to propose a hybrid of the DC plan and the current plan, called Delay Pay. This plan would have the benefit to the retiree of the DB plan, but cut future DOD liabilities by more than half by withholding pension payments until the retiree reaches age 65, similar to the DC plan. Table 3 shows several examples of how significant the savings would be using several examples of typical enlisted and officer age profiles applied against a 20 and 30-year career.

Table 3. Savings under a Delay Pay retirement plan

Age at Entry to Active Duty	Years of Service	Retirement Age	Avg. Life Span ^A	Years of Pension (today)	Avg. Years of Pension (under proposal)	Savings
18	20	38	78.7	40.7	13.7	66%
22	20	42	78.7	36.7	13.7	63%
18	30	48	78.7	30.7	13.7	55%
22	30	52	78.7	26.7	13.7	49%

^A Source: Center for Disease Control.

The problem with this option is that the survey respondents overwhelmingly indicated that this option would push them to consider not serving until retirement (see fig. 12). A significant 65% of respondents said this option would likely cause them to cut their career plans short, compared with only 10% who responded that the proposal might cause them to extend their career. A quarter of the respondents (25%) indicated that this plan

²⁷ *Modernizing the Military Retirement System*, Tab C: 6.

would not change their career plans. When looking at only those who are retirement eligible, respondents said they would retire at the earliest opportunity rather than continue serving by a 5.75:1 margin. The response to this option was more negative than the DBB's proposal of a DC plan, despite the likely possibility of a higher payout when retirees become eligible to start withdrawing funds as compared to the DC plan. The NP index for this plan is 35.

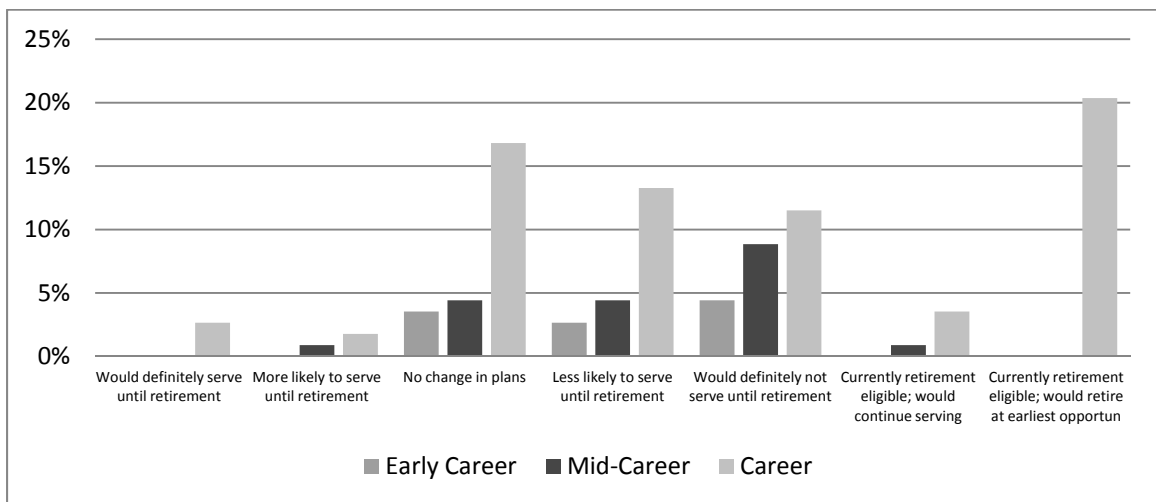


Figure 12. Delay Pay until age 65

It is clear that survey respondents were not pleased with this alternative option.

One respondent expressed his feelings about delaying the pension payments until age 65:

As a young trainee coming into the Military at age 18, I had no clue what a retirement plan was or how it worked. Few young people are looking at that very early in their work life. As one ages in time and aches and pains, retirement becomes a much more important goal. There are good and bad in all retirement systems. However, please do not forget that the danger and physical demands determine that 65 is not a realistic age for a military member to draw a pension.²⁸

Another responded:

In my opinion, comparing the retirement age of 65 on the civilian side is not a fair comparison. They do not endure the hardships, the deployments, and the numerous stressors that the force deals with while on duty and

²⁸ Ruhlen.

deal with after they leave the service....We have earned the right to our retirement by serving the American people for 20 years. Lastly, I would have never joined the service if 20 years didn't qualify me for retirement until the age of 65.²⁹

One respondent proposed a variation on this option, "I would think the plan that allows members to get their retirement pay at 55 years of age would be much better. If you enter at 18 and retire at 38, you'd have to just wait until you're 55 vs. 65 to receive your benefits." The survey did not offer this option, but it is likely that respondents would prefer the lower age eligibility for pension payout.

Most civilian employees of the federal government fall under the Federal Employee Retirement System (FERS). Implemented in 1987 as a reform measure to the Civil Service Retirement System, FERS reduces the pension liabilities to the federal government by shifting more of the burden to the TSP. There are three components to the FERS: 1) the government contributes 1% of employee pay to the employee's TSP account and matches employee contributions; 2) Social Security; and 3) the Basic Benefit Plan where employees pay 1.3% of their total pay to the Civil Service Retirement and Disability Fund (CSRDF). The CSRDF is not portable to employment outside the government, unlike the TSP and Social Security. Retirees cannot begin receiving pension payments until they reach age 55-62 (depending on their years of federal civil service and birth year).³⁰

The FERS option did not poll well with the survey respondents as is clearly seen in figure 13. Their feelings on the FERS were very similar to those of the Delay Pay option. While 65% of the respondents had a negative reaction to this option, only 12%

²⁹ Ibid.

³⁰ U.S. Office of Personnel Management, "FERS Retirement," U.S. Office of Personnel Management, <http://www.opm.gov/retire/pre/fers/index.asp> (accessed February 17, 2012).

responded positively and 24% were neutral. Of those currently retirement eligible, this option would influence them to retire at the earliest opportunity by a 6.5:1 margin. The NP index rating for the FERS option is 36.

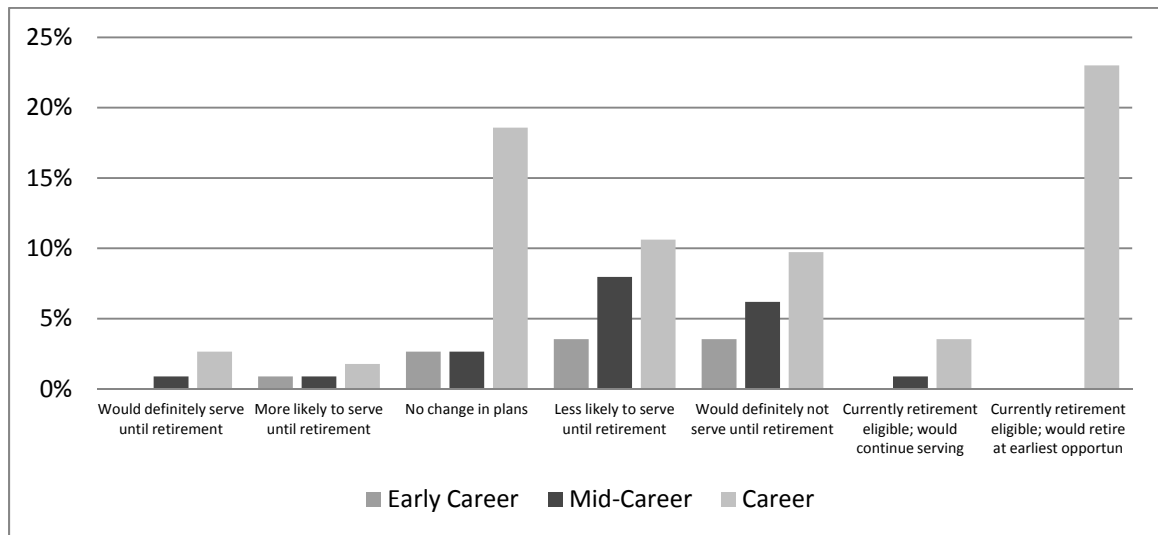


Figure 13. Federal Employee Retirement System

The final retirement plan option offered on the survey essentially keeps the current plan, but offsets the DOD liabilities by an amount equal to Social Security payments received by the retiree (not including Supplemental Security Income). The net effect of this option is that retirees would not receive the expected income increase from Social Security when old enough to qualify for it and the DOD liabilities would be reduced, but not to an extent that will likely solve the long-term financial viability of the Military Voluntary Retirement System. One small advantage to this plan for the DOD is that any cost of living increases to Social Security payments further offset DOD liabilities. According to the Social Security Administration, the average monthly Social Security benefit paid to veterans (the majority of which are not military retirees) is

\$1,321 for those aged 62-74 and \$1,268/month for those older than 75 years old.³¹ Using this data and applying it against data from the DOD Office of the Actuary, it is possible to calculate the approximate savings from this option. For purposes of the example in table 4, we will assume that retirees can begin drawing Social Security payments at age 65.

Table 4. Savings in Social Security Offset plan

DOD total monthly payments to retirees	\$3,575,634,174	
DOD total monthly payments to retirees (aged 65+)	\$1,543,624,209	
Social Security payments to retirees, ages 65-74		\$ 414,091,228
Social Security payments to retirees, ages 75+		\$342,816,480
Total Social Security payment offset		\$756,907,708
Overall savings	21%	

Source: U.S. Department of Defense, Office of the Actuary.

