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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). To be vested in the defined benefit, a member must complete 20 years of qualifying service. For active component members, qualifying service is measured in calendar years; for reserve component members, it is measured in years in which the member earns at least 50 retirement points, typically through weekend drills. 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 (BRS). The *pay base* is either the final pay at retirement or average of the highest three years of basic pay. The multiplier for retirees in the Final Basic Pay or High-Three system is 2.5%. See **Table 1** for the Redux formula. For those entering service on or after January 1, 2018, the multiplier is 2.0%.

The basic formula for calculating retired pay is

YOS × *multiplier* × *retired pay base*

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:

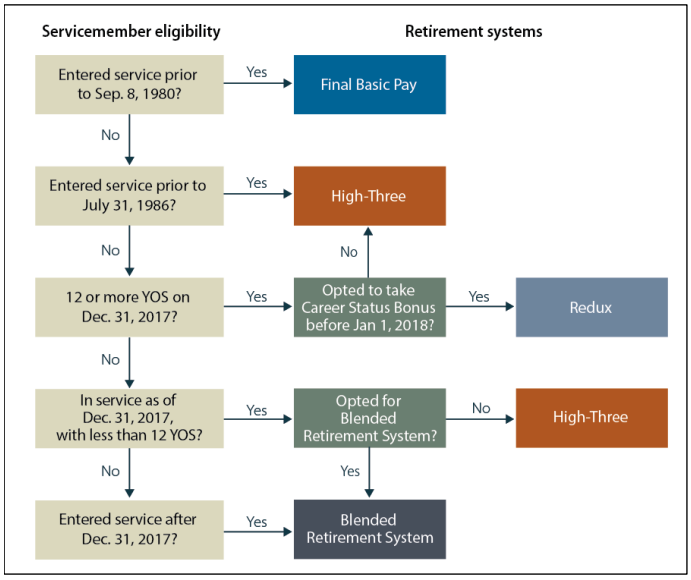
YOS × *multiplier x retired pay base,* or

(2) the disability formula:

DOD disability percentage × *retired pay base.*

The maximum retired disability pay may not exceed 75% of the pay base.

Figure 1. Retirement System Eligibility



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

Table 1. Comparison of Benefits Under the Military Retirement Systems

Category	Final Basic Pay	High Three	Redux	BRS
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 with a 5-year obligation	Yes, between 8 to 12 YOS with a 3-year obligation
Lump Sum Option	No	No	No	Yes

Sources: Adapted by CRS from *Military Compensation Background Papers*, Eighth Edition, July 2018, p. 583, and U.S. Code.

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 MRF are made by the services and the Treasury (to cover the unfunded liability).

What Are the Differences Under the Blended Retirement 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 and matching contributions of up to an additional 4%.

The BRS 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. 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 veterans' disability benefits, and Survivor Benefit Plan 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

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

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