Chief Builder Keith Genereux, assigned to Naval Mobile Construction Battalion 5, renders final salute while passing through sideboys at his retirement ceremony, Port Hueneme, California, May 4, 2012 (U.S. Navy/Ace Rheaume)

Military Retirement Reform

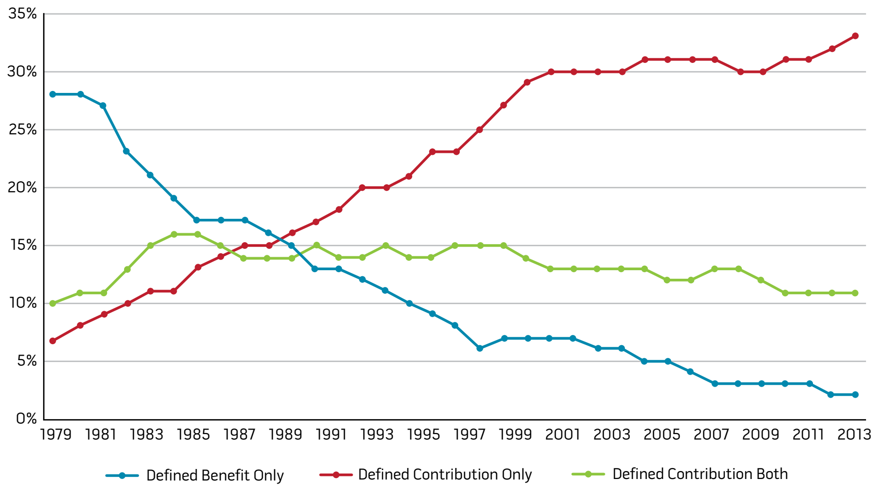
A Case Study in Successful Public Sector Change

By Laura J. Junor, Samantha Clark, and Mark Ramsay

Dr. Laura J. Junor is the Director of Research and Support and Director, Institute for National Strategic Studies, at the National Defense University. Samantha Clark is Deputy General Counsel on the United States Senate Armed Services Committee. Lieutenant General Mark Ramsay, USAF (Ret.), is the former Director of Force Structure, Resources, and Assessment (J8), Joint Staff.

An old proverb states that success has many fathers, but failure is an orphan. That idea immediately resonates with most of us because we have seen that taking credit for success is much easier than taking responsibility for failure. However, in the public sector, this proverb resonates particularly well because major reforms based on the integration of diverse skills and perspectives, as well as the alignment of competing interests, are more likely to succeed. The successful reform of the military's retirement benefit from the longstanding pension-based system to a blended system certainly fits that argument.[1] Simply put, this reform would not have been possible without the (mostly) complementary efforts and driving forces of Congress, the Military Compensation and Retirement Modernization Commission, and the Department of Defense (DOD). We believe it provides a useful and rare case study for achieving significant, consequential change in the public sector. This article documents a process where government at a variety of levels worked well and acknowledges lessons that should be passed along for those reforms yet to come.

Figure 1. Percentage of All Private-Sector Workers Enrolled in Defined Benefit and Defined Contribution Plans, 1979–2013



Source: U.S. Department of Labor Form 5500 Summaries 1979–1998, Pension Benefit Guaranty Corporation

A Brief History of Military Retirement

The basic elements of the current military pension-based retirement system were first signed into law between 1945 and 1947. Since then, there have been changes in the defined benefit that include changes in the basis for the annuity payment and the 1986 establishment of the REDUX option allowing members to essentially trade a near-term lump-sum payment for a long-term reduction to their annuity. Since the 1980s, the vast majority of private-sector employers shifted from a defined benefit annuity to a defined contribution 401(k)-type plan (see figure 1). The basis of this shift was likely the result of several factors. The first was employer-borne cost; defined contribution plans are a less expensive benefit for employers. The second was a booming economy over significant portions of this period; many investment funds performed well, especially throughout the 1990s and early 2000s. The third factor was the changing dynamic of the labor force that favored career mobility. Throughout this period, employees were increasingly less likely to work for the same employer for decades, making a portable defined contribution plan a critical benefit.[2]

In the face of such an overwhelming trend, the question of whether the military retirement system should somehow follow suit was logical. In particular, both the 10th and 11th Quadrennial Review of Military Compensation (QRMC) in 2008 and 2012 recommended major changes to the DOD retirement system.[3] The mobility-enhancing aspect of a defined-contribution benefit was part of the reason the military never seriously contemplated a blended plan. The vast majority of military skills and expertise cannot be hired from the civilian labor market; they must be grown from within the Services through education and experience. This means that DOD must maintain a powerful incentive for enough of the best of its workforce to remain despite the seemingly more lucrative experiences of their friends and relatives in the private sector. A retirement benefit that requires a 20-year commitment provides such a powerful retention incentive, while a portable retirement benefit does not. As the economy entered a major recession in 2008, the traditional DOD retirement annuity seemed even more important as it was largely immune from economic downturn.