This option rated the highest ratio of negative to positive reactions amongst all of the options presented in the survey (see fig. 14). Only 4% of respondents indicated they would be inclined to serve longer under this retirement plan. This sharply contrasts with the 68% of respondents who said they would be inclined to not serve until retirement or if retirement eligible would retire at the earliest opportunity, a stunning 17:1 ratio.

Amongst those who are retirement eligible, there was over an 8.67:1 margin for those indicating they would retire at the earliest opportunity rather than continue their service. Those who said that this retirement plan option would have no effect on their retirement plans totaled 27%. The NP index rating for this option is 31.

³¹ Anya Olsen and Samantha O’Leary, “Military Veterans and Social Security: 2010 Update,” *Social Security Bulletin* 71, no. 2 (2011):1, <http://www.ssa.gov/policy/docs/ssb/v71n2/v71n2p1.html> (accessed February 2, 2012).

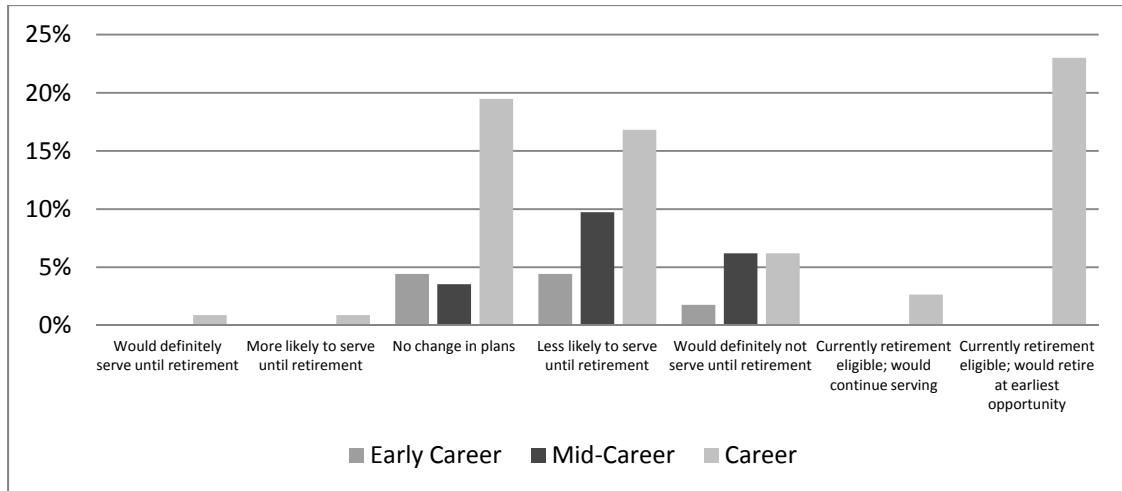


Figure 14. Social Security offset

Survey respondents gave their opinion on six alternative options for reforming the military retirement system. The NP Index gives us a way to assess the current forces' survey results from an acceptability standpoint (see table 5). The results show that the High-5 and Redux plans were the most preferred plans across the force, with scores of 66 and 58, respectively. The DC plan lies in third place with a score of 39, a distant 19 points behind the Redux plan. The remainder of the plans scored in the 30s. Although there is no standard by which to measure a satisfactory level of acceptability, it would be fair to say that given an accurate and robust survey response, an NP index score of 50 should be the minimum score for a plan to achieve before advancing it within the DOD. A score of 50 represents 50% of the population believing the plan will make them more inclined to exit the military before retirement and 50% are more inclined to extend their service or remain neutral regarding the plan.

Table 5. NP Index rating summary

<u>Plan</u>	<u>NP Index Rating</u>
Defined Contribution	39
Redux	58
High-5	66
Delay Pay	35
FERS	36
Social Security Offset	31

Figure 15 shows how each of the plans polled with the current force. Several items from this chart clearly stand out and warrant further discussion. Survey respondents clearly had their personal economics in mind when they were voting. The plans that took the most money away from them received the most negative votes. Conversely, the plans that left the most in their pockets received the most favorable votes. This, of course, is the crux of the matter for DOD – how much can they reduce long established benefits before negative impacts are seen in the current and future force recruiting and retention levels? Many who feel that they can get a comparable retirement in the private sector without the unique challenges that come from a life in the military will quickly choose the former. Two of the options, the Redux and High-5 plans, fared better than the others in part because they are similar to the current plan and because they both reduce the amount of future compensation lost to the retiree when compared with the others.

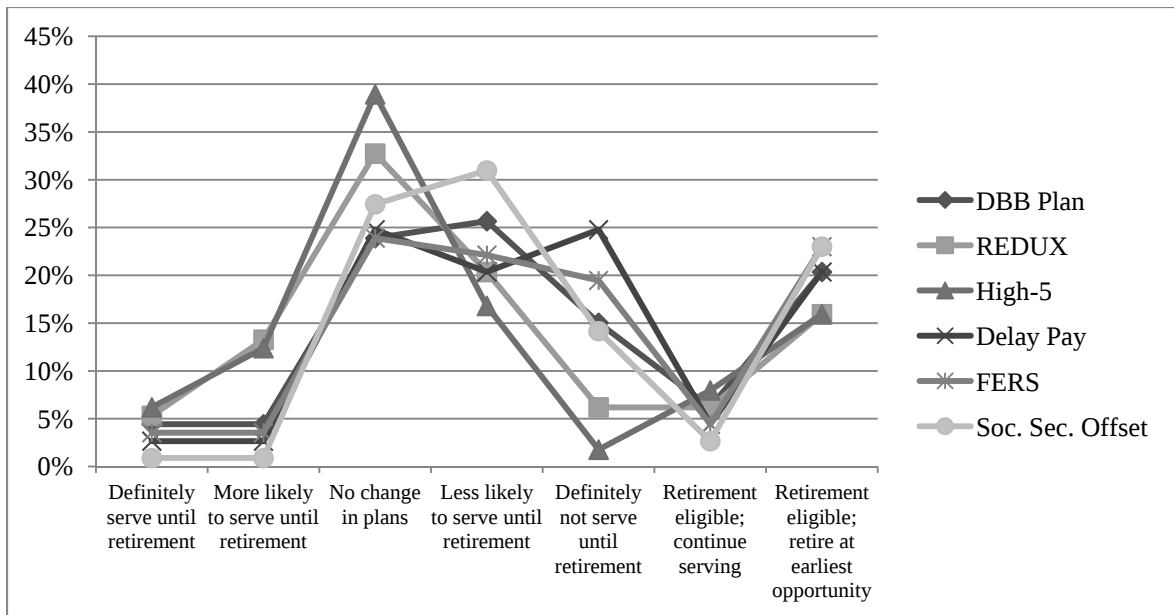


Figure 15. Alternative retirement plan polling

Second, it is clear there is a significant portion of the force that will continue with their current career plans, regardless of changes made to the retirement system. As discussed in the survey population demographics, the majority of survey respondents are in the Career category and are already beyond the mid-career decision point to stay until retirement. Having likely made the decision to stay in until retirement, their responses likely skew the survey results.

What figure 15 hides in the collective scoring is that the Mid-career respondents, as a whole, were not inclined to extend their service for any of the options presented. If a significant portion of the Mid-career population exits the military, the Services will find themselves in the same situation they were in during the first part of the previous decade when too many Mid-career members left the military and the Services found themselves short of personnel to promote into the senior ranks. This vacuum in the ranks caused the Services to accelerate promotions, leading to many senior ranking members who did not have the requisite level of operational experience expected of someone at that rank.

Finally, the retirement eligible respondents expressed very clearly that any of these options would likely create a mass exodus of their cohorts from the military. The High-5 plan presents the best-case scenario with 33% of the respondents indicating that they would continue serving. The Social Security Offset plan presents the worst-case scenario where only 10% of the respondents said they would continue serving. The DC plan presents a middle of the road option where 23% of retirement eligible respondents indicated they would continue serving. Ironically, one of the DBB's findings states, "Payout after 20 years makes retention difficult – 76% leave between years 20 and 25."³² The survey responses show that withholding of pension payments until a retiree reaches age 65 under the Delay Pay plan would only make the problem worse with only 15% of retirement eligible respondents indicating they would continue serving.

All of the plans presented in this paper have their advantages and disadvantages. These are often inversely proportional - what saves the most money for the DOD is the one that most likely will have the highest disapproval rating from the current force. The challenge in this task is figuring out what is a socially acceptable military retirement plan (within the current and future forces, Congress and society as a whole) while decreasing future liabilities to a level such that it does not take a disproportionate share of the Defense budget.

While conducting research for this paper, the author discovered a linkage between military retirement pay and the minimum salary paid to Junior Reserve Officer Training Corps (JROTC) instructors in high schools across the nation and its territories. If Congress adopted the DBB's recommendations, would there be a positive or negative impact to the JROTC program or the many hosting schools? How would these changes

³² *Modernizing the Military Retirement System*, Tab C: 6.

affect JROTC cadets? Chapter Three looks at the relationship between the military retirement pay system and a hosting school system's required contributions to a JROTC instructor's pay and what this may mean to cadets and society during lean economic times.

