

**The number of retirees is up, and their average age is down. Congress keeps finding ways to cut the costs (also known as benefits) of the program.**

# Revisions to Retirement

By Bruce D. Callander

**I**N 1992, Congress gave the services the power to retire members with as few as fifteen years of active duty. Through 1995, the Air Force used the authority to retire more than 2,500 officers and 11,500 enlisted troops before their normal exit points at twenty years and beyond. In previous force-cutting actions, USAF pushed out thousands under tightened up-or-out policies and special drawdown actions, such as Selective Early Retirement Boards (SERBs).

For years now, USAF has used retirement as a tool to shrink the force as well as to keep it young and vigorous. The full impact of shortening so many careers will not be felt for some years, but some of the effects already are apparent.

For one thing, the force cuts have added unprecedented numbers of retirees to the service retirement rolls. USAF has almost 600,000 former members on paid retirement, a total that almost matches the combined strength of active-duty and Guard and Reserve forces. The services now have more than 1.5 million retirees. Early force-outs also have brought the average age at retirement to a record low, meaning that retirees will draw their benefits longer.

However, Congress for years also has been cutting the cost of retiring an individual member. Because it "grandfathered" these changes, most of the savings will not take hold for a generation, but the results will be painful. Moreover, pay isn't the only facet of military retirement to undergo major change. Restrictions on employment and on veterans benefits also have emerged in recent years to complicate the lives of those who take off the uniform.

## The Big Switch

The record of recent times stands in sharp contrast with the practices of an earlier era, when the lawmakers' goal was to make retirement more attractive so experienced members would stay for a full career in order to derive full benefits.

When the basic eligibility rules for today's system were laid down in the 1940s, annuities were based on a member's final pay, and retirement pay was recomputed with each increase in active-duty pay. "Recomp" was abolished in 1958 because Congress thought it too expensive. The approach thereafter was to adjust retirement pay according to increases in the Consumer Price Index (CPI). (This economy measure at the expense of retirees would eventually backfire on the economizers when inflation in the 1970s hit double-digit percentages and the CPI rose to heady altitudes.)

Later, the lawmakers added other improvements. A "look-back" formula protected members from losing money as a result of the timing of their retirements. A one percent "kicker" made up for lags in the adjustment formula. A 1971 law assured

members retiring after that year that they would not receive less than they would have by retiring earlier, when raises in active-duty pay had failed to keep pace with those in retired pay.

By 1976, however, Congress had decided that the system was over-compensating for cost-of-living increases. That year, it eliminated the one percent kicker and provided for cost-of-living adjustments every six months. In a later economy move, it substituted annual raises for the semi-annual COLAs.

The two most dramatic changes, however, came in the 1980s when the lawmakers twice revised the formula for computing the pay itself. In September 1980, they ordered that annuities for those joining after that date be based not on final pay but on the average for the member's highest-paid three years. In 1986, they combined this "high-three" formula with a plan called "Redux." Thereafter, the annuity would be based on 2.5 percent of the member's highest-paid three years multiplied by the years of service minus one percent for every year short of thirty. This reduced annuity would last until the member reached age sixty-two, then would be raised to the full 2.5 percent per year served.

(In 1995, Congress sought to impose a "High One" plan on members who joined prior to September 8, 1980, basing their retired pay computation on an average of their last year's pay rather than using the final month as a basis. This led to protests that the change was being assessed retroactively to service performed during the past fifteen years. Congress eventually backed away from the proposal.)

The effect of the changes was twofold. First, it reduced the rate of basic pay on which the annuity was based. And second, it cut the multiplier used to figure it. A member leaving at twenty years, for example, would receive forty percent of his or her high-average pay rather than half his final pay.

Congress also changed the formula for later pay raises. COLAs for those under final-pay and high-three plans still were expected to give full protection against inflation. However, members who retired under the Redux plan would receive COLAs for the CPI minus one percent. Re-

tirees in this last group would have their pay adjusted to full COLAs at age sixty-two but then go back to the partial COLA formula.

Those were the only major changes in the formula itself. However, Congress in subsequent years several times delayed or limited COLA in-

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creases. Further, it repealed the one-year, look-back provision, required that retirement and survivor payments be rounded down to the nearest dollar, and adopted provisions to count months of creditable service as one-twelfth of a year, rather than counting anything over six months as a full year.

### **High Three and Redux**

High-three averaging affects only those members who entered service between September 8, 1980, and July 31, 1986. The Redux applies only to those who came in after August 1, 1986. Members in service before September 8, 1980, retired under earlier rules.

For future retirees, however, these "reforms" will have considerable impact. Sixty percent of the members now on active duty will find that their retired pay is based on the

high-three formula, and those with ten years of service or less will face the added limitations of the Redux formula.

Overall, officials estimate, the changes have reduced the value of military retirement by about one-fourth. They worry that this will reduce the system's value as a retention incentive and leave the Air Force with an experience gap that will take years to close and could affect readiness in the meantime.