During this recession, the military beneficiaries, DOD, and Congress did not aggressively pursue reform, probably because they perceived the risks vastly outweighed the rewards. That perception persisted until a confluence of events occurred that included military end-strength reductions after over a decade of sustained conflict, successive years of trillion-dollar Federal deficits, and major cuts to defense spending under the Budget Control Act. All the while, the labor market was adapting to the changing preferences of a constantly evolving labor force.

Under the current military retirement system, only about 17 percent of Servicemembers serve the full 20 years required to receive the retirement annuity. Under the defined annuity benefit, which has been in effect for decades, members serving fewer than 20 years receive no government-funded retirement benefit regardless of how well they performed.[4] By 2011, it became clear that thousands of members who served admirably supporting operations in Iraq and Afghanistan, as well as other contingencies and operations, would be forced to leave military service well before they met the 20-year requirement to receive a pension. In addition, real concerns about the Federal deficit were driving successively lower defense budgets and subsequent reductions in the size of the force. During this same period, DOD was also grappling with how to fit essential investments in defense technology and readiness recovery into a declining defense budget that was increasingly dominated by discussions on compensation costs.[5]

In response to these circumstances, the Defense Business Board (DBB) proposed eliminating the defined benefit annuity and shifting military retirement completely to a defined contribution system.[6] By September of 2011, the Office of the Secretary of Defense (OSD) convened a Retirement Reform Review working group that considered the DBB proposal as part of a broader pay and compensation efficiencies review.[7] While this review recommended a blended retirement benefit that was conceptually similar to the benefit ultimately passed into law in 2015, beneficiaries, advocacy groups, and congressional members were concerned that the internally led DOD task force did not adequately consider a comprehensive review of pay and compensation and its impact on the viability of our all-volunteer force. That meant the probability of widespread opposition was high. To avoid this outcome and increase the chances of success, an outside review comprised of leading subject matter experts was necessary to validate and improve concepts for military retirement reform.[8]

The Path to Reform

The Military Compensation and Retirement Modernization Commission (MCRMC) was assembled by an act of Congress as sections 671–680 of the fiscal year (FY) 2013 National Defense Authorization Act (NDAA).[9] Congress established the MCRMC to ensure the long-term viability of the all-volunteer force, enable a high quality of life for military families, and modernize and achieve fiscal sustainability of the compensation and retirement systems.[10] The commission was comprised of experts on military retirement and compensation systems, including former Senators, Representatives, executive appointees, and congressional defense committee staff. Together, these experts held numerous town halls at military bases and communities far and wide to gather input from Servicemembers, their families, retirees, and advocacy groups. With this research, the MCRMC built a sound case for retirement system reform that was backed by thorough research and analysis.

Typically, these "blue ribbon commissions" result in recommendations that present reform as either prohibitively complex or involving insurmountable political risk. An issue as complex, consequential, and politically risky as a fundamental change to military retirement on the heels of the longest conflicts in the Nation's history could have easily resulted in such an outcome. The product of this commission was different, largely because congressional leadership directly and consistently oversaw the MCRMC's work. By 2015, there was new leadership in both the Senate and House defense authorization committees and personnel subcommittees.[11] These Members, some of whom have established military careers themselves, clearly understood the imperative of responsible compensation reform and set that expectation for the MCRMC. While fiscal concerns presented unforgiving pressure on compensation issues, writings and testimonies of congressional leaders clearly conveyed their concern about maintaining a ready, healthy all-volunteer force that was capable of competing for the country's best and brightest personnel. They were looking for a retirement solution that was affordable, attracted new enlistees looking for military experience (rather than a 20-year career), and provided the means for these individuals to begin establishing a portable and secure retirement future. Armed Services Committee leadership set up regular hearings and informational meetings between the committee Members and their staffs and the commissioners in order to ensure that MCRMC members understood their tasking and had the support they needed to produce useful recommendations.

The most critical aspect of Congress's active involvement may have been the signal that it sent outside of the MCRMC (for example, to DOD, beneficiaries, and advocacy groups) that Congress was serious about implementing responsible military retirement reform. The reduction in the cost of living adjustment (COLA) for Servicemembers' annuity benefits passed in the Bipartisan Budget Act in 2013 already signaled that they were willing to make big changes in this space during times of heightened fiscal austerity.[12] In the case of the COLA reduction, however, reform was the product of closed-door budget negotiations rather than of comprehensive analyses, and ultimately most elements were largely rolled back in subsequent legislation. Since Congress designed the MCRMC to avoid that shortcoming, the likelihood of meaningful legislation this time was very credible.

The MCRMC indeed fulfilled its mandate and provided a well-considered, viable retirement plan. The second column in the table details the elements of the blended retirement plan. Once the final report was delivered officially on January 29, 2015, President Barack Obama was given 60 days to review the plan and convey his recommendations to Congress.[13] President Obama asked the Secretary of Defense to consider the MCRMC's reforms for implementation.