CHAPTER 3: TOMORROW'S MILITARY

In 1961, Edward Lorenz was working with weather models to help forecast weather. Using a computer to assist his research, he wanted to re-run a simulation, but he wanted to shortcut the process and start in the middle of the program run. Using a data printout from a previous run, he input the data and ran the simulation again. He was surprised when the computer did not output the same result he received the first time. When he looked into why the results were different, he discovered that the original data went to the fifth decimal point but the printout he used only included data to the third decimal point. He thought that the very small variance would produce very small differences in the result. Instead, the results were significantly different. The idea that small changes in initial conditions can have significant effects on a large system is known within the study of Chaos Theory as the Butterfly Effect.¹ Author Ian Stewart describes the Butterfly Effect this way,

The flapping of a single butterfly's wing today produces a tiny change in the state of the atmosphere. Over a period of time, what the atmosphere actually does diverges from what it would have done. So, in a month's time, a tornado that would have devastated the Indonesian coast doesn't happen. Or maybe one that wasn't going to happen, does.²

Analyzing the Defense Business Board's (DBB) recommendation in the context of the Butterfly Effect would be an entire study in itself. Given the constraints of pages and time, this paper will look at just one aspect of it. At-risk and inner city youth are often raised in an environment of poverty and poor economic opportunity with few avenues offering a way out. The DBB's proposed changes to the military retirement

¹ James Gleick, *Chaos: Making a New Science*, (New York: Penguin Books, 1987), 20.

² Ian Stewart, *Does God Play Dice? The New Mathematics of Chaos*, 2nd ed. (Malden, MA: Blackwell Publishing, 2004), 129.

system, a small change to the operation of the federal government, can create a large impact on the lives of these youths by eliminating one of the few avenues they have to improve their lot in life.

Junior Reserve Officer Training Corps

Congress established the Junior Reserve Officer Training Corps (JROTC) program in the National Defense Act of 1916. Beginning as an Army sponsored program, the success of the program prompted Congress to expand the program to the other services in the ROTC Vitalization Act of 1964.³ The National Defense Authorization Act of 1993 codified the purpose of the JROTC program stating, “It is a purpose of the Junior Reserve Officers' Training Corps to instill in students in United States secondary educational institutions the values of citizenship, service to the United States, and personal responsibility and a sense of accomplishment.”⁴ There are currently 3,403 JROTC units in high schools across the United States and other countries or territories hosting U.S. forces. The Army JROTC program, the largest of the services, has 281,000 cadets enrolled in the program.⁵ A retired officer serves as the instructor and at least one retired non-commissioned officer serves as an assistant instructor at each unit. Units with over 500 cadets may have up to five retired non-commissioned officers serving as assistant instructors.

Metrics of student academic performance and character development typically represent the JROTC program’s success in meeting its purpose and goals. Numerous studies indicate that the JROTC program does have a positive impact on student

³ *Reserve Officer Training Corps Vitalization Act of 1964*, Public Law 88-647, *U.S. Code* 10, §2031.

⁴ *National Defense Authorization Act of 1993*, Public Law 102-190, *U.S. Code* 10, §2031.

⁵ U.S. Army Junior Reserve Officer Training Corps, “History,” Department of the Army, https://www.usarmyjrotc.com/jrotc/dt/2_History/history.html (accessed December 23, 2011).

performance and character traits. Table 6 shows the positive impact that the Air Force JROTC program had on its cadets.

Table 6. Air Force JROTC measures of effectiveness

Category	School	JROTC
Attendance	91%	93%
Graduation	86%	98%
Indiscipline	15%	3%
Drop Out	3%	<1%
GPA	2.68	2.81

Source: U.S. Air Force, Jeanne M. Holm Center for Officer Accessions & Citizen Development.

Army JROTC data also shows the program's positive influences:

- Disciplinary infractions: 5.18 percent of JROTC members vs. 13.94 percent of the overall school population;
- Attendance: 84.2 percent vs. 74 percent;
- Graduation: 94 percent vs. 89.4 percent.

Army cadets performed better than the overall school population in every area that is routinely measured by educators, including academic performance: grade point average (GPA) 2.68 vs. 2.57; scholastic aptitude test (SAT) 901.2 vs. 865; American college test (ACT) 25.24 vs. 24.⁶

The Navy also “conducted an evaluation of the benefits of the NJROTC to the Navy, the secondary school system, and the students.”⁷ A survey of 126 academic instructors rated the cadets as “much better” than the overall student population in the following categories: respect for authority (71.4 percent), behavior (66.7 percent), appearance (67.5 percent), self-respect (59.5 percent), and self-discipline (61.1 percent).⁸

Numerous civilian studies of the benefits of JROTC generally reflect similar positive results. The Center for Strategic and International Studies conducted research

⁶ U.S. Army Cadet Command, “Army Junior ROTC (JROTC) Fact Sheet,” May 19, 1998 quoted in William J. Taylor Jr., *Junior Reserve Officer Training Corps: Contributing to America's Communities* (Washington DC, Center for Strategic and International Studies, 1999), 18.

⁷ Department of the Navy, U.S. Naval Training Systems Center, *Benefits Analysis of the Naval Junior Reserve Officers' Training Corps (Technical Report 92-015)*, by Sandra S. Bailey, Gary W. Hodak, Daniel J. Sheppard, John E. Hassen, Department of the Navy (Orlando, 1992), 3.

⁸ Ibid, 60.

into the JROTC programs in 1999 to provide an objective evaluation of the value of the overall program. Their “overall finding is that JROTC indeed is beneficial to communities. It strengthens our youth, our communities, and our nation.”⁹ However, some studies do show that JROTC cadets have lower academic performance but often attribute this to the fact that JROTC targets at-risk youth who have lower performance than the average student does.¹⁰

These at-risk youth do not have a good chance of escaping the cycle of poverty and despair that accompany the environment from which many of them come. The rates of divorce and children born to women out of wedlock are on the increase and have a direct correlation to middle and high school dropout rates. The conclusion of a study entitled “The Effects of Change in Family Structure and Income on Dropping Out of Middle and High School” supports this correlation. “Our results suggest that their increased risk of dropping out is due to divorce or separation, but largely because such family change drives children into economic hardship. . . .Because family disruption reduces income, it increases the risk of dropping out of high school.”¹¹

For many students caught in the perpetual cycle of poverty, the positive influence from the JROTC program may inspire them to higher achievement and be the one chance that they have to break the poverty cycle and begin to establish a legacy of success rather than failure. A school principal noted the influence that JROTC could have on at-risk youth,

⁹ William J. Taylor Jr., *Junior Reserve Officer Training Corps: Contributing to America's Communities* (Washington DC: Center for Strategic and International Studies, 1999), xiii.

¹⁰ Elda Pema and Stephen Mehay, “The Effect of High School JROTC on Student Achievement, Educational Attainment, and Enlistment,” *Southern Economic Journal* 76, no. 2 (2009): 534.

¹¹ Suet-Ling Pong and Dong-Beom Ju, “The Effects of Change in Family Structure and Income on Dropping Out of Middle and High School,” *Journal of Family Issues* 21, no. 2 (March 2000): 165.

We're aiming at kids who aren't in trouble but who aren't fully realizing their potential, either," says Ozzie Wright, principal of the Philadelphia Military Academy. "We often see kids who have all the makings of being good students, but have very unstable home lives because of economics and family structures. We can make a difference in these students' lives."¹²

Even if JROTC's only contributions to student achievement were higher high school graduation rates and enrollment in college, it would have a significant and lasting impact on the cadets and their communities. Figure 16 shows that the average income for a high school graduate is 37% higher than for a non-graduate. Attaining an Associate's degree increases the average income by 73% and a Bachelor's degree increases the average income by 129% over someone who dropped out of high school. Greater academic achievement produces higher income levels, provides the potential of a more stable family unit, benefits the business community due to higher disposable income levels and decrease the chance that the individual will be a drain on available social services.

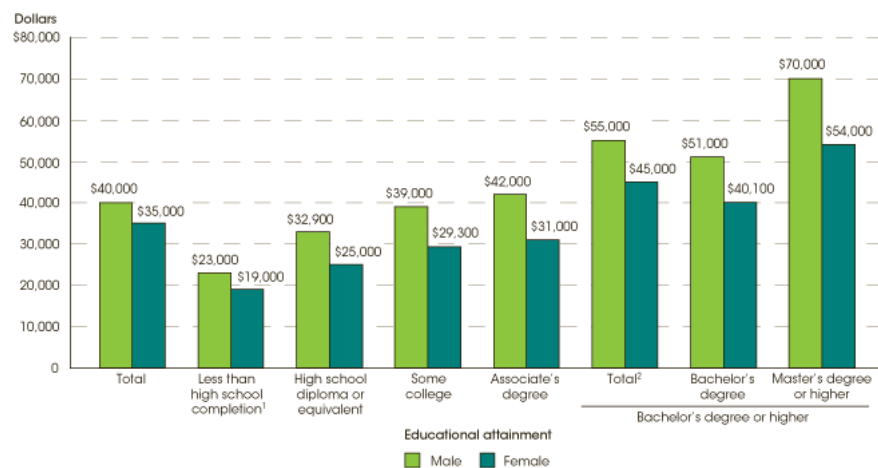


Figure 16. Average income at various education levels.

Source: U.S. Department of Education.

¹² Allen McDuffee, "No JROTC Left Behind," *Inthetimes.com*, August 20, 2008, under "Features," <http://www.inthesetimes.com/article/3855/> (accessed January 22, 2012).

