

SJR

16

<TARGET><BILL>SJR 16</BILL><SUBJECT>SJR
16</SUBJECT><COMM>HMLV27</COMM></TARGET>

ALASKA STATE LEGISLATURE
HOUSE MILITARY & VETERANS' AFFAIRS COMMITTEE

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MEMORANDUM

DATE: March 29, 2012

TO: Suzi Lowell
House Chief Clerk

FROM: Representative Dan Saddler, Co-Chair
Representative Steve Thompson, Co-Chair

RE: Military and Veterans Affairs Committee
Schedule for Week of April 2 – 6, 2012
House Judiciary Room 120, 1:00pm – 3:00pm

Tuesday, April 3

- *+ SCR 20 Decoration of Honor
- *+ SJR 16 Military Pensions

Thursday, April 5

+ Bills Previously Heard or Scheduled

SJR 16

ALASKA STATE LEGISLATURE

Session

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State Affairs Committee

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Joint Armed Services Committee

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Resources Committee
Judiciary Committee

Member

Administrative Regulation Review

SENATOR BILL WIELECHOWSKI

SJR 16: Military Pensions Fact Sheet

- The Defense Business Board released a suggested plan to convert military retirement from the current 20-year vesting system to a retirement system similar to a 401k
- The plan presented may not grandfather current service members
- Currently, a military service member who serves for 20 years can retire with their pension immediately
- The plan suggested by the Defense Business Board may not allow members to withdraw their retirement until they reach age 60-65
- Members of our Armed Forces should be allowed to maintain their current retirement plan as promised when signing up to serve
- Senate Joint Resolution 16 would urge the United States Congress to allow any service member who signed up under the current retirement plan the option to choose between staying with the current plan or moving to the new retirement system
- This resolution also urges the US Congress to support HR3520: Keeping Our Promises Act of 2011

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

Bill Version SJR 16
 Fiscal Note Number 1
 (S) Publish Date 2/10/12

Identifier (file name) _____ Dept. Affected _____
 Title SJR 16 MILITARY PENSIONS Appropriation _____
 Allocation _____
 Sponsor Senator Wielechowski
 Requester (S) State Affairs OMB Component Number _____

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

| | FY13 Appropriation Requested | Included in Governor's FY13 Request | Out-Year Cost Estimates | | | | |
|-------------------------------|------------------------------------|--|-------------------------|-------------|-------------|-------------|-------------|
| | | | FY14 | FY15 | FY16 | FY17 | FY18 |
| OPERATING EXPENDITURES | FY13 | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 |
| Personal Services | | | | | | | |
| Travel | | | | | | | |
| Services | | | | | | | |
| Commodities | | | | | | | |
| Capital Outlay | | | | | | | |
| Grants, Benefits | | | | | | | |
| Miscellaneous | | | | | | | |
| TOTAL OPERATING | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

| FUND SOURCE | | (Thousands of Dollars) | | | | | |
|--------------------|------------------|------------------------|------------|------------|------------|------------|------------|
| 1002 | Federal Receipts | | | | | | |
| 1003 | GF Match | | | | | | |
| 1004 | GF | | | | | | |
| 1005 | GF/Prgm (DGF) | | | | | | |
| 1037 | GF/MH (UGF) | | | | | | |
| 1178 | temp code (UGF) | | | | | | |
| TOTAL | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

| POSITIONS | | | | | | | |
|------------------|--|--|--|--|--|--|--|
| Full-time | | | | | | | |
| Part-time | | | | | | | |
| Temporary | | | | | | | |

| CHANGE IN REVENUES | | | | | | | |
|---------------------------|--|--|--|--|--|--|--|
| | | | | | | | |

Estimated **SUPPLEMENTAL (FY12) operating costs** _____ (separate supplemental appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Estimated **CAPITAL (FY13) costs** _____ (separate capital appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Why this fiscal note differs from previous version (if initial version, please note as such)

Prepared by (S) State Affairs
 Division _____
 Approved by /s/ Senator Wielechowski, Chair

Phone 465-2435
 Date/Time 2/8/12 12:00AM
 Date 2/8/2012

HR 3520 IH

112th CONGRESS

1st Session

H. R. 3520

To amend title 10, United States Code, to ensure that the retired pay benefits promised a person when they join the Armed Forces are not reduced.

IN THE HOUSE OF REPRESENTATIVES

November 29, 2011

Mr. YOUNG of Alaska introduced the following bill; which was referred to the Committee on Armed Services

A BILL

To amend title 10, United States Code, to ensure that the retired pay benefits promised a person when they join the Armed Forces are not reduced.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the 'Keeping Our Promises Act of 2011'.

SEC. 2. PROTECTION OF RETIRED PAY BENEFITS FOR CURRENT MEMBERS OF THE ARMED FORCES.

Section 1411 of title 10, United States Code, is amended by adding at the end the following new subsection:

'(c) No Reduction in Retired Pay Benefits for Current Members- Notwithstanding the effective date or specified applicability of any change regarding the entitlement of members or former members of the armed forces to retired or retainer pay under this title or to the computation of such retired or retainer pay under the formulas of the table in section 1401(a) of this title or of any other provision of law, the change shall not apply to a member or former member who first became a member of the armed forces before the effective date of the change unless--

'(1) the member or former member affirmatively accepts the change; or

'(2) the change would have the effect of expanding the entitlement or eligibility of the member or former member to retired or retainer pay or increasing the amount of such retired or retainer pay.'

