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September 18, 2011

Retiree Benefits for the Military Could Face Cuts

By **JAMES DAO** and **MARY WILLIAMS WALSH**

As Washington looks to squeeze savings from once-sacrosanct entitlements like Social Security and Medicare, another big social welfare system is growing as rapidly, but with far less scrutiny: the health and pension benefits of military retirees.

Military pensions and health care for active and retired troops now cost the government about \$100 billion a year, representing an expanding portion of both the Pentagon budget — about \$700 billion a year, including war costs — and the national debt, which together finance the programs.

Making even incremental reductions to military benefits is typically a doomed political venture, given the public's broad support for helping troops, the political potency of veterans groups and the fact that significant savings take years to appear.

But the intense push in Congress this year to reduce the debt and the possibility that the Pentagon might have to begin trimming core programs like weapons procurement, research, training and construction have suddenly made retiree benefits vulnerable, military officials and experts say.

And if Congress fails to adopt the deficit-reduction recommendations of a bipartisan joint Congressional committee this fall, the Defense Department will be required under debt ceiling legislation passed in August to find about \$900 billion in savings over the coming decade. Cuts that deep will almost certainly entail reducing personnel benefits for active and retired troops, Pentagon officials and analysts say.

"We've got to put everything on the table," Defense Secretary Leon E. Panetta said recently on PBS, acknowledging that he was looking at proposals to rein in pension costs.

Under the current rules, service members who retire after 20 years are eligible for pensions that pay half their salaries for life, indexed for inflation, even if they leave at age 38. They are also eligible for lifetime health insurance through the military's system, Tricare, at a small

fraction of the cost of private insurance, prompting many working veterans to shun employer health plans in favor of military insurance.

Advocates of revamping the systems argue that they are not just fiscally untenable but also unfair.

The annual fee for Tricare Prime, an H.M.O.-like program for military retirees, is just \$460 for families and has not risen in years, even as health care costs have skyrocketed. Critics of the system say the contribution could be raised substantially and still be far lower than what civilians pay for employer-sponsored health plans, typically about \$4,000.

Those critics also argue that under the current rules, 83 percent of former service members receive no pension payments at all — because only veterans with 20 years of service are eligible. Those with 5 or even 15 years are not, even if they did multiple combat tours. Such a structure would be illegal in the private sector, and a company that tried it could be penalized, experts say.

“It cries out for some rationalization,” said Sylvester J. Schieber, a former chairman of the Social Security Advisory Board. “Why should we ask somebody to sustain a system that’s unfair by any other measure in our society?”

But within military circles, and among many members of Congress, the benefits are considered untouchable. Veterans groups and military leaders argue that the system helps retain capable commissioned and noncommissioned officers.

And having volunteered to put their lives at risk, those people deserve higher-quality benefits, supporters argue. The typical beneficiary, they add, is not a general but a retired noncommissioned officer, with an average pension of about \$26,000 a year.

“The whole reason military people are willing to pursue a career is because after 20, 30 years of extraordinary sacrifice, there is a package commensurate with that sacrifice upon leaving service,” said Steven P. Strobridge, a retired Air Force colonel who is the director of government relations for the Military Officers Association of America, which is lobbying against changes to the benefits.

A wild-card factor in the debate is the withdrawal of American troops from Iraq and Afghanistan, which some experts say could avoid the stigma of cutting benefits while troops are at war.

“The fact that you are getting out of Iraq and Afghanistan does make it easier,” said Lawrence J. Korb, a senior Pentagon official in the Reagan administration who was a co-

author of a recent proposal for reducing the cost of military health care. “When the war in Iraq was in terrible shape, it was hard to get people to join the military, and no one wanted to touch any military benefits.”

By far the most contentious proposal circulating in Washington is from a Pentagon advisory panel, the Defense Business Board. It would make the military pension system, a defined benefit plan, more like a 401(k) plan under which the Pentagon would make contributions to a service member’s individual account; contributions by the troops themselves would be optional. Mr. Panetta has said that if adopted, the plan would not apply to current military personnel.

While health care costs for active and retired troops are growing faster, military pension costs are larger. Last year, for every dollar the Pentagon paid service members, it spent an additional \$1.36 for its military retirees, a much smaller group. Even in the troubled world of state and municipal pension funds, pensions almost never cost more than payrolls.

Citing the fiscal hazards and inequities of the system, the Defense Business Board proposal would allow soldiers with less than 20 years of service to leave with a small nest egg, provided they served a minimum length of time, three to five years. But it would prevent all retirees from receiving benefits until they were 60.

The business board says that its proposal would reduce the plan’s total liabilities to \$1.8 trillion by 2034, from the \$2.7 trillion now projected — all without cutting benefits for current service members.