In addition to this quantitative data, there are numerous anecdotal stories about the benefits of the JROTC program. General Colin Powell (ret.), former Chairman of the Joint Chiefs of Staff, is an outspoken supporter of programs directed towards helping America's youth. He saw the wave of pride America had in its military following the success of OPERATIONS DESERT SHIELD and DESERT STORM and "wanted to use this momentum to help high school youths, particularly those in troubled inner cities, by increasing the number of Junior ROTC programs."¹³ He spoke of the JROTC program benefits in his book, My American Journey:

. . . society got a far greater payoff. Inner-city kids, many from broken homes, found stability and role models in Junior ROTC. They got a taste of discipline, the work ethic, and they experienced pride of membership in something healthier than a gang....The junior program can provide a fresh start in life for thousands of endangered kids, particularly those from minorities living in crime-plagued ghettos. Junior ROTC is a social bargain.¹⁴

Flora Brooks Boyd, director of the Department of Juvenile Justice in South Carolina, also attests to JROTC's relevance to at-risk youth, "The JROTC program is an integral part of our efforts to help troubled young people to change their attitudes and behavior. The results thus far have been amazing, and we look forward to continuing success in the future."¹⁵

Those who participate in and lead the JROTC programs are the best witnesses to JROTC's positive influence and how it affects student's lives.

Before enrolling in the Junior Reserve Officers' Training Corps program at Asheville High School, William Michaels says he struggled to keep his

¹³ Colin L. Powell and Joseph E. Persico, *My American Journey* (New York: Random House, 1995), 555.

¹⁴ Ibid, 556.

¹⁵ Flora Brooks Boyd, Department of Juvenile Justice, South Carolina, "Letter to Major General Stewart Wallace, Commanding General, U.S. Army Cadet Command," (October 16, 1997) quoted in William J. Taylor Jr., *Junior Reserve Officer Training Corps: Contributing to America's Communities* (Washington DC, Center for Strategic and International Studies, 1999), 18.

anger under control. Now, the high school senior says, he doesn't get in trouble much anymore, thanks to leadership skills shaped by Junior ROTC.¹⁶

When I was an eighth-grader, a lot of my friends were involved in drugs and gangs, and I was getting too close to that," said DeLaTorre, 16, now a junior at East Aurora. "When I joined ROTC, I became a better person. It helped me a lot."¹⁷

In my four years of JROTC I have reached the rank of "Lieutenant Colonel," but more than that I have learned leadership. Being in JROTC has helped me succeed in the real world. It has helped me to learn many things about myself. JROTC has become more than a class for me, it's more like a way of life. I conduct myself as a cadet even out of class because it's just what's right. JROTC has prepared me to do my best in school and in life.¹⁸

Another standout was the JROTC program....It made me happy to be in a place with so much discipline, after the lack of discipline I usually saw all around me. . . . We also did a lot of public speaking in JROTC class, which helped me with my confidence....The tough background I come from has pushed me to succeed so that my life could be different. (For much of my life I lived with an alcoholic father who made me miserable.) . . . But after a year or so of the [JROTC] program, many of the kids who stuck with it began to change their lives around. . . . By teaching honesty, respect, discipline and patriotism, JROTC helps students who have given up hope. I think some kids would have dropped out of high school if they hadn't joined JROTC.¹⁹

Teens struggling through a physically and emotionally turbulent time in their lives find help in discipline and the influence of military-trained instructors, [COL John] Vanderbleek says.²⁰

In East Aurora, where many students come from financially strapped immigrant families, where the pull of gang life and drugs is real, the program offers an opportunity to change lives. "Part of the success of this

¹⁶ Jordan Schrader, "Junior ROTC 'more than a class' to teens; Enrollment rises in high school program that offers students discipline, a taste of military life," *USA Today*, December 31, 2009.

¹⁷ Margaret Ramirez, "High schoolers swell the ranks of Junior ROTC," *Chicago Tribune*, December 28, 2009.

¹⁸ Dexter Martin, "JROTC: Discipline and A Whole Lot More," High School of Commerce Blog, entry posted October 23, 2008, <http://thecommerciwire.com/2008/10/23/jrotc-discipline-an-a-whole-lot-more/> (accessed January 28, 2012).

¹⁹ Jessica Baptiste, "In Training," Youth Communication, http://www.youthsuccessnyc.org/education/stories/In_Training_ROT-C-Baptiste.html (accessed January 28, 2012).

²⁰ Ramirez.

program is it literally takes people off the streets," said Lt. Commander Darryl N. Person, a retired naval officer who heads the program.²¹

Laput says his interest in the military was solidified by one man in particular: his Junior Reserve Officers Training Corps instructor in high school, retired Senior Chief Petty Officer Mark Williams. "I grew up without a strong male figure," began Laput. "(Williams became) that figure for me in a lot of ways. He didn't tell me what to do, but he gave me advice on how to do the right thing, even in hard situations."²²

If not for the JROTC program, the at-risk youth have few, if any, options to help them improve and create a better life for themselves.

The ROTC Vitality Act of 1964 established the minimum salary rule for JROTC instructors. It requires that the sponsoring school system pay the instructors the difference between the instructor's retired pay and what he/she would receive on active duty, including all allowances, but excluding any special pay.²³ The sponsoring Service for the JROTC program reimburses the hosting school half of the minimum salary the school pays to the instructors. Schools may pay above the minimum salary level, but these costs are fully borne by the school.

Enactment of the DBB's recommendations may have a significant impact in the future on the JROTC programs worldwide as schools will be required to provide an increasing portion of the instructor's salary in order to meet the minimum salary rule. Under the DBB's immediate transition recommendation, the current defined benefit plan lock-in would occur at the individual's current years of service using the current formula for retirement benefits, with no increase under the defined benefit for additional years of

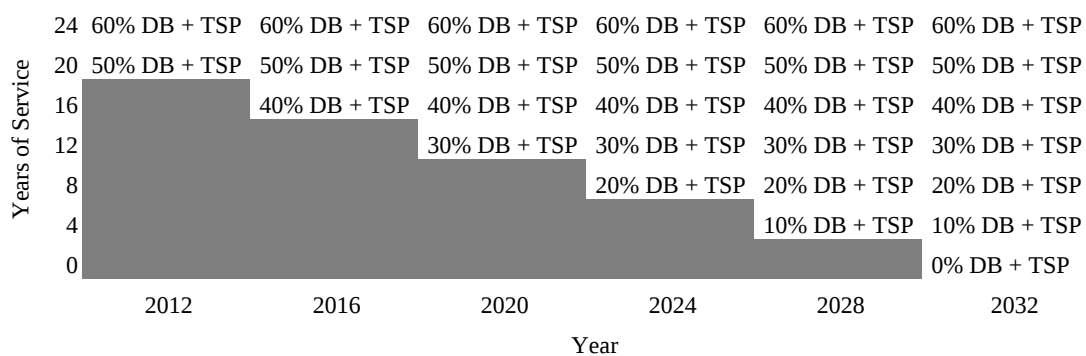
²¹ Ibid.

²² Defense Video & Imagery Distribution System, "Marine applies JROTC lessons in Afghanistan," U.S. Department of Defense, <http://www.dvidshub.net/news/83253/marine-applies-jrotc-lessons-afghanistan> (accessed February 12, 2012).

²³ For an example of how this is calculated, see U.S. Army Junior Reserve Officer Training Corps, "Instructor Pay," Department of the Army, https://www.usarmyjrotc.com/jrotc/dt/6_Instructor/4_Pay (accessed March 5, 2012).

service. As these service members retire, the percentage of the defined benefit pension payment for new retirees will reduce to 0% over 20+ years. Table 7 illustrates how this would work given enactment of the DBB's proposal in 2012. If an individual joins the military after enactment of the DBB's proposal, he will receive no immediate pension upon retirement at 20+ years of service, as the funds in his Thrift Savings Plan (TSP) account are not available without penalty until he reaches age 65.

Table 7. Decreasing defined benefit (DB) pension under the immediate transition plan



As the defined benefit portion of pension payments progressively decrease for new retirees, the school systems and the Service JROTC programs will have to increase their portion of the salary to meet the minimum salary rule (see fig. 17). If the instructors continue serving beyond the age of 65 and begin to withdraw from their TSP, the school's contribution to the salary could adjust down accordingly, maintaining compliance with the current instructor minimum salary rules. This will create additional complexity in the financial and pay systems for schools and the Services as the amount that a retiree withdraws from their TSP account is dependent on numerous factors and is not consistent across the entire instructor corps.

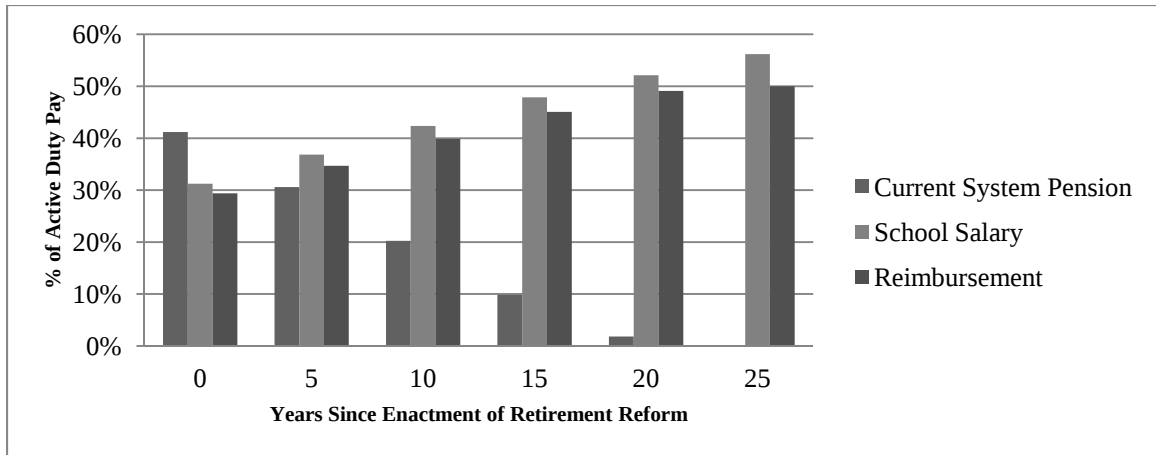


Figure 17. Hosting school minimum salary payments - immediate transition plan

Note: Sources of instructor pay in future years for newly hired, JROTC officers. Reflects: 1) O-5 with 20-year military retirement and retirement from JROTC instruction duties prior to age 65 when eligible to withdraw funds from TSP without paying a penalty; and 2) School districts payment of 6.2% Social Security payroll tax that is not reimbursable by the Department of Defense.