END

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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.

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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.

Deficit hawks, led by Senator Tom Coburn, Republican of Oklahoma, have begun taking smaller steps, pushing for an array of cuts to military benefits, including ending subsidies for base commissaries and tightening disability compensation for diseases linked to Agent Orange.

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.

"At some point, the cost pressures by the retirement benefits will really start to impede military capabilities."



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★ TAKE ACTION

Protect Military Pensions

The Pentagon is considering a system that would cut and privatize military retirement in order to reach its budget reduction goals. Instead of being eligible for a pension after twenty years, servicemembers will contribute to a 401k every month that cannot be accessed until they reach traditional retirement age.



11

Please sign our petition to Secretary Panetta below!

Dear Secretary Panetta,

We are concerned about the proposed plan to cut and privatize military retirement. Not all careers are created equal, and our troops deserve a retirement system that respects their sacrifice, both now and in the future. The Pentagon budget should not be balanced on the backs of servicemembers and their families. We should not do so, especially, when we are overpaying for unnecessary defense contracts and extending our commitment in wars that aren't making us any safer. It is simply unacceptable to ask troops to today or in the future to throw their pension on a Wall Street roulette wheel. Additionally, by gutting the guaranteed pension program, we destroy one of the key programs that helps the military recruit and keep its best and brightest. If we end the pension system as we know it down the road, we almost certainly will lose many men and women who would otherwise make a career of military service. For these reasons, we find this proposal unacceptable and ask that you keep the current retirement system that respects the sacrifice of the men and women who defend this nation.

First Name*

Last Name*

Email*

Street

City

State/Province

Zip/Postal Code*

I am a Veteran

Where have you served?

Feel free to add additional comments here:

1-25 of 11847 signatures

| Number | Date | Name | Location | Feel free to add additional ... |
|--------|------------------------------|------------------|-----------------------|---|
| 11847 | Wed Feb 01 08:38:32 EST 2012 | George Barnes | Walkkill, NY | Mr. secretary, To compare our pensions to private sector the way you did is just wrong and you know it. |
| 11846 | Wed Feb 01 00:44:57 EST 2012 | Felix Rivera Jr. | South Farmingdale, NY | This does not play well with us. |
| 11845 | Tue Jan 31 14:22:18 EST 2012 | Roy Adams | NC | |
| 11844 | | Michael Jensen | Orion, MI | |

DEFENSE BUSINESS BOARD



Modernizing the Military Retirement System

Task Group

July 21, 2011

These are the final briefing slides as approved by the Defense Business Board in their public meeting held July 21, 2011. The full DBB report, expected in August 2011, will contain more detailed text which will reflect the totality of the points discussed and modifications adopted by the Board during their deliberations.

Task Group Overview

Terms of Reference

In order to support the Secretary of Defense's efficiency initiatives, review the current structure and function of the military retirement system. Begin with a review of the current reform thinking on military retirement benefits. This research and analysis will help to provide recommendations for optimizing the Department's military retirement system.

Deliverables

Provide recommendations that will enable the system to be fiscally sustainable and recruit and retain the highest personnel required for our nation's defense.

Task Group Members

Richard Spencer (Chair)

Patrick Gross

David Langstaff

Phil Odeen

Mark Ronald

Bobby Stein

Jack Zoeller

DBB Executive Secretary

Catherine Whittington



Methodology: Interviews

- **Current DoD**
 - Vice Chairman, Joint Chiefs of Staff (VCJCS)
 - Chief of Staff of the Air Force (CSAF)
 - Chief of Naval Operations (CNO)
 - Commandant of the Marine Corps (CMC)
 - Chief of Navy Reserve
 - Chief of Navy Personnel, DCNO, Manpower, Personnel, Training & Education, N1
 - Director, Plans and Resources, Office of the Deputy Chief of Staff of the Army, G1
 - Military Deputy for Budget, Office of the Assistant Secretary of the Army, Financial Management & Comptroller (ASA(F&MC))
 - Under Secretary of Defense for Personnel and Readiness (USD(P&R))
 - Director for Military Compensation (OUSD(P&R))
 - Joint Chiefs of Staff Working Group
 - Members who wrote the 11th Quadrennial Review of Military Compensation (QRMC)
- **Former DoD and Government Officials**
 - HON John Hamre
 - HON Ken Krieg
 - ADM Vern Clark, USN (Retired)
 - HON David M. Walker
 - HON Richard Danzig
- **Defense Ministries**
 - Canada
 - France
- **Institutes and Government Agencies**
 - Institute for Defense Analysis (IDA)
 - Congressional Budget Office (CBO)
 - Center for Strategic and International Studies (CSIS)
 - Center for Strategic and Budgetary Analysis (CSBA)
 - RAND Corporation
 - Office of Thrift Savings Plan
 - OSD Office of the Actuary



Where We Are Today

- The All Volunteer Force has proven to be an outstanding success
- Congress has shown consistent support for the military through increases in both compensation and benefits
- Military compensation is higher than that of average civilians with similar education levels (see **Appendix A**)
 - Enlisted pay ranks in the top quartile of that of high school graduates
 - Officer pay ranks in the top quartile of that of college graduates
- Retiree healthcare (TRICARE) is significantly more generous than civilian programs
- Military retirement exceeds levels in the private sector
- 83% of military personnel receive no retirement benefits