Steve Griffin of Tallahassee, Fla., is the type of soldier the defense board is trying to appeal to: a former captain who did two tours in Iraq, he left the Army in 2010 after five years of service and thus receives no pension.

Yet in a sign of the deep support for the existing system, Mr. Griffin says it should be left alone because it provides incentives for recruitment and rewards retirees who have endured great hardship.

“Yes, it would be nice for people like me,” Mr. Griffin, 28, said of the proposal. “But I think the retirement system now is fair. We shouldn’t take anything from it. If anything, we should add to it.”

Much like in the debate over Social Security, questions about the sustainability of the military pension system abound.

Each year the Defense and Treasury Departments set aside more than \$75 billion to pay not only current and future benefits but also pensions for service many years in the past. But the retirement fund has not accumulated nearly enough money to cover its total costs, with assets of \$278 billion at the end of 2009 and obligations of about \$1.4 trillion.

The government tries to close the shortfall by simply issuing more Treasury securities each year, thereby adding to the nation's debt.

Given the political potency of veterans groups, it is unclear whether anyone in Congress will lead an effort to revamp the pension or retiree health systems.

But the debt ceiling agreement approved this summer by Congress, under which the Pentagon must find \$400 billion in reductions over the next 12 years, may force cuts once considered unthinkable. And if Congress does not adopt the recommendations of the bipartisan committee studying deficit reduction, the mandated reductions in Pentagon spending would more than double, to about \$900 billion, and fall on just about every category of defense spending.

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But those trims are considered marginal compared with the deeper reductions many experts say are necessary to contain Pentagon spending.

"If the trend continues, it will call into question the military's ability to do other things, like buy equipment, do maintenance, train troops and equip them," said Nora Bensahel, a senior fellow at the Center for a New American Security, a nonprofit organization with ties to the Obama administration.

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Colin Hackley for The New York Times

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The Cost of Military Pensions

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December 26, 2011

Don't Go After Military Pensions

By DARRELL DRIVER, JIN PAK and KYLE JETTE

Washington

AS the nation's budget pressures prompt officials to scour the Defense Department for cuts, one tantalizing target is the military retirement system. The Pentagon has reportedly been considering replacing the guaranteed pension that, for more than a century, has been a fundamental compact between the United States and its soldiers, in favor of a market-based 401(k) approach. But this would be a grave mistake, a disincentive to future volunteers and a threat to national security.

Needless to say, there are critical differences between the civilian and military work forces. Soldiers who have risked their lives for our nation should not also have to risk their retirement savings in stocks. But there are many more mundane sacrifices required of career service members that also make it hard for them to build up the kind of wealth — whether in their houses, their careers or the careers of their spouses — that cushions civilian retirees from the whims of the market.

Service members are often required to move, for example, which hinders their ability to build home equity. Many have to put off purchasing homes, and those who do buy do not have the option of choosing not to move if their mortgages become underwater. For this reason, the housing crash of recent years has hit service families especially hard.

Frequent moves also make it hard for service members' spouses to find work and progress in their own careers. This is most likely a primary reason that median household incomes for military families are lower than those of their civilian counterparts.

Most important, the unique skills people learn on the battlefield do not easily translate into private sector employment, and many military retirees struggle to find new work. While the officer who managed a military transportation hub might anticipate an equivalent job from a civilian firm, and while a young private who served one deployment could relatively easily return to school or an entry-level job, an infantry sergeant first class who has spent a decade

or more on multiple deployments to the world's most dangerous places would not find the same ready options.

For these individuals, there can be a significant financial cost to agreeing to remain in military service beyond the years when it would be easiest to make the transition to more marketable civilian jobs. But these are the people the military needs, and needs to retain.

The military pension helps compensate for their sacrifices. Soldiers and their families are more willing to put off other careers, and to accept frequent displacement, lower earnings and even the risk of being ordered back to active duty after beginning new careers, because of the promise of future compensation. The guaranteed pension is one of the biggest incentives keeping talented people in the military.

No one knows for sure how a shift to a 401(k) model would affect these families and their decisions to remain in military service. But we do know that there is a spike in retirements once soldiers complete the 20-year minimum to qualify for full pensions, and we can only assume that these people would retire far sooner without them. And it's likely that many would not join up at all.

As policy makers continue their deliberations on military spending cuts — which are scheduled to begin again next month — they must keep the unique nature of military service in mind when they look to the costs and benefits of the retirement plan. And they should remember that no one imagined, back in the 1970s, that our all-volunteer force would last this long. Most believed that conscription would again be needed if the nation ever engaged in a significant conflict. The United States military has proved them wrong so far, but we should not underestimate the role the guaranteed pension has played in its resilience.

Darrell Driver, Jin Pak and Kyle Jette are lieutenant colonels in the United States Army.