



'A Promise Broken': Budget Deal Hits Military Retirees' Pensions

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Last month's congressional budget deal delivered a particularly hard hit to military retirees with at least 20 years of service, cutting their cost-of-living (COLA) adjustments by 1 percent a year until age 62.

Veterans' groups say the cut could amount to an average cash loss of \$80,000 or more for each affected retiree -- and a loss of confidence in the U.S. government's word.

The cut, meant to save an estimated \$6 billion over the next decade, does not take effect until 2015, but the battle over the provision has already started.

"The U.S. government has broken their promise and for someone who has committed themselves -- commitments that can be extremely grueling on a family -- and are pulling 15, 20 years or more, this is a fundamental loss of trust and has unquestionably hurt morale for active members," said retired Vice Admiral Norbert Ryan, president and CEO of the Military Officers Association of America (MOAA), a non-profit focused on military advocacy.

The typical 20-year retiree -- a 40-year-old sergeant first class in the Army (in the E7 pay grade) -- will receive \$23,000 in initial annuities. If the real cost of living climbs 3 percent in the first year the cuts go into effect, that retiree would lose \$230. By age 61, it's estimated that the same retiree would lose \$7,960 a year because of the 1 percent compounding factor, which adds up to an estimated \$82,982 in total losses, an average of \$3,771 a year, according to MOAA.

Ryan said that the long-term COLA impact isn't getting enough attention and that the provision, a small piece of the bipartisan budget deal Sen. Patty Murray (D-Wash.) and Rep. Paul Ryan (R-Wis.) negotiated, was part of a backroom deal that doesn't grandfather in people currently serving in the military who have been promised certain retirement benefits.

Vice-Adm. Ryan also pointed to a 2011 statement by then-Secretary of Defense Leon Panetta, who told a public hearing: "... we cannot break faith with those that have served and deployed time and time again and were promised the benefits of this retirement program. Those benefits are going to be protected under any circumstance."

Lawrence Korb, a former assistant secretary of defense during the Reagan administration and now a senior fellow at the Center for American Progress, a center-left public policy research group, defends the cuts.

"This is a good first step and provides [added money] for training for lives on the line. And if you put this into context, people [veterans] are not getting a bad deal," said Korb, who also served as a naval flight officer.

"For retirees who enlisted between 1986 and 2001, they are making out better," Korb added. "Between those years retirees received 40 percent of their base salary after 20 years of service. In 2001, it was reversed back to 50 percent of base, which was the commitment prior to 1986."

Ryan said the reason the Pentagon decided to go back to the 50 percent rate is simple: retention-rate problems.

"You need something beside patriotism to pull in high-quality officers for 20 years," he said. "Of course these people want to serve their country, but life is hard for many, going away for a year and then a year home. And many people often want to go and live their lives." According to MOAA, only 17 percent of the military force stays on as a career.

Korb also pointed out that 40 percent of all service members have never seen combat, but Ryan said that has absolutely nothing to do with collecting their military pension.

"All of these people have signed up to give their life and will go or not go, depending on where they are ordered," he said. "You don't have a choice."

Former Commander Mike Barron, deputy director of government relations at MOAA and a retiree directly affected by the provision, said the COLA reduction is not small, as it has been described.

"To make this politically palatable, what they lay this out as is a 1 percent reduction, and they only talk about the first year, which is a small amount," he said. "But they purposefully do not talk about the compounding factor and the real lost retirement pay that will happen."

Barron said it's all about context. The House Budget Committee estimates that for an 18-year-old enlistee who serves 20 years, the lifetime retirement pay would decline from \$1.734 million to \$1.626 million. That doesn't sound so bad, he admitted. But he pointed out it's meant to seem like a minimal reduction.

"They are giving you a half-truth," said Barron, who added that those large-sounding numbers are not the real dollars and cents a military veteran actually sees. "These are people who, after 20 years of service, had a base pay of under \$50,000 and are now losing around \$83,000."

The Committee for a Responsible Federal Budget agreed with Korb and said the "tiny military cut" is a positive move, pointing out that both the Washington Post and The Wall Street Journal editorial boards defended the provision.

Secretary of Defense Chuck Hagel warned publicly last year that the Pentagon can no longer put off looking into ballooning military compensation. A recent study by the Center for Strategic and Budgetary Assessments showed yearly compensation for active-duty members increased 57% between 2001 and 2012. (The number was adjusted for inflation.)

Secretary Hagel has spoken out against hitting disabled retirees with this provision but has not commented on the rest of the veterans affected.

"Secretary Hagel has said that the Administration wants reversed the unintended reduction in the cost-of-living adjustment for working-age military retirees with service-related disabilities and looks forward to working with the Congress to address other compensation-related provisions," said a Pentagon spokesman.

In Congress, there are Democrats and Republicans on both sides of the issue.

Senate Armed Services Committee Chairman Carl Levin (D-Mich.) said his committee would review the provision before the cuts take effect next year. Others are taking a swifter approach. Several proposals are on the table to overturn the COLA cuts in favor of other possible savings and there is vocal bipartisan Senate support from everyone from Sens. Mark Pryor (D-Ark.) and Kay Hagan (D-N.C.) to Sens. John McCain (R-Ariz.) and Kelly Ayotte (R-N.H.).

"Singling out our hardworking military members and their families wouldn't just be unfair, it'd be wrong," said Senator Pryor in a statement in December. "That's why I called on my colleagues to join me in supporting common-sense provisions to restore full retirement pay for our military retirees."

Vice Admiral Ryan concurs.

"Unlike civilian life, we need to grow these people from within and keep high-quality people there," he said. "Anyone who knows the economy right now knows that \$23,000 a year for a family of four is below the poverty level. So when they do leave the service, of course [retirees] will need to go out and start a new career. They are not retiring on \$23,000 dollars a year -- but they do depend on the government keeping its word on what they're owed."

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