Findings

DoD has maintained the structure of its retirement benefits, which were created prior to the All Volunteer Force

- Retirement plans are an important component of both private and public sector compensation systems
- Over the last few decades, private sector plans have shifted from defined benefit to defined contribution to address longer life spans and unaffordable costs
- The military retirement system has not materially changed for over 100 years
 - The current military retirement system was designed for an era when life spans were shorter,
 - Pay was not competitive with civilian pay, and
 - Second careers were rare since military skills did not transition easily to the private sector
- Military retirement funds are not able to be invested in higher yielding equities and bonds



Findings (Continued)

Military retirement is more generous and expensive compared to the private sector

- DoD pays retirees 40 years of retirement benefits for 20 years of service
 - Military skills are transferrable to the private sector
 - Second careers are now common for those retiring in their 40s
 - Payout after 20 years makes retention difficult – 76% leave between years 20 and 25
 - 20 years of service earns a lifetime of payments of 50%, ramping up to 87.5% for 35 years of service
- Retirement funds accrued for personnel serving less than 20 years are effectively applied to the benefits of those serving more than 20 years
- For those serving more than 20 years, the retirement contribution is 10 times greater than the private sector
 - Average private sector pension contributions range from 4-12% per year; military retirement benefit equates to 75% of annual pay per year for those who retire
 - Immediate payout after 20 years has no comparison in the private sector

For FY11, total government contribution will be \$46B**

**Does not include \$64.1B in unfunded liability amortization payment



Findings (Continued)

“One Size Fits All” has structural disadvantages

- Surveys consistently report that military retirement has little value in recruitment or retention for at least the first 10 years of service
- The current plan is highly inflexible and especially poorly suited for periods of significant change (e.g., when downsizing the force)
 - It will be very difficult to release personnel with 15 or more years of service, yet these age groups are a likely target for downsizing
 - As a result, DoD will likely require special pay to ease transitioning out of the military (as was done in the 1990s), therefore, increasing costs
- The current system does not compensate for those in high risk situations or extenuating circumstances (e.g., combat duty, hardship tour, and separation from family)



Assessment

The Retirement Plan is Unfair

- The military retirement system lacks fairness in several dimensions.
 - Personnel serving 5, 10, even 15 years receive no retirement pay. Those serving 20+ years are endowed with a lifetime benefit.
 - The risky nature of military service is an important justification for the 20-year plan. However, most of the troops engaged in combat serve far less than the required 20 years. (Only 12%-13% of enlisted troops earn retirement pay).
- Retirement is a cost element attributable to each Service member, yet only 17% receive this benefit.
- There is no difference in retirement benefits between those who have served in high risk and low risk positions.

83% of those who serve will receive no retirement benefit



Assessment (Continued)

The Retirement Plan is Unaffordable

- The costs of military retirement will seriously undermine future military warfighting capabilities
- For each dollar of current pay, the retirement plan accrues 33 cents, for a total of \$24B** in FY11
- Costs are rising at an alarming rate; future liability will grow from \$1.3T (of which \$385B is funded) to \$2.7T by FY34.
- Increases in inflation and life expectancy will further increase military retirement benefit costs
 - +1% inflation increase = \$3.0B military retirement benefit service cost increase
 - +1 year of life expectancy = \$300M military retirement benefit service cost increase

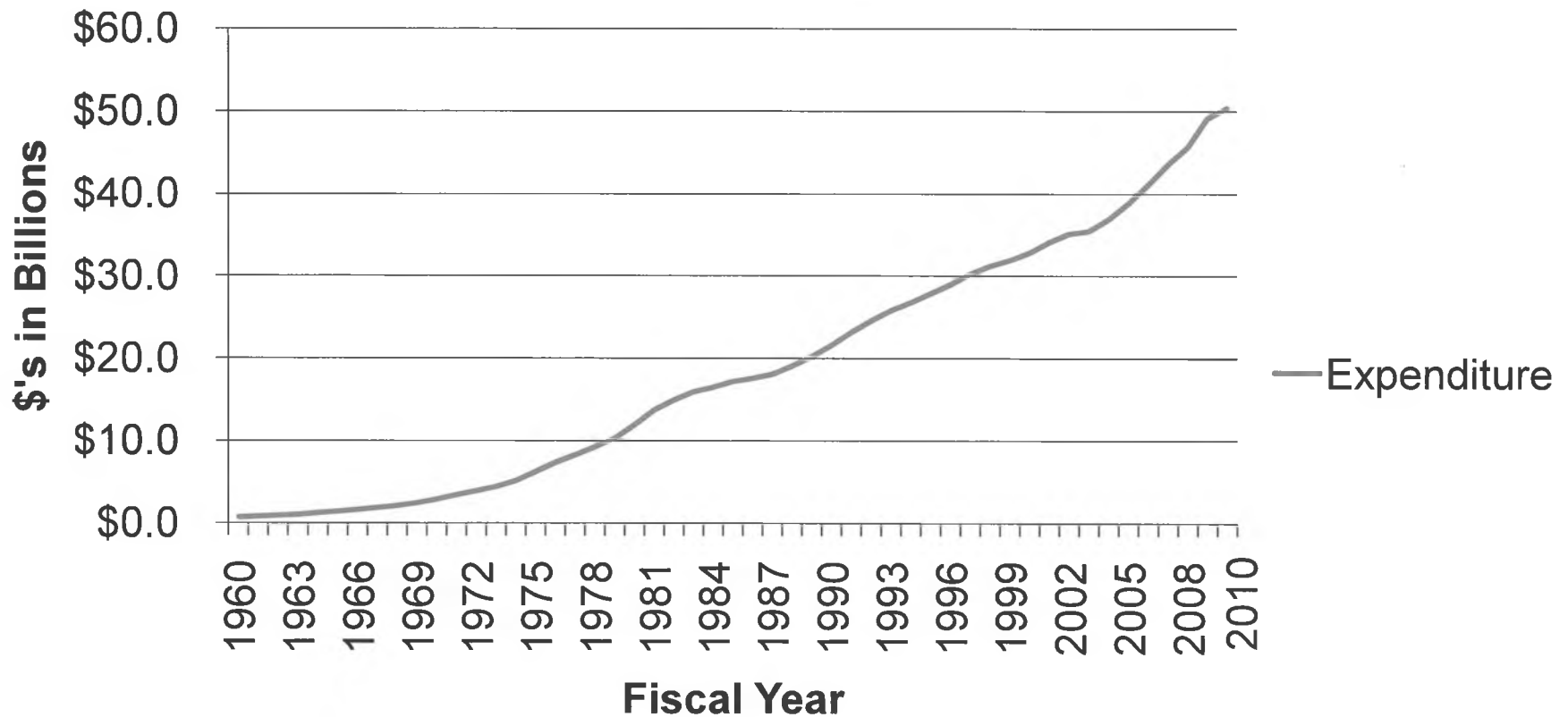
Action must be taken to contain these spiraling costs or they will undermine future warfighting capabilities

