



## Defense Primer: Military Retirement

The military retirement system is a government-funded system that provides a defined benefit to all retirees and matching government contributions to the Thrift Savings Plan (TSP) for eligible servicemembers. It has historically been viewed as a significant retention incentive for military personnel. The system includes monthly compensation for qualified active and reserve retirees, disability benefits for those deemed medically unfit to serve, and a survivor annuity program for the eligible survivors of deceased retirees. The amount of compensation depends on years of service (YOS), basic pay at retirement, and annual Cost-of-Living-Adjustments (COLAs).

### What is the Purpose of the Military Retirement System?

The non-disability military retirement system for active-duty members has evolved since the late 1800s to meet four main goals.

- To keep the military forces of the United States young and vigorous and ensure promotion opportunities for younger members.
- To enable the armed forces to remain competitive with private-sector employers and the federal Civil Service.
- To provide a reserve pool of experienced military manpower as a “retired reserve” that can be recalled to active duty in time of war or national emergency.
- To provide economic security for former members of the armed forces during their old age.

### Who is Eligible for Retired Pay?

Eligibility for non-disability retired pay depends on years of service (YOS). In order to be vested in the defined benefit, a member must complete 20 years of qualifying service. For active component members this is one calendar year, and for reserve component members, it is a year in which the member earns at least 50 retirement points, typically through weekend drill. Servicemembers determined to be unfit for continued service and who have a permanent and stable disqualifying physical condition may qualify for disability retirement, commonly referred to as a Chapter 61 retirement. Eligibility is based on having a permanent and stable disability of 30% or more that was not noted at the time of entrance on active duty. As a result, these members might retire without having reached the 20-year mark.

### How is Regular Retired Pay Calculated?

Retirement pay calculations for active-duty personnel are based on the date when the servicemember first entered on active duty, the pay base at the time of retirement, and a multiplier as defined by statute. Changes in law have created four distinct systems for calculating retired pay: (1) Final Basic Pay, (2) High-Three, (3) Redux, and (4)

Blended Retirement System. Currently the pay base is either the final pay at retirement or average of the highest three years (36 months) of basic pay. With the exception of those opting into the Redux system, the multiplier for current retirees is 2.5%. For those entering service on January 1, 2018, the multiplier will be 2%. The basic formula for calculating retired pay is:

$$YOS \times multiplier \times retired \text{ pay base}$$

For a member who retired in 2017 with 20 YOS, retired pay is 50% of the average of the individual’s highest 36 months of pay. If another member with 30 YOS retired in 2017, retired pay is 75% of the high-three average. A servicemember who entered service in 2018 and retires in 2038 with 20 YOS will receive 40% of the high-three average and one who retires with 30 YOS in 2048 will receive 60% of the high-three average.

### How is Disability Retired Pay Calculated?

A servicemember retired for disability may select one of two options for calculating their monthly retired pay; (1) the longevity formula for regular retirement:

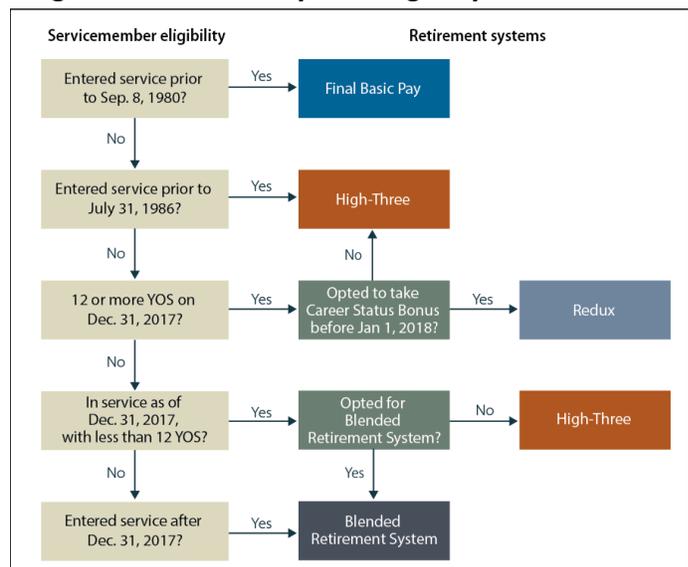
$$YOS \times multiplier \times retired \text{ pay base.}$$

Or, (2) the disability formula:

$$DOD \text{ disability percentage} \times retired \text{ pay base.}$$

The maximum retired pay calculation under the disability formula cannot exceed 75% of basic pay.