If all current military members are “grandfathered” into the current defined benefit retirement plan (an option considered but not recommended by the DBB), there will be no phase-in of this cost increase. Military members who retire in 20+ years and become JROTC instructors will not receive any pension payments from their TSP until they turn 65 years of age. This will result in the school district paying the whole cost of the salary since there is no offsetting pension payment, less the 50% reimbursement (see fig. 18). The estimated *additional* cost to each school could be \$10,000-33,000/year (in 2011 dollars) for each new instructor, depending on their pay grade and years of service upon retirement (see table 7). School districts hosting multiple JROTC programs will see this cost multiplied numerous times when retired military members under the new retirement system become instructors. It is impossible to predict what basic pay raises and adjustments to the Basic Allowance for Subsistence (BAS) and Basic Allowance for Housing (BAH) will do to total pay over the next 20 years, but it is safe to say that these numbers will only increase.

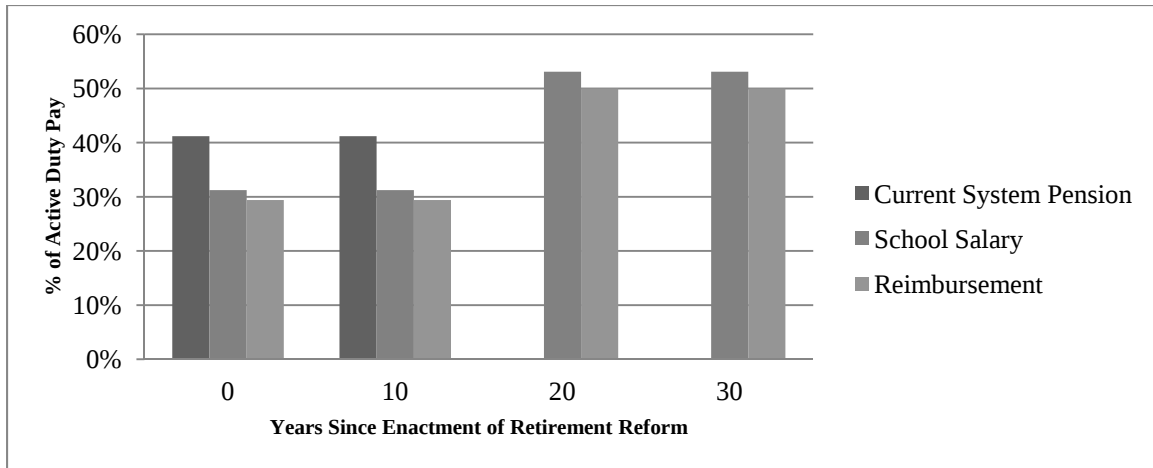


Figure 18. Hosting school minimum salary payments - grandfather provision

Note: Sources of instructor pay in future years for newly hired, JROTC officers. Reflects: 1) O-5 with 20-year military retirement and retirement from JROTC instruction duties prior to age 65 when eligible to withdraw funds from TSP without paying a penalty; and 2) School districts payment of 6.2% Social Security payroll tax that is not reimbursable by the Department of Defense.

Table 7. Minimum JROTC instructor pay increase under DBB proposal

Retired Pay Grade	Basic Pay	Basic Allowance for Subsistence (BAS)	Basic Allowance for Housing (BAH)	Clothing Allowance	Monthly Total	Current System Pension Payment	Current Min. School Salary (annual)	Future System Pension Payment	Future Min. School Salary (annual)	Min. Salary Increase
O6	\$10,188	\$224	\$1,556	\$0	\$11,968	\$6,622	\$26,729	\$0	\$59,840	\$33,111
O5	\$8,070	\$224	\$1,500	\$0	\$9,794	\$4,035	\$28,795	\$0	\$48,970	\$20,175
E8	\$5,305	\$325	\$1,036	\$42	\$6,708	\$3,448	\$16,299	\$0	\$33,540	\$17,241
E7	\$4,189	\$325	\$961	\$42	\$5,517	\$2,095	\$17,113	\$0	\$27,585	\$10,473

Source: Defense Finance and Accounting Office

Note: Figures based on Military Pay Tables, effective January 1, 2011. O-6 and E-8 pay based on 26 years of service; O-5 and E-7 pay based on 20 years of service. Future adjustments to Basic Pay, BAS, BAH and Clothing Allowance will increase the cost to the schools. Basic Allowance for Housing figures shown at the “With Dependent” rate and do not reflect any locality increases which could significantly increase the payment in high cost of living areas. Clothing allowance shown is an average of male and female allowances across all Services. Annual salary figures represent a 10-month contract with instructors. Schools paying instructors for more than 10 months during an academic year will have increased costs.

The current economic recession has caused states to implement fiscal austerity measures resulting in “nearly 300,000 educator jobs. . .lost since 2008” and “as many as

280,000 teacher jobs at risk next year.”²⁴ The Los Angeles Unified School District (LAUSD) is the second largest school district in the United States. It hosts 29 JROTC programs run by a cadre of 68 instructors. On February 15, 2011, the school district announced that, due to budget shortfalls of \$408 million and the loss of an additional \$184 million in Federal Stimulus funds, it was “sending out 7,302 layoff notices to administrators, teachers, counselors and other support service personnel to help address the District’s current \$408 million deficit for the upcoming 2011-12 school year.”²⁵ Although a possible budget deal at the State Legislature²⁶ may save almost half of these positions, the school district is still experiencing major budget shortfalls. If California happens to be in the same poor financial situation in which it currently finds itself when the impact of these retirement reforms are felt, the LAUSD will have to determine whether the mandatory increase in the salary they will have to pay is worth the return on the investment. In the cyclical lean economic times, it is not likely that JROTC hosting schools would be able to absorb this additional salary expense without negative impacts in other budget areas, given the current rules for instructor salaries. The most expedient solution for school systems across the country in these situations may be to eliminate the JROTC program and avoid the increased expense.

²⁴ Executive Office of the President, *Teachers Jobs at Risk*, by the National Economic Council, the Domestic Policy Council, the President’s Council of Economic Advisers, and the Department of Education, The White House (Washington DC, 2011), 1.

²⁵ Los Angeles Unified School District, “News Release #10/11-223, LAUSD Board Adopts Plan to Close \$408 Million Budget Gap,” Los Angeles Unified School District, http://budgetrealities.lausd.net/sites/default/files/BUDGET%20PLAN_R1_021511_2.pdf (accessed October 25, 2011).

²⁶ Los Angeles Unified School District, “News Release #10/11-368, LAUSD Rescinds 3,433 Teacher, Counselor Reduction in Force Notices,” Los Angeles Unified School District, http://notebook.lausd.net/pls/ptl/docs/PAGE/CA_LAUSD/FLDR_LAUSD_NEWS/FLDR_ANNOUCEMENTS/LAUSD%20RESCISSIONS_R_061411.PDF (accessed October 25, 2011).

Although the elimination or consolidation of the JROTC programs provides a fiscal return to the school districts, there is a societal cost to be borne for these decisions. The loss of JROTC programs due to a school district's inability to afford the increased cost of instructors may eliminate the one and only hope students have to escape from the unfortunate circumstances in which they were raised, likely resulting in a less productive future as an adult. It is impossible to calculate the cost that a JROTC program could have on an individual student's future academic and business success or the cost avoidance to society by diverting a youth from illegal activities and possible incarceration. However, the preponderance of the data show that there will be a negative effect for society as a whole if the programs are eliminated. As with all social programs, society must weigh the cost of the program against the benefits received and determine if they are willing to pay the cost.

The proposed change to the military retirement system, although small, can have significant impacts far from where the change was input. The impact will not be immediate and may not be seen as significant to the community as a whole. However, to the young person raised in inner city Los Angeles who wants to change the bleak academic and economic future he is facing, the loss of the JROTC program may mean that his one chance to escape a life of poverty is lost.

CHAPTER 4: RECOMMENDATIONS

The effort to reform the military retirement system does not end with the Defense Business Board's (DBB) report. Since the release of the DBB's report in 2011, the Department of Defense (DOD) convened another board (outside of the DBB) to develop viable retirement reform recommendations.¹ Additionally, the President's Fiscal Year 2013 Budget submitted to Congress asks for the authority to create a Military Retirement Modernization Commission. This "BRAC-like" commission "will recommend improvements to the military retirement system."² This chapter will provide recommendations in the following three areas: the DBB proposal, study design and retirement plan options.