**Does not include Treasury interest of \$22B



Military Retirement Trust Fund Payments/Expenditures

Military Retirement Trust Fund Expenditures by Fiscal Year



Military retirement payments continue to increase (\$50B in 2010; \$108B in 2035)

Source: Valuation of the Military Retirement System, September 2009, OSD Office of the Actuary, Dec 10



Assessment (Continued)

The Retirement Plan is Inflexible

- The current system cliff vests at 20 years of active service
- Personnel with fewer years of service earn no retirement
- Only 7% of personnel leave between the 15th and 20th year of service, compared to 76% of those serving 20 to 25 years
- Years served is the only factor in the retirement benefit calculation, regardless of whether the Service member's career risk profile is in an administrative role or a high risk combat role
- Modifying the retirement system would create an effective force shaping tool



Recommendation

A Comprehensive Solution: A New Defined Contribution Plan

- The most flexible and readily available plan would be based on the existing Uniformed Military Personnel Thrift Savings Plan (TSP), but with the government providing annual contributions (see **Appendix C**)
 - Payments into the plan would include an option for military member contributions
 - Plan accounts would be transportable into the private sector and back into the military
- DoD contributions could vary depending on circumstances, such as larger contributions for personnel at risk or on hardship tours
- The Defined Contribution Plan would provide flexibility to assist in force shaping and sizing
- The individual account would provide for rights for survivorship, thereby, eliminating the need for survivor benefits going forward
- Fully disabled participants would qualify for an immediate pension formulated with VA benefits as presently structured



Key Elements of A New Defined Contribution Plan

- Establish a mandatory TSP program for all Military Service Personnel
 - The government contribution, including extra incentives, would be funded at a percentage level comparable to the highest end of a private sector pension plan
 - The plan would vest after 3 to 5 years, payable at age 60 to 65 (or Social Security age)
 - Partial withdrawals (or loans) to cover education, healthcare, or other specified emergencies
- Plan would be risk adjusted to recognize combat roles, family separation, and other unusual duty, for example:
 - Double contributions for years in combat zones or high risk positions
 - Greater contributions for hardship tours
 - Retirement age could be lowered using similar metrics
- Like most private sector severance plans, the option of a time formulated transition payment should be considered to facilitate the change to a new career
- Comprehensive solution would apply to reserve as well as active duty personnel

The new plan would enhance fairness and flexibility, and provide a more affordable cost structure



Attributes of A New Defined Contribution Plan

■ Individual Features

- Uniformed Military Personnel TSP individual account
- Payout options to include: traditional payout, annuity, or lump sum
- Partial payout options to include: education, home ownership, or business acquisition
- Right of survivorship transferability upon death

■ Military Service Features

- Affordable, fair, and flexible solution to current system
- Risk profile multiplier and vesting option provides tool for force management either encouraging or discouraging retention
- Active Duty and Reserves under one plan

■ Coverage

- No impact on existing retired population
- Fully disabled veterans not effected by new plan

■ Transition Alternatives for All Present Active Duty Personnel

- Higher Cost Alternative – No transition (see **Appendix E**)
- Lower Cost Alternative – Immediate transition with no loss of accrued benefits (see **Appendix F**)



Conclusions

- The current military retirement system is out of date.
 - It is unfair, unaffordable, and inflexible.
 - As costs escalate, the continuation of the system will seriously erode future military capabilities.
- A comprehensive alternative that would fix these shortcomings is required.
 - All military personnel earn retirement benefits.
 - Costs are far more manageable in future years.
 - Contributions are flexible and reward longer service, high risk assignments, and family separation.
 - Retired and disabled members would be unaffected. They would still receive current benefits.
- Modifying the existing system to reduce cost would have to be dramatic to address affordability. The system would continue to be unfair and inflexible.
- Implementation should be phased-in to ensure current military personnel are treated fairly with due consideration to cost.