Indeed, attitude surveys conducted by the Air Force have already begun to reflect growing displeasure with the retirement system. In USAF's 1990 poll, officers rated retirement as the fourth highest item on a list of career "satisfiers." In 1994, it had slipped to sixteenth place. Over the same period, retirement benefits dropped from tenth to sixteenth place as a satisfier for enlisted members.

Much of the dissatisfaction stems from the reduction of benefits now available for younger troops. Some of it also may be traced to the fact that service members in general no longer can count on staying in the military as long as they had hoped to. Traditional up-or-out policies combined with lower tenure points, SERBs, and fifteen-year retirement have made early retirements more the rule than the exception in recent years.

Adjustment in military retired pay isn't the only change buffeting service retirees these days. Once, many retired service members found second careers as federal civilian employees or as workers in the defense industry. In recent years, however, Congress has placed new restrictions on both types of work, some of them designed to save the government money and others to prevent conflicts of interest.

For example, many service members are barred from taking jobs with the federal government until 180 days after retirement. Some who do qualify for employment must give up a portion of their retired pay in return. The reduction applies to all retired regular officers and to other members retired after January 11, 1979, if their combined retired and civilian pay exceeds the base rate for level five executive employees.

Most retirees receive credit for their military service toward civil

service retirement, but, again, there is a penalty. Because military and civilian wages come under the Social Security program, many must take a reduction in retired pay when their old-age benefits kick in. In 1982, Congress granted some relief from this limitation, but many retirees still see a loss of benefits.

### Post-Service Penalties

There are no pay penalties for retirees working for private employers, but there are some barriers to taking jobs with firms that do business with the government.

Most of these conflict-of-interest rules were designed to prevent high-ranking military retirees from showing up in their former offices as vendors for private companies. Under the Ethics in Government Act of the late 1970s, general officers with fewer than two years in retirement could not represent firms dealing with the government in areas where they had had responsibilities in their last year of service. A 1987 law extended the restriction to all those who retired as majors or above.

After the two years have passed, these restrictions ease, but field-grade officers who work for prime contractors still must file reports with their former services if they make more than a given amount of money in a given year.

At times, the rules make fine distinctions between what is and what isn't a conflict of interest. A retiree can take a job promoting products that are sold in exchanges, for example, but may not sell them to exchanges. He also can conduct career seminars with military members present but can't use the occasion to push his firm's insurance program.

Retirees may work abroad for private companies subject to similar restrictions. If they want to work for foreign governments, however, they must have Congress's permission, even if the job involves only an indirect connection, such as teaching in a government-funded school. The rule is based on the Constitutional provision that forbids persons holding positions of trust with the US from accepting compensation from foreign states.

Until the 1980s, it took a private bill or a Presidential order to overcome this limitation. That year, however, Congress eased the restriction,

allowing such employment with the joint approval of a service secretary and the Secretary of State. Retirees who go to work for a foreign government before getting the approval, however, will have their retired pay cut by the amount they earn abroad.

All retirees with at least fifteen

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but not more than nineteen years of service must register for public or community-service jobs. The Departments of Defense and Labor will help them find jobs in law enforcement, education, public health, social services, and other designated fields. Those registered are not required to take such jobs, but if they do, they can receive added retired pay credits when they reach age sixty-two. A member who leaves after fifteen years and works another five years in public service, for example, eventually could have his or her retired pay adjusted to the rate for a full twenty years of service.

So far, though, the program has not attracted Air Force retirees in large numbers. At last count, only about 400 of the almost 14,000 members who took early retirement were working in such jobs—thirty-one percent as teachers and twenty-four percent in law enforcement.

### Disabled Veterans

Many of the limitations placed on other retirees do not apply to those retired for disability, but even their status has changed in recent years. While disability retirees were exempted from some COLA cuts and the 1986 Redux changes, for example, those who entered service after September 1, 1980, are subject to the same high-three averaging rules as nondisabled retirees.

Nor is disability retirement as generous as it once was. Having dual status, retirees who are also disabled veterans can ask for VA disability compensation, but those who receive it must give up an equal amount of military disability retired pay. For members who entered service after September 24, 1975, it may be a good trade. Their VA benefits are not taxable while their service disability retirement pay is taxable, unless it is for a combat-related injury.

The last Congress considered the addition of a provision to the Appropriations Act to allow 100 percent-disabled retirees to receive both service retired pay and VA disability, but it was dropped from the final measure. The Defense Department opposed the concurrent payments because of the added cost.

As the drawdown ends, longer careers once again may become the norm. The fifteen-year authority is due to end in Fiscal 1999, and officials say there is no plan to make it permanent. There is no immediate plan to return to earlier high-year-of-tenure levels, but the officials say that possibility will be reviewed when the force stabilizes. When and if more-normal conditions do return, some troops eligible for full careers may not want to stay. ■

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