The Defense Business Board's Proposal

Any consideration of specific changes to the military retirement system needs to be part of a national discussion. When the DBB released its report on modernizing the military retirement system, it did not go through the normal DOD information release channels. When asked about the DBB's proposal during a speech at the National Defense University, General Dempsey politely put it this way, "Yeah, the DBB got a little bit out in front of us."³ This eliminated any chance that the DOD had to prepare the nation for the idea of reducing military retirement benefits in order to avoid a hollowing of the force or elimination of weapons programs during an upcoming period of smaller budgets and ever-increasing manpower costs. Service members and veteran advocacy

¹ Gary McGee, Assistant Director of Military Compensation, Office of the Deputy Assistant Secretary of Defense for Military Personnel Policy, e-mail message to the author, February 1, 2012.

² U.S. Office of Management and Budget, *Fiscal Year 2013 Budget of the U.S. Government*, Government Printing Office (Washington DC, 2012), 82.

³ General Martin Dempsey, U.S. Army, *Address at National Defense University*, October 7, 2011.

groups immediately attacked the proposal, causing the DOD to back away from it. When a future board's analysis of potential retirement reform alternatives is ready for release, a national discussion needs to take place to decide what is the appropriate compensation for those who dedicate 20 or more years of service to the nation's defense. Elements of this discussion may include surveys of the current force regarding the new proposal(s), dialog with veteran and defense advocacy groups and town hall forums with current Service members, their families, and the public. Additionally, the DOD should be open to discussing alternative cost saving measures proposed by current and retired service members, concerned citizens and advocacy groups. None of these groups wants to see military retirement benefits cut, but without viable alternatives, there may be no other choice.

All retirement reform proposals must have current supporting data that show the proposed plan(s) will not have negative effects on retention or recruiting that significantly affect short- or long-term force readiness. This data must represent a sizable and representative sample of current and future military members.⁴ If a proposal seeks to merge the active and Reserve component retirement systems, Reserve component personnel must be included in the data sampling. It is *only* with this data that the DOD will be able to determine which proposals are acceptable from the retention and recruiting perspectives. The DOD must then show the nation that the proposed changes are acceptable to the current and future forces and that they will not significantly diminish readiness.

⁴ Future military members includes today's high school students and cadets in the senior ROTC programs and Service Academies.

Compensation for special pay should be left as-is – a monthly payment in the service member’s paycheck. The DBB’s proposal to provide additional Thrift Savings Plan (TSP) contributions for those who meet the special pay criteria (e.g., family separation pay, hazardous duty pay and pay for duty in a combat zone) raises several issues. First, shifting the funds into a retirement account that members cannot access for years is not appropriate, especially when this pay frequently goes to offset the additional expenses incurred when a family member deploys. Second, responses to the author’s survey indicated the current force is ambivalent toward providing extra TSP contributions to those who meet special pay criteria (see figures 7, 8 and 9). Lastly, if additional TSP contributions are based on a percentage of a member’s basic pay, individuals of a higher pay grade or with more time in service will be provided a larger contribution, thus becoming unfair to those of lower pay grades.

The DOD should factor Department of Veterans Affairs benefits into any retirement reform proposal that seeks to expand the group of those eligible to qualify for a pension in the retirement system. The DBB recommended providing TSP contributions to all service members in order to alleviate what they call a fairness problem in the current system. The education benefits under the Post-9/11 GI Bill can total over \$100,000 for just 36 months of service. Data compiled from the *2000 Military Exit Survey* shows that for those who enter the military with no intention of making it a career, the number one reason they joined was to receive “money for college, college repayment, education benefits and opportunities.”⁵ This same group also ranked retirement benefits last in their reasons joining the military. Department of Veterans Affairs home loan guarantees also have a value into the tens of thousands of dollars for

⁵ *Tabulation of Responses from the 2000 Military Exit Survey*, 168.

all veterans. For those who choose not to make the military a career, the value of these benefits is adequate compensation for not receiving a military retirement pension.

Factors such as this should go into the development of vesting criteria, as it is part of a service member's total compensation.

Control measures for the approval of separation requests from Mid-career and Career service members will need to be in place if Congress approves a change to the military retirement system. The survey responses showed that current service members are inclined to separate from the military if the retirement system changes. The degree to which this may happen depends on the details of the approved plan, the state of the economy and other variables. Service personnel managers must be ready to apply control measures if it appears that a mass exodus will significantly diminish force readiness levels.

Study Design

Any future effort to collect and evaluate the attitudes of service members regarding military retirement reform needs the sponsorship and support of the DOD and/or the Services. The DOD and the Services each has its own rules for the conduct of official surveys within the force. They are in place to ensure that the forces are not continually bombarded with requests to fill out surveys and the surveys they do receive all support a DOD or Service-endorsed purpose. These rules make it difficult, if not impossible, to conduct a small-scale survey and get widespread participation from all members of the military. Gaining the requisite level of sponsorship is the only way to obtain a comprehensive, broad-based response from across the current force and correlate it to demographic data from official personnel databases.

Retirement Plans

Develop a hybrid retirement plan, incorporating the best parts of several plans, allowing it to serve as an effective recruiting and retention tool while providing an appropriate cost savings to the government. Previous retirement reform studies offered numerous options for reforming the system but, with the exception of the Redux plan, none was popular enough to pursue. This does not mean that these plans did not contain innovative and attractive ideas. All of these old ideas and any new ones should be back on the table for consideration. The creativity of the group addressing the problem is the only limiting factor in how these plans could be merged. Offered in addition to the current plans, these hybrid plans could provide additional flexibility for service members to choose the retirement plan that best fits their needs and financial goals. Potential hybrid plans could look like the following:

- At the 10 years of service (YOS) point, the service member commits to serve at least 10 more years and chooses one of these options – 1) a lump sum payment (amount to be determined) deposited into their TSP account with continuing contributions as recommended by the DBB (16.5% of pay) or 2) the Delay Pay option (payable at age 65) using the 2.5% service multiplier.
- Cut the current defined benefit (DB) service multiplier in half (1.25%/year) and add TSP contributions equal to 8% of pay. The DB portion of the plan remains payable upon retirement while the TSP is payable at age 65.
- Convert to a defined contribution (DC) plan and index government TSP contributions to the number of years served – 6% through the first 7 years, then

matched with the ‘time in service’ index from military basic pay chart (8% at 8 YOS, 10% at 10 YOS, etc; max. at 20%).

Develop a graduated transition between the current and future retirement plans (assuming that a different plan is approved) that “keeps the faith” with the current force and avoids the (real or perceived) morale problems encountered when the Redux plan was implemented in 1986. During General Krulak’s testimony to Congress regarding the negative impact Redux had on the Marines, he said, “They note the disparity between their pension benefit and the 50 percent, “traditional” pension at 20 years afforded to their predecessors, and they wonder why their service is considered less significant.”⁶ The DBB’s immediate transition option attempted to avoid a repeat of this by putting all service members into the new system. However, the DOD leadership came out firmly against this option because it “breaks faith” with the current force.

A graduated transition would happen over a span of years so that there was no sudden shock to the force, no creation of the “us” and “them” or the “haves” and “have nots” mentality. Under the Redux plan, new service members viewed their lower retirement pension in a negative light because it was a straight cut in benefits. There was nothing offered in return for the reduced pension. Under a graduated transition plan, service members would give up a little of the current system to gain something in the new system. The key to a successful implementation of a graduated transition is the message that this is a “something for something” transition, not “something for nothing” transition. To illustrate how this transition might work, we will assume that the DOD is moving to the DBB’s proposed DC plan. Table 8 shows one potential version of the

⁶ General Charles Krulak, Commandant of the U.S. Marine Corps, “Marine Corps Commandant’s Testimony to the Senate Armed Services Committee” (remarks delivered to the Senate Armed Services Committee, January 5, 1999).

transition. All of the factors shown can be adjusted depending on how fast the DOD wants to complete the transition. This model could also incorporate a graduated vesting time requirement if it were to change from the current 20-year requirement. A graduated vesting model might provide 40% at four YOS, 60% at six YOS, 80% at eight YOS and 100% at 10 YOS.

Table 8. Example of a graduated transition plan

Year of Entry to the Military	Service Multiplier (Current System)	TSP Contribution
2012	2.5%	0%
2014	2.0%	3.5%
2016	1.5%	7%
2018	1.0%	10.5%
2020	.5%	14%
2022	0%	16.5%

A thorough examination of the systems and processes linked to the current military retirement system must be conducted, regardless of the alternative retirement systems considered for approval. Failure to properly identify inter-related processes in a timely manner can have unforeseen consequences when one system changes and the other is not prepared for it. The JROTC Minimum Instructor Pay rule is one example of this. Anything that raises the cost for public schools to maintain a JROTC program will likely have a negative effect on the school's support for the program and could mean a decrease in the number of participating schools due to schools' limited budgets.

The Services need to do a better job of educating the force on the retirement plan options available to them and on basic retirement planning. The vast majority of those in uniform today will tell you that there is only one retirement plan available today – the DB plan that provides a 50% pension after 20 years. They have no idea that

the Redux plan is still an available election at a service member's 14th YOS.

Additionally, there needs to be education for the force about choosing a retirement option that best meets the individual's needs. Too many of those in uniform today are ignorant of the options available to them and how to choose the one best suited to them.

Introduction of one or two additional retirement plans that provide flexibility to put the money into different investment vehicles would make this education even more critical.