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Appendix

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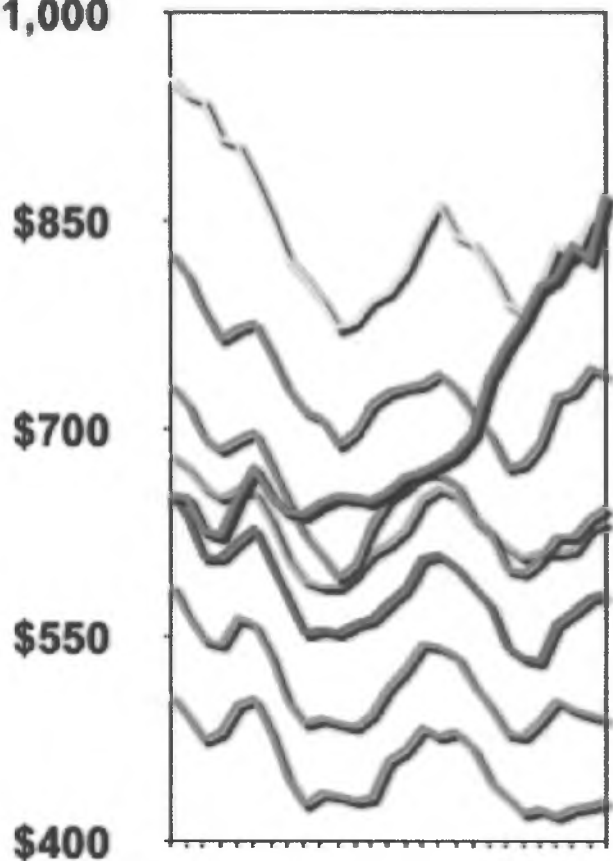
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Appendix A: Regular Military Compensation (RMC) versus Private Compensation

Wage Percentiles of Males, Ages 22-26, with High School Education in Production/Craft Occupations

\$1,000

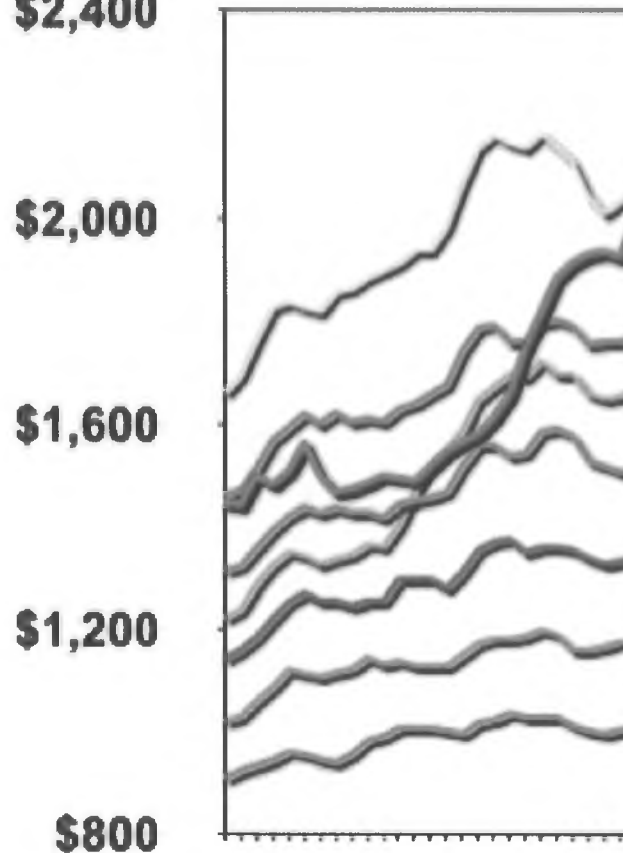


1983 1985 1987 1989 1991 1993 1995 1997 1999 2001 2003 2005 2007 2009

— RMC
— P80
— P70
— P60
— P50
— P40
— P30
— Avg.

Wage Percentiles of Males, Ages 32-36, with Four or More Years of College in Professional/Technical Occupations

\$2,400



1983 1985 1987 1989 1991 1993 1995 1997 1999 2001 2003 2005 2007 2009

— RMC
— P80
— P70
— P60
— P50
— P40
— P30
— Avg.