Figure 1. Retirement System Eligibility



Source: CRS Report RL34751, *Military Retirement: Background and Recent Developments*, by Kristy N. Kamarck

**Table I. Comparison of Benefits under the Military Retirement Systems**

| Category                   | Final Basic Pay        | High Three            | Redux   | Blended System   |
|----------------------------|------------------------|-----------------------|---|--|
| Defined Benefit            | Yes, 20 or more YOS    | Yes, 20 or more YOS   | Yes, 20 or more YOS   | Yes, 20 or more YOS  |
| Defined Benefit Multiplier | 2.5% per YOS           | 2.5% per YOS          | 2.5% per YOS, less 1% for each year of service less than 30 | 2.0% per YOS   |
| Annuity at 20 YOS          | 50% of final basic pay | 50% of high-3 average | 40% of high-3 average                                       | 40% of high-3 average  |
| Defined Govt. Contribution | No                     | No                    | No  | Yes, 1% automatic, plus up to 4% matching, starting at 2 YOS |
| Continuation Incentive     | No                     | No                    | Yes, at 15 years w/5-year obligation                        | Yes, between 8 to 12 YOS with 3-year obligation              |
| Lump Sum Option            | No                     | No                    | No  | Yes  |

**Source:** Adapted by CRS from *Military Compensation Background Papers*, Seventh Edition, November 2011, and FY2016 NDAA (P.L. 114-92).

### How is it Funded?

Congress appropriates the funds required to pay future retirees in the annual defense appropriations bill. This money is transferred to the Military Retirement Fund (MRF), from which current retirees are paid. Under this accounting method, legislation that affects future retirees has present-day budget implications. A DOD Board of Actuaries determines the amount of appropriations required based on economic and demographic projections. Contributions to the fund are made by the services and the Treasury (to cover the unfunded liability).

### What Are Differences Under the Blended System?

The National Defense Authorization Act for FY2016 (P.L. 114-92) made significant changes to the military retirement system for those entering the service on or after January 1, 2018. All other servicemembers are grandfathered into the current system. Those with less than 12 years of service prior to January 1, 2018, were offered the opportunity to opt into the new system.

The main change in the blended system is that it includes *defined contributions* from the government in addition to *defined benefits*. While the 20 YOS requirement for the defined annuity remains in the new system, the multiplier for this benefit is reduced from 2.5% to 2%. In the new system, the government will make automatic 1% contributions to a servicemember’s individual Thrift Savings Plan (TSP) and up to an additional 4% matching contributions.

The blended system also includes a continuation payment as a retention incentive at the member’s mid-career point (8-12 YOS). Calculations for this benefit differ for active and reserve component members and the law provides some flexibility to vary the payment amount based on the Services’ manpower needs. Acceptance of the continuation benefit incurs an additional three-year minimum obligation of service.

### How is Retired Pay Distributed?

Active-duty retirees begin receiving their monthly annuity from the Defense Finance and Accounting Service (DFAS)

on the first business day of the month following their retirement. Reserve retirees are generally not eligible to receive retired pay until they reach age 60. However, the age requirement may be reduced for members of the Ready Reserve who were recalled to active duty or were called to certain active service after January 28, 2008. Reserve retirees who have accumulated enough qualifying years of service to be eligible for retired pay, but are not yet receiving retired pay are sometimes called *gray area* retirees. Retired pay is taxable, and DFAS withholds appropriate taxes as well as deductions for retired pay waived in offset of veteran disability benefits, and survivor benefit program premiums.

#### Relevant Statute

Title 10, U.S. Code, Chapters 61 - 73, and Chapter 1223

#### CRS Products

CRS Report RL34751, *Military Retirement: Background and Recent Developments*, by Kristy N. Kamarck

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

CRS Report R45325, *Military Survivor Benefit Plan: Background and Issues for Congress*, by Kristy N. Kamarck and Barbara Salazar Torreon

#### Other Resources

Statistical Report of the Military Retirement System, DOD Office of the Actuary

Valuation of the Military Retirement System, DOD Office of the Actuary

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