CHAPTER 5: CONCLUSION

Reductions in the pay and benefits offered to members of the military are always a hot topic. Politicians and military leaders understand that changes to these issues are not to be taken lightly. Military retirees, veteran advocacy groups and patriotic Americans always rally to the cause to protect what veterans were told to expect after 20 or more years of service in defense of the nation. This is one reason the military retirement system has seen little significant change over the past 100 years. As a percentage of the total budget for the Department of Defense (DOD), retirement pay continues to consume a larger portion every year. If not contained soon, it will set the stage for another era of a “hollow” force.

The recommendations of the Defense Business Board (DBB) regarding retirement reform certainly allow the military retirement system to become fiscally sustainable over the long-term. However, political opposition to the drastic changes recommended in retirement pension compensation and the transition plan requiring all military members immediately convert to the plan make it likely to be destined for failure. Although remaining publically silent on the recommendation to convert the military retirement system from a defined benefit to a defined contribution (DC) plan, the Secretary of Defense and the Chairman of the Joint Chiefs of Staff were vocal in their opposition to the recommended transition plan. They are adamant that the plan not “break faith” with the force and that any plan must provide the opportunity for current military members to remain under the retirement plan in effect when they entered the military.

The DBB never conducted a survey of the force-at-large to determine their opinion of the plan recommendations. If it had, it would have quickly determined that

the current force was strongly against the recommended change. By a 3:2 margin, the members of the active force who were surveyed said they would shorten their military tenure plans if the DBB's proposal became law. The number of retirement eligible members who indicated they would retire at the earliest opportunity outnumbered those who would continue serving by a 3.5:1 margin. These indicators forecast significant personnel retention problems for the military if Congress approves the plan. Other retirement plan options, not recommended by the DBB, fared both better and worse than the DC plan with the active force. What is clear from the survey results is that the less money the plan took out of the retiree's pension, the lower the potential personnel retention problems for the Services.

Adoption of the DBB's DC plan will likely have a negative effect on many of the high school Junior Reserve Officer Training Corps (JROTC) programs, ultimately leading to increased societal costs. By adopting retirement reform measures that significantly reduce or delay the payment of retirement pensions from today's standard, the cost to support a JROTC program goes up in proportion to the degree of change. When schools are suffering through lean economic times, such as they are today, the additional cost to support the JROTC program may be more than the school can afford. When this happens, schools are likely to terminate the program and use the savings to ensure core curriculum subjects are adequately resourced.

The JROTC program tends to target at-risk youth and strives to provide them mentorship, constructive alternatives to gangs and leadership skills that may allow them to break from the cycles of poverty and hopelessness from which many of them come. Termination of a JROTC program will leave these youth with few, if any, avenues out of

their unfortunate situation. By simply helping the students graduate from high school, JROTC significantly increases the chances that the student will not have to live in poverty or on public assistance later in life.

There are a great number of options for reforming the military's retirement system. Creative thinking is essential for the success of future boards and commissions in developing a viable retirement plan. No plan, regardless of how much money it saves the DOD, will survive if it does not have the support of the DOD, Congress, current military members, retirees, veteran advocacy groups and the public. A retirement reform plan must incorporate the following elements if it is to have any chance of support from all interested parties: 1) the plan must fairly compensate retirees for their sacrifices during their years of dedicated service; 2) the plan must bring down the future DOD retirement fund liabilities to an acceptable level; and 3) it must not significantly disrupt the recruiting of new, or retention of current, service members.

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APPENDIX

Survey on Effects of Proposed Military Retirement Reform

Page 1 - Heading

There are some terms in this survey that you may not be familiar with. These definitions and explanations may be helpful for you in understanding them.

Page 1 - Heading

Defense Business Board (DBB)

The Defense Business Board provides the Secretary of Defense and other senior leaders with independent advice, which reflects an outside private sector perspective, on proven and effective best practices for application to the Department of Defense. In October 2011, the DBB presented to the Secretary of Defense a report titled, "Modernizing the Military Retirement System." This DBB recommended abolishing the current defined benefit retirement system currently enjoyed by the military after a 20+ year career and replacing it with a defined contribution retirement system, similar to those offered in the private sector through a 401(k) account or an Individual Retirement Account. Their entire proposal can be seen at http://dbb.defense.gov/pdf/FY11-05_Modernizing_the_Military_Retirement_System1.pdf.

Page 1 - Heading

Defined Benefit Retirement Plan

A retirement plan in which an employer commits to paying its employee a specific benefit for life beginning at his or her retirement. The amount of the benefit is known in advance and is usually based on factors such as age, earnings, and years of service. Employer contributions to the defined benefit plan are based on a benefit formula that calculates the investments needed to meet the defined benefit.

Page 1 - Heading

Defined Contribution Retirement Plan

A retirement plan in which a certain amount or percentage of money is set aside each year by a company for the benefit of the employee. There are restrictions as to when and how you can withdraw these funds without penalties. There is no way to know how much the plan will ultimately give the employee upon retiring. The amount contributed is fixed, but the benefit is not.

Page 1 - Heading

Thrift Savings Plan (TSP)

A retirement savings and investment plan for Federal employees and members of the uniformed services, including the Ready Reserve. It was established by Congress in the Federal Employees' Retirement System Act of 1986 and offers the same types of savings and tax benefits that many private corporations offer their employees under 401(k) plans. The TSP is a defined contribution plan, meaning that the retirement income you receive from your TSP account will depend on how much you and your agency, put into your account during your working years and the earnings accumulated over that time.

Federal Employee Retirement System (FERS)

A retirement plan that provides benefits from three different sources: a Basic Benefit Plan, Social Security, and the Thrift Savings Plan (TSP). Two of the three parts of FERS (Social Security and the TSP) can go with you to your next job if you leave the Federal Government before retirement. The Basic Benefit and Social Security parts of FERS require you to pay your share each pay period. Your agency withholds the cost of the Basic Benefit and Social Security from your pay as payroll deductions. Your agency pays its part too. Then, after you retire, you receive annuity payments each month for the rest of your life.

Operational Tempo (OPTEMPO)

Generally describes how busy a military unit is with training, exercises and deployments.

What service or ROTC program are you a member of?

- ☐ Air Force
- ☐ Army
- ☐ Coast Guard
- ☐ Navy
- ☐ Marine Corps

What is your pay grade?

- ☐ Cadet
- ☐ E1
- ☐ E2
- ☐ E3
- ☐ E4
- ☐ E5
- ☐ E6
- ☐ E7
- ☐ E8
- ☐ E9
- ☐ WO1
- ☐ CW2
- ☐ CW3
- ☐ CW4
- ☐ CW5
- ☐ O1
- ☐ O2
- ☐ O3
- ☐ O4
- ☐ O5
- ☐ O6
- ☐ O7
- ☐ O8

- ☐ O9
- ☐ O10

Page 2 - Question 3 - Open Ended - Comments Box[Mandatory]

How many years of active military service do you have?

Page 2 - Question 4 - Open Ended - Comments Box[Mandatory]

How old are you?

Page 3 - Question 5 - Choice - One Answer (Bullets)[Mandatory]

Upon entering active duty, did you have plans to remain on active duty long enough to qualify for retirement (20 or more years of service)?

- ☐ Yes
- ☐ No
- ☐ Undecided

Page 3 - Question 6 - Choice - One Answer (Bullets)[Mandatory]

How much is/was the military retirement compensation a factor in you choosing to join the military?

- ☐ Very positive factor
- ☐ Somewhat positive factor
- ☐ No factor
- ☐ Somewhat negative factor
- ☐ Very negative factor

Page 3 - Question 7 - Choice - One Answer (Bullets)[Mandatory]

Today, do you plan on serving on active duty long enough to retire (20 or more years of active service)?

- ☐ Yes
- ☐ No
- ☐ Undecided

Page 4 - Heading

Current Military Retirement System

The current military voluntary retirement system is known as a defined benefit plan. Individuals vest (become eligible to receive benefits) in the plan at 20 years of service and are able to receive pension payments the month after being moved to the retired personnel list. Pension payments are calculated as follows: Monthly pension = 2.5% x (# years active service) x (average of highest 36 months of basic pay). A 20 year retirement provides pension payments equal to 50% of the average of highest 36 months of basic pay; a 30 year retirement provides 75%.

Page 4 - Heading

Proposed Changes to the Military Retirement System

The following changes were recently recommended by the Defense Business Board: · Convert from a

defined benefit plan to a defined contribution plan, similar to many private sector 401(k) retirement plans. Every month, the government makes a contribution to the member's account and members can voluntarily contribute additional money to the account. This account is portable, so one would not have to spend 20 years in the military in order to receive a benefit upon reaching retirement age. Money in the account is typically not able to be withdrawn without a penalty until the retiree reaches the age of 65 or Social Security age. Members would vest (become eligible to receive contributions or benefits) in the plan between 3-5 years of military service. Government provides double contributions for years spent in a combat zone or in high-risk positions; greater contributions during hardship/unaccompanied tours. Changes would not affect current retirees.

Page 4 - Heading

Retirement Plan Transition Options

There are two retirement plan transitions options included in the Defense Business Board's recommendations. 1) Immediate transition - Transition all military members to the new plan on a designated date. Preserve accrued benefit from "old plan" but no further accrual. For those with less than 20 years of service at time of transition – proportional benefit under "old plan" if they stay for 20+ years (example: 10 years of service would result in 10/20 of the old plan benefit at old vesting date or 25% of pay at retirement). 2) Gradual transition - All service members entering active duty after the transition date would earn retirement benefits under the new plan. All currently serving members would remain under the current retirement system.