\$2009 constant dollars

Source: RAND National Defense Research Institute



Appendix B: Addressing Affordability of the Current System

- Amending the existing system for new entrants can have meaningful impact on sustainability while the volunteer force remains competitive with private markets
 - Index payout of retirement benefits to 67 years of age
 - Propose a one time Transition Payment paid at separation (e.g. one months salary for each year served)
 - Adjust benefit multiplier to 2.0 (40% of base Pay) from present 2.5 (50% Base Pay)
 - By comparison the following are averages of multipliers: private sector 1.1, public and municipal 1.5, and fire and police 2.0
 - Adjust High 3 computation to High 5
- These changes fail to address the inflexibility and unfairness of the current system

| Cumulative Savings Over 20 Years | | | | |
|----------------------------------|-----------|----------------|---------|----------|
| | Delay Pay | 2.0 Multiplier | High 5 | Total |
| FY32 | \$193.3* | \$49.9* | \$10.9* | \$254.1* |

40% cumulative savings by FY32

*Numbers are in billions

Source: OSD Office of Actuary

Appendix C: 2011 Uniformed Military Personnel Thrift Savings Plan

- **\$16,500 annual tax-deferred contribution limit**
 - Applies to Member contributions from basic, special, incentive and bonus pays
 - Does not include service matching contributions (for the few service members receiving matching)
- **\$5,500 annual tax-deferred “Catch-up” contribution**
 - Applies to members who are (or will be) age 50 or older
 - Deducted from taxable basic pay, submitted as tax-deferred to the TSP
 - Catch-up contribution is in addition to the elective deferral and annual additions limit
- **\$49,000 annual maximum contribution limit**
 - Applies when member contributes while in a designated combat zone depositing tax-exempt contributions to the TSP (which accrue tax-deferred earnings)
 - Limit includes tax-deferred and tax-exempt member contributions from basic, special, incentive and bonus pays (but does not include catch-up contributions)
 - Limit applies to member contributions and any service matching contributions received
 - Does not include amount contributed as catch-up during the year



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Appendix D: Trust Fund Under Current Plan

| | Today FY11* | Today's Future FY34* |
|--|----------------|-------------------------|
| DoD Service Payment | \$19.8 | \$42.3 |
| Treasury Service Payment | \$4.8 | \$10.2 |
| Treasury Interest Payment | \$21.8 | \$149.8 |
| Treasury Unfunded Liability Amortization Payment | \$61.4 | \$14.8 |
| Total Federal Government Cost | \$107.8 | \$217.1 |
| Fund Liability | \$1,269.9 | \$2,720.3 |

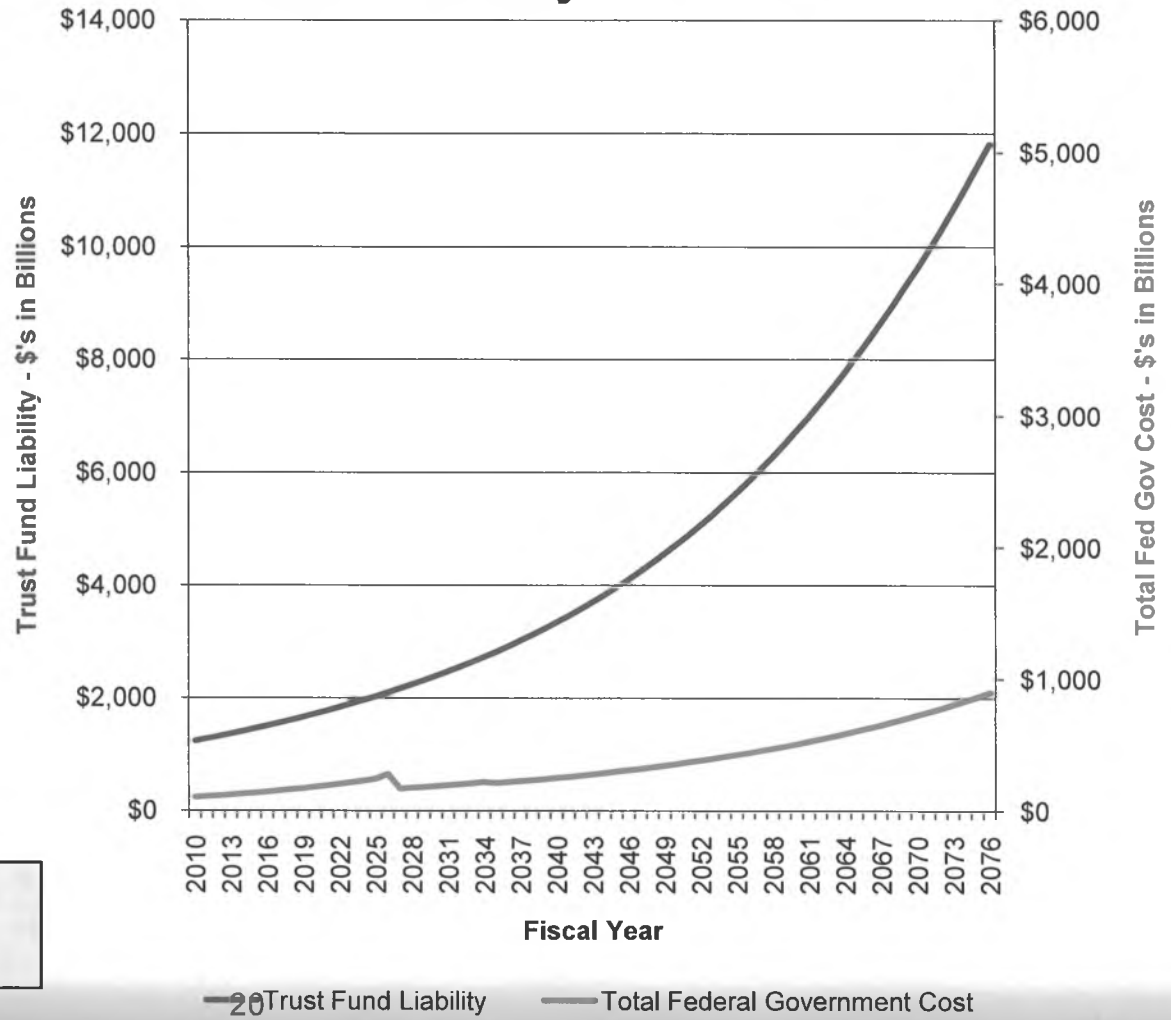
*Numbers are in billions

Assumptions:

- Vesting year 20
- Average contribution is 33% of total payroll

Source: OSD Office of Actuary

Military Retirement Trust Fund Under Current Plan by Fiscal Year



Appendix E: Trust Fund Under Revised Plan if All Current Active Duty Remain on Current Plan

| | Today FY11* | Today's Future FY34* |
|--|------------------|-------------------------|
| DoD Service Payment | \$18.9 | \$21.0 |
| Treasury Service Payment | \$4.3 | \$10.4 |
| Treasury Interest Payment | \$21.7 | \$100.7 |
| Treasury Unfunded Liability Amortization Payment | \$61.4 | \$14.8 |
| Total Federal Government Cost | \$106.3 | \$146.9 |
| Fund Liability | \$1,266.7 | \$1,800.0 |

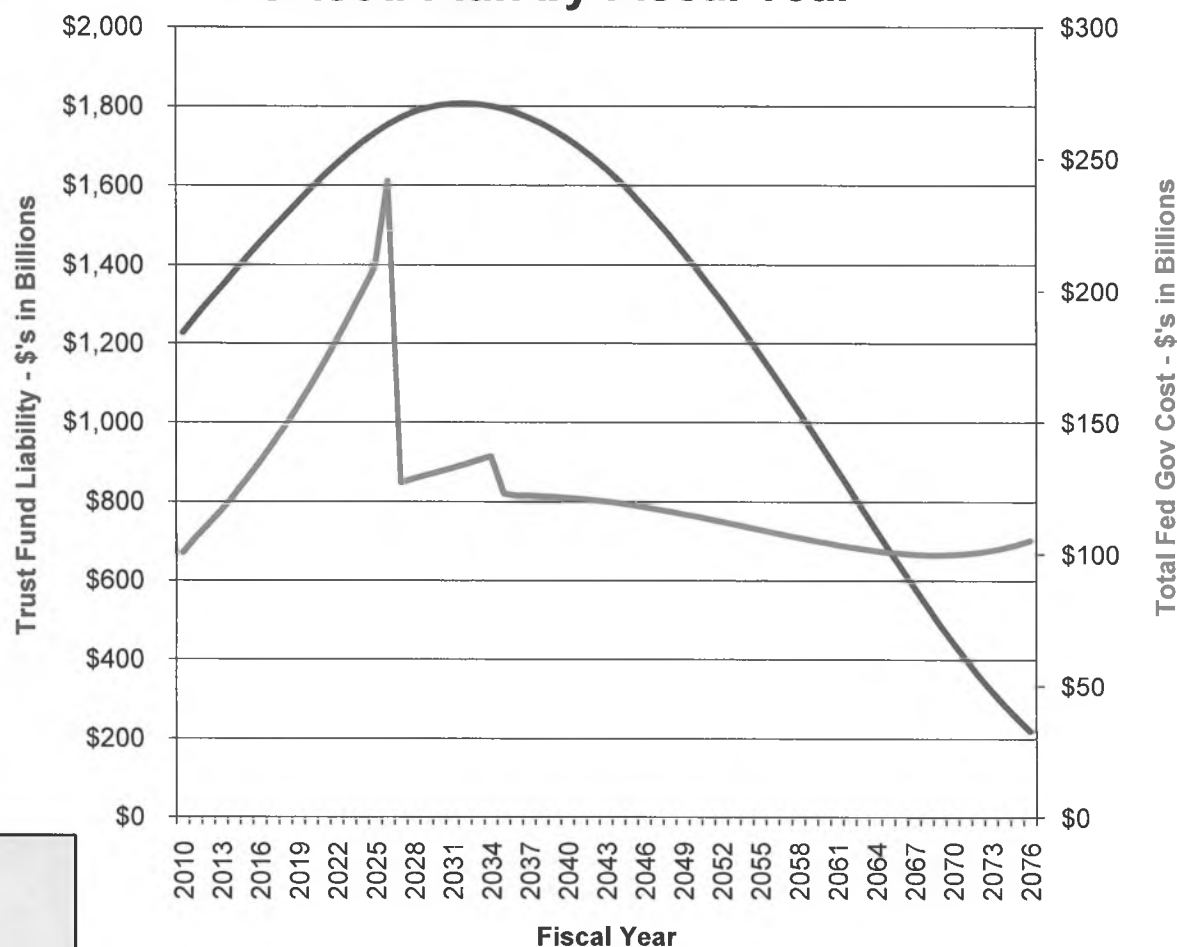
*Numbers are in billions

Assumptions:

- Average vesting year 4
- Active duty remains on current plan
- New recruits go on revised plan

Source: OSD Office of Actuary

Military Retirement Trust Fund Under Revised Plan by Fiscal Year



— Trust Fund Liability — Total Federal Government Cost



Appendix F: Trust Fund Under Revised System if All Active Duty Personnel Transition Immediately

