

The Chart Page

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Three Plans, Three Benefits

“Serve 20 years, retire with 50 percent of pay.” That has long been an article of faith with the troops. The real story is different, however. Just how different depends on which of three current military retirement plans is being discussed. Fig. 1 portrays an Air Force E-7 with 20 years of service who makes \$42,000 a year in total compensation—base pay plus special pay and bonuses. The myth is he would receive half the total, or \$21,000, at retirement. But retired pay is a function of *base pay*, which is only 68 percent of total compensation. If the master sergeant enlisted before 1980, he falls under the “Final Pay” plan; in reality, he receives 34 percent of final total compensation (\$14,280). If he enlisted after Sept. 8, 1980, but before 1986, he falls in the “High-3” category, based on an average of the three highest years of base pay, and receives 32 percent of final compensation (\$13,440). Those hurt most are troops who enlisted on or after Aug. 1, 1986. They fall

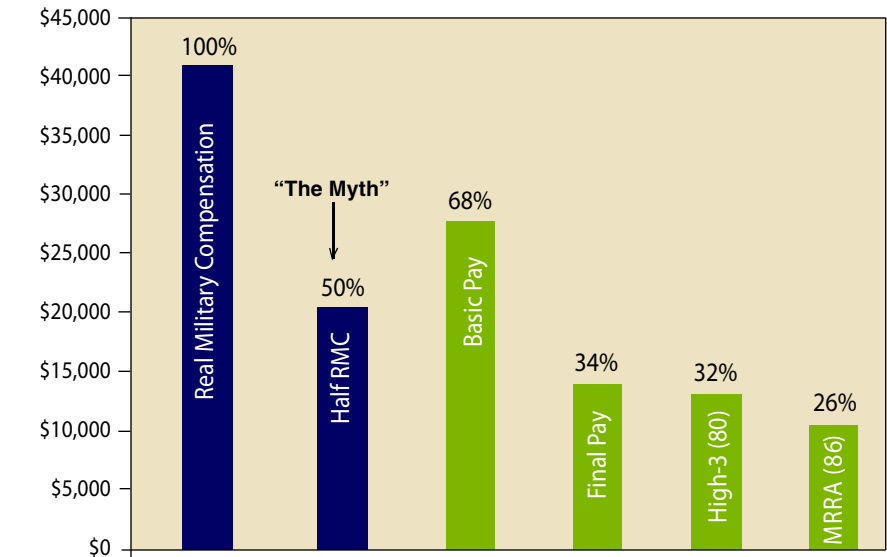


Fig. 1 Myth vs. Reality: Gaps in Military Retired Pay Plans

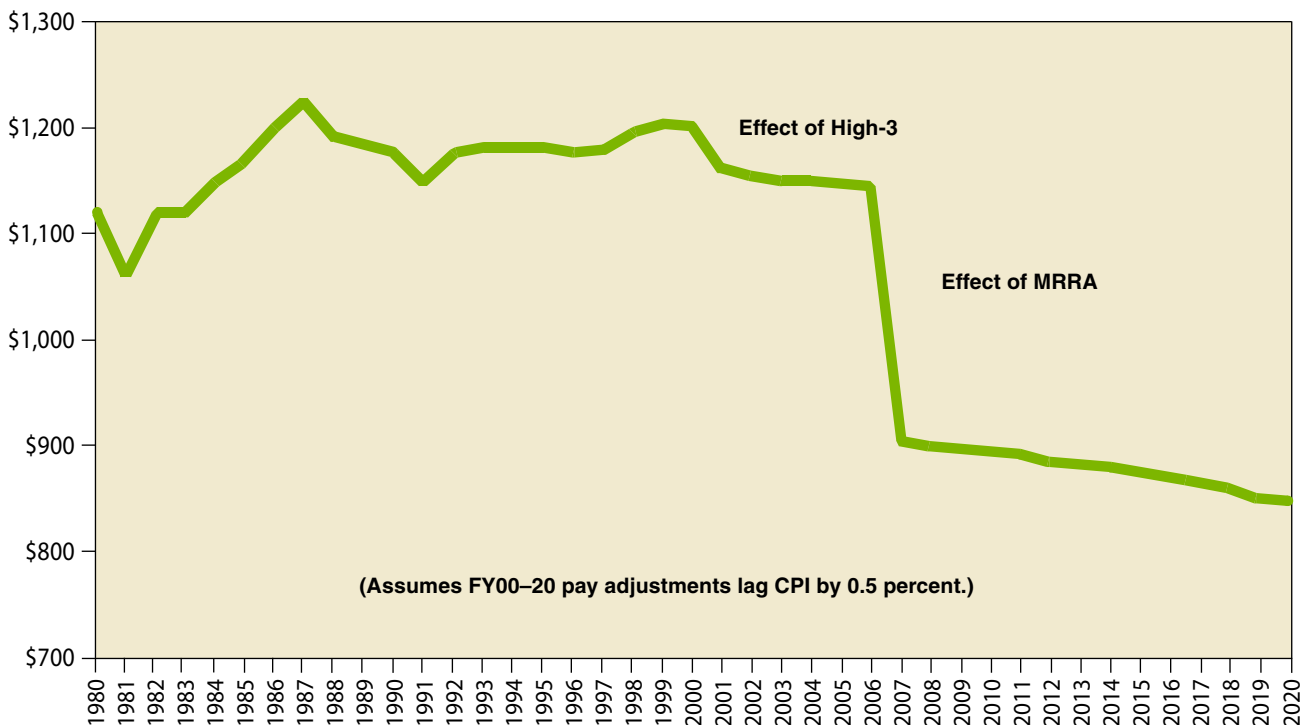
(Based on 1998 retirement and 3.5 percent inflation.)

under the Military Retirement Reform Act, also known as Redux. MRRRA provides 40 percent of the average of the high three years. The benefit shrinks to just 26 percent of final total compensation (\$10,920). Fig. 2 shows

the dramatic drop in monthly retired pay for an E-7 with 20 years under the 1986 MRRRA plan. Last month, the Clinton Administration proposed returning to the pre-1986 High-3 plan.

Fig. 2 Off a Cliff: Retirees Under 1986 Retirement Act

Source: USAF



(Assumes FY00–20 pay adjustments lag CPI by 0.5 percent.)