Page 4 - Heading

If the following changes are made to the military retirement system, how would it affect your decision to stay on active duty until retirement (20 or more years of active service)?

Page 4 - Question 8 - Choice - One Answer (Bullets)[Mandatory]

Convert retirement system to a defined contribution plan, as described above.

- ☐ Would definitely serve until retirement
- ☐ More likely to serve until retirement
- ☐ No change in plans
- ☐ Less likely to serve until retirement
- ☐ Would definitely not serve until retirement
- ☐ Currently retirement eligible; would continue serving
- ☐ Currently retirement eligible; would retire at earliest opportunity

Page 4 - Question 9 - Choice - One Answer (Bullets)[Mandatory]

Maintain defined benefit plan, but change the following: provide lump sum payment of \$30,000 at 15 years of service with member's commitment to serve at least 5 additional years; pension payment at 20 years equal to 40% of the average of the highest 36 months of your basic pay. Additional years of service are worth an additional 2% of basic pay.

- ☐ Would definitely serve until retirement
- ☐ More likely to serve until retirement
- ☐ No change in plans
- ☐ Less likely to serve until retirement
- ☐ Would definitely not serve until retirement
- ☐ Currently retirement eligible; would continue serving
- ☐ Currently retirement eligible; would retire at earliest opportunity

Page 4 - Question 10 - Choice - One Answer (Bullets)[Mandatory]

Current pension plan based on the average of your highest 60 months of base pay, versus the current 36 month average.

- ☐ Would definitely serve until retirement
- ☐ More likely to serve until retirement
- ☐ No change in plans
- ☐ Less likely to serve until retirement
- ☐ Would definitely not serve until retirement
- ☐ Currently retirement eligible; would continue serving
- ☐ Currently retirement eligible; would retire at earliest opportunity

Page 4 - Question 11 - Choice - One Answer (Bullets)[Mandatory]

Keep the current retirement system, but delay pension payments until age 65.

- ☐ Would definitely serve until retirement
- ☐ More likely to serve until retirement
- ☐ No change in plans
- ☐ Less likely to serve until retirement
- ☐ Would definitely not serve until retirement
- ☐ Currently retirement eligible; would continue serving
- ☐ Currently retirement eligible; would retire at earliest opportunity

Page 4 - Question 12 - Choice - One Answer (Bullets)[Mandatory]

Transfer the entire military retirement system to the Federal Employee Retirement System (Government contributes 1% of your pay to your Thrift Savings Plan account and matches your contributions to the account (portable to a job outside the government); Social Security (portable to a job outside the government); Basic Benefit Plan (employee pays 1.3% of total pay to the Civil Service Retirement and Disability Fund (or Department of Defense equivalent fund); not portable to a job outside the government). Pension payments can't be withdrawn until retirees reach age 55-62 (depending on years of service and birth year).

- ☐ Would definitely serve until retirement
- ☐ More likely to serve until retirement
- ☐ No change in plans
- ☐ Less likely to serve until retirement
- ☐ Would definitely not serve until retirement
- ☐ Currently retirement eligible; would continue serving
- ☐ Currently retirement eligible; would retire at earliest opportunity

Page 4 - Question 13 - Choice - One Answer (Bullets)[Mandatory]

When military retirees begin receiving Social Security payments, military pension payments are reduced by an amount equal to the Social Security payments.

- ☐ Would definitely serve until retirement
- ☐ More likely to serve until retirement
- ☐ No change in plans

- ☐ Less likely to serve until retirement
- ☐ Would definitely not serve until retirement
- ☐ Currently retirement eligible; would continue serving
- ☐ Currently retirement eligible; would retire at earliest opportunity

Page 4 - Question 14 - Choice - One Answer (Bullets)[Mandatory]

Under any of the scenarios in the questions above, which transition option would you prefer? (Refer to transition descriptions above)

- ☐ Immediate transition
- ☐ Gradual transition
- ☐ Undecided

Page 5 - Heading

If the following changes were made to the military retirement system, how would it affect your decision to stay in the military?

Page 5 - Question 15 - Choice - One Answer (Bullets)[Mandatory]

Tie increased government retirement contributions to your job skill. For example, more dangerous job skills (i.e., infantry, flight crew, Explosive Ordnance Disposal, etc.) would get higher pension contributions than someone with a clerical job.

- ☐ Would definitely serve longer
- ☐ More likely to serve longer
- ☐ No change in plans
- ☐ More likely to depart the military earlier than planned
- ☐ Definitely leave the military earlier than planned

Page 5 - Question 16 - Choice - One Answer (Bullets)[Mandatory]

Tie increased government pension contributions to the number of months an individual serves in a designated combat zone.

- ☐ Would definitely serve longer
- ☐ More likely to serve longer
- ☐ No change in plans
- ☐ More likely to depart the military earlier than planned
- ☐ Definitely leave the military earlier than planned

Page 5 - Question 17 - Choice - One Answer (Bullets)[Mandatory]

Tie increased government pension contributions to the number of months one serves on an unaccompanied tour.

- ☐ Would definitely serve longer
- ☐ More likely to serve longer
- ☐ No change in plans
- ☐ More likely to depart the military earlier than planned
- ☐ Definitely leave the military earlier than planned

Page 6 - Question 18 - Choice - One Answer (Bullets)[Mandatory]

If your coworker entered the military under the existing retirement system and you entered the military under the proposed system, would knowing that he/she will receive more in retirement benefits than you will for the same length of service affect your job performance?

- ☐ I would significantly increase my work effort
- ☐ I would slightly increase my work effort
- ☐ No change to my work effort
- ☐ I would slightly reduce my work effort
- ☐ I would significantly reduce my work effort

Page 6 - Question 19 - Choice - One Answer (Bullets)[Mandatory]

Assume that upon entering military service you were required to choose between two retirement plans and this choice would be irrevocable once made. Option 1: a defined contribution plan that you can take with you if you do not serve at least 20 years and able to receive payments at age 65; or Option 2: a defined benefit plan that requires at least 20 years of service to receive any benefit and payable upon retirement. Which would you choose?

- ☐ Option 1 - Defined contribution plan
- ☐ Option 2 - Defined benefit plan

Page 6 - Question 20 - Choice - One Answer (Bullets)[Mandatory]

Many stressors work on the military service members and their families (e.g. high OPTEMPO, frequent moves, assignment to jobs or locations that are not desirable, long work hours, more lucrative job offers from private industry). If the military retirement system is changed to a portable, defined contribution plan, what would your response be when these stressors became significant?

- ☐ Definitely remain in the military
- ☐ Might remain in the military
- ☐ No change in plans
- ☐ Might depart the military
- ☐ Definitely depart the military

Page 7 - Heading

Today, knowing that you must serve 20 years on active duty in order to qualify for pension payments, do you believe it is "fair" that:

Page 7 - Question 21 - Choice - One Answer (Bullets)[Mandatory]

Only 17% of active military members will serve long enough to receive a retirement pension, while 83% do not serve long enough to receive a pension benefit?

- ☐ Yes
- ☐ No
- ☐ Undecided

Retired military members are able to start drawing a pension as soon as they retire while most civilians must wait until they are aged 60-65 in order to qualify for pension payments?

- ☐ Yes
- ☐ No
- ☐ Undecided

Military members credited with at least 24 months of honorable service are entitled to most Department of Veterans Affairs benefits upon discharge from the military. These benefits include home loan guarantees, education benefits, medical and pension benefits (under certain conditions), life insurance and burial and memorial benefits. The value of these benefits may total into the hundreds of thousands of dollars.

With the value of these benefits available to virtually all former military members, does this compensation make up for the lack of a retirement benefits for the 83% of military members who serve less than 20 years and are not eligible for pension benefits?

- ☐ Yes
- ☐ No
- ☐ Undecided

During combat deployments, there is an increased likelihood of a military member with a normally “safe” job (e.g. food service) being called to perform a higher risk duty (e.g. guarding base access control point, convoy security or serving on a personal security detail). Should those who have higher risk job fields receive higher retirement contributions than those in lower risk job fields, regardless of what duties the individuals are actually performing?

- ☐ Yes
- ☐ No
- ☐ Undecided

Typical private sector contributions to employee retirement accounts range from 4-12% of employee’s monthly pay. If the military retirement plan changed to a defined contribution plan, what do you think a “fair” contribution of member basic pay would be to the member’s account?

- ☐ 4-6%
- ☐ 7-9%
- ☐ 10-12%
- ☐ 13-15%
- ☐ 16-18%

If you have any thoughts on the Defense Business Board's proposal that you would like to share with the survey author, you may include them below. If you want to give the survey author permission to use these comments in his thesis, please include your name and contact information.

VITA

Lieutenant Colonel Brent Ruhlen received his commission in 1989 through the Army Reserve Officer Training Corps program at San Diego State University. Following flight training where he earned ratings in both the UH-1 “Huey” and UH-60 “Blackhawk” helicopters, he served as a platoon leader, battalion staff officer and company commander, in various divisional units. After completing his company command, he transitioned into his Functional Area of Systems Automation (FA53). His assignments in this field include staff and leadership positions within the US Army Training and Doctrine Command, Brigade Automation Officer in the 4th Infantry Division, and Chief of a Network Enterprise Support Team in 7th Signal Command.