- Modeled after private sector approach and yields a viable lower cost alternative
- Rapid transition to new plan for total active force
- Preserve accrued benefit from “old plan” but no further accrual
- For those with less than 20 years – proportional benefit under “old plan” if they stay for 20+ years (example: 10 years of service would result in 10/20 of the old plan benefit at old vesting date or 25% of pay at retirement)
- All active duty personnel start to accrue new benefit for the balance of their service payable under new terms (age 65 nominal)
- Average DoD contribution under revised system includes all extra incentives (16.5% of total pay)



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Appendix F : Trust Fund Under Revised System if All Active Duty Personnel Transition Immediately (Continued)

| | Today FY11* | Today's Future FY34* |
|--|----------------|-------------------------|
| DoD Service Payment | \$27.2 | \$20.4 |
| Treasury Service Payment | \$4.3 | \$10.4 |
| Treasury Interest Payment | \$21.7 | \$68.5 |
| Treasury Unfunded Liability Amortization Payment | \$61.4 | \$12.5 |
| Total Federal Government Cost | \$114.6 | \$111.8 |
| Fund Liability | \$1,125.0 | \$1,217.9 |

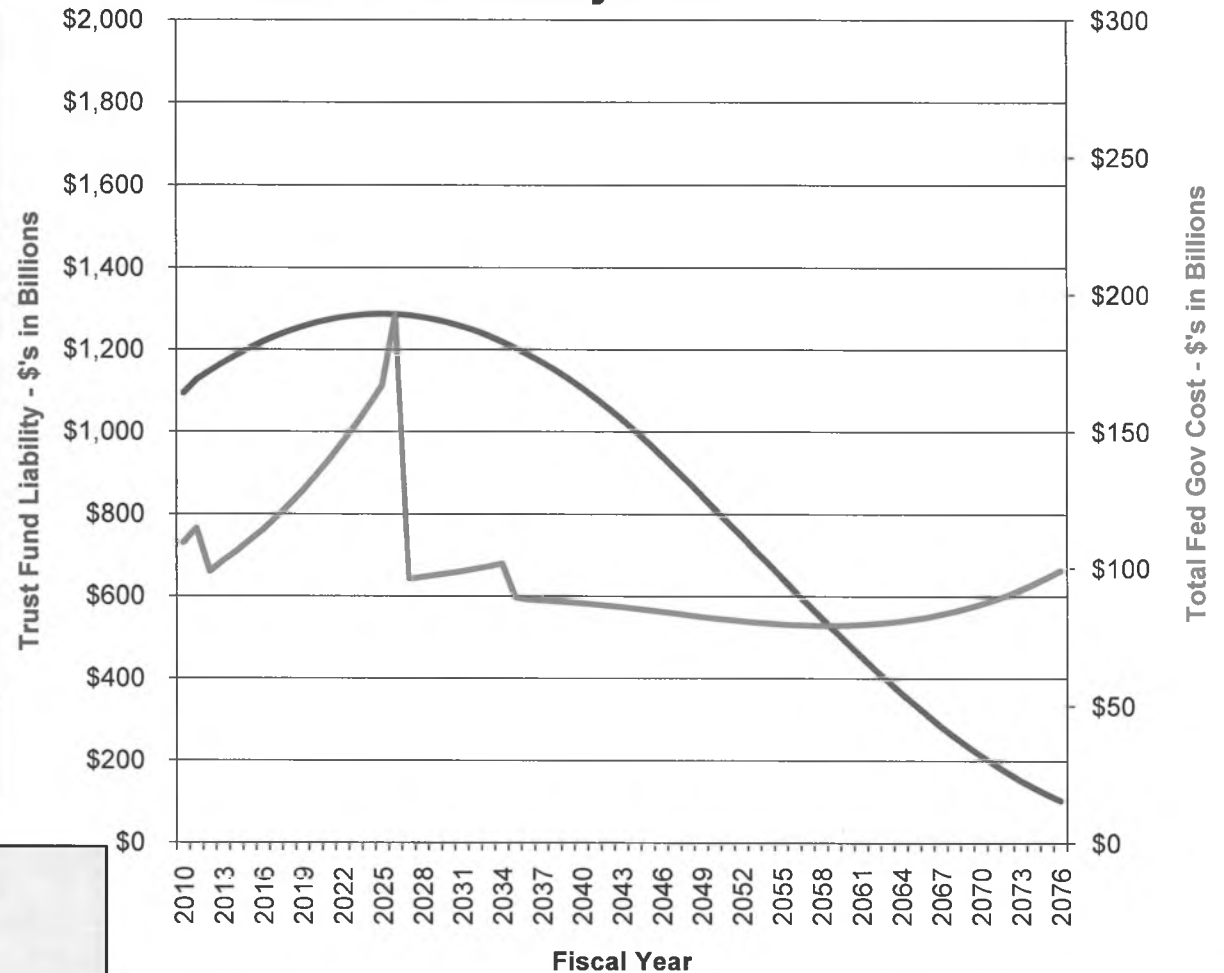
*Numbers are in billions

Assumptions:

- Average vesting year 4
- New recruits on new plan
- Active duty immediately transition

Source: OSD Office of Actuary

Military Retirement Trust Fund Under Transition Plan by Fiscal Year



— Trust Fund Liability — Total Federal Government Cost



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Questions?

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