Breaking the Status Quo Bias

Based on the recent experience of Congress with reducing the COLA annuity adjustment for working-age retirees, the high likelihood of congressional advocacy would not be enough to guarantee a reformed retirement plan. For that, current Servicemembers, retirees, and their advocacy groups would have to support reform, or at least not mount a strong opposition. That meant that these groups would need the time to fully review the details of the changes and their expected consequences.

The time allotted for this review was extremely challenging, but it did force immediate and focused attention on retirement reform. The Secretary of Defense had to send his recommendations to the President by March 13, 2015, in order for Mr. Obama to meet the legislated timeline; that allowed only about 6 weeks for DOD to review all 15 MCRMC recommendations.[14] At that time, Secretary Carter indicated that DOD leadership was prepared to accept three recommendations immediately and anticipated that following further work with the commission, they could support another seven recommendations by the end of April 2015. While DOD indicated that it agreed with the commission's objectives regarding the remaining recommendations, it might disagree on how best to achieve those objectives.[15] In any event, DOD indicated that it would need more time to assess the remaining recommendations but promised to complete this work in time for the preparation of the FY 2017 budget.

While many within DOD had advocated for a blended retirement system for years, there were many others who were concerned that the risk to the recruiting, retention, and management of an

Table. Retirement Plans

Attribute	Current	MCRMC	DOD	Final (2016 NDAA)
Defined Benefit (DB) Vesting	20 Years of Service (YOS)	20 YOS	20 YOS	20 YOS
DB Multiplier	2.50%	2.00%	2.00%	2.00%
DB Working-Age Annuity	Full annuity	Full annuity; with lump-sum option	Full annuity; no lump-sum option	Full annuity with lump-sum option
DB Retirement Age	NA Active Component (AC); 60 Reserve Component (RC)	NA AC; 60 RC	NA AC; 60 RC	NA AC; 60 RC
DB COLA	COLA-1%*		Full (COLA-1% repeal)	Full (COLA-1% repeal)
DB Disability Retirement Pay	Disability rating (Min 30%) capped at 75%, or 2.5% multiplier	Disability rating remove 75% cap, or 2.0% multiplier	Disability rating (Min 30%) capped at 75%, or 2.5% multiplier	Disability rating (Min 30%) capped at 75%, or 2.0% multiplier
Defined Contribution (DC) DOD Contribution Rate	NA	1% automatic; plus up to 5% matching (Max = 6%)	1% automatic; plus up to 5% matching (Max = 6%)	1% automatic; plus up to 4% matching (Max = 5%)
DC DOD Contribution Years of Service	NA	1% at entry until 20 YOS; Matching: After completion of 2 YOS until 20 YOS	1% at entry until end of service; Matching: After completion of 4 YOS until end of service	1% at entry until 20 YOS; Matching: After completion of 2 YOS until 20 YOS
DC Enrollment	NA	Automatic at entry, automatic reenrollment	Automatic at entry, no automatic reenrollment**	Automatic at entry, automatic reenrollment
DC Default Contribution Rate	NA	3% automatic enrollment at entry	3% automatic enrollment at entry***	3% automatic enrollment at entry
DC Vesting of DOD Contributions	NA	Start of 3 YOS	Start of 3 YOS	Start of 3 YOS
Continuation Pay (CP) Multiplier	NA	Min 2.5 for AC. 0.5 RC; max varies	Varies at Service discretion	Min 2.5 for AC. 0.5 RC; max varies
CP YOS / Additional Obligation	NA	For everyone at 12 YOS, minimum 4-year obligation. Basic CP: AC 2.5 times basic pay, RC 0.5	Services determine whom to target between 8 to 16 YOS at Service discretion; min 1-year obligation	For everyone at 12 YOS, minimum 4-year obligation. Basic CP: AC 2.5 times basic pay, RC 0.5
Effective Date	NA		1-Jan-18	1-Jan-18
% of Force Receiving Benefit	19	85	85	85

* FY 15 NDAA moved the effective date for COLA-1% to January 1, 2016, for new entrants
** Can opt-out after financial literacy training at 1st permanent duty station; no auto-reenrollment
***Default investment is ROTH L-fund

all-volunteer force was not worth the benefit of proposed reforms. In April 2015, Secretary Ashton Carter pledged to the President that he would continue to review the MCRMC's retirement proposals.[16] In fact, civilian and military analysts within DOD had been meeting with the MCRMC members, outside experts, and representatives from the White House, Department of Veterans Affairs, and Office of Management and Budget constantly since January 2015. More specifically, DOD's review was conducted by more than 150 internal subject matter experts and supported by three Federally funded research and development centers (RAND, Institute for Defense Analyses, and Center for Naval Analyses). In addition, DOD included experts from the Labor, Agriculture, Commerce, Education, and Veterans Affairs Departments, as well as the Office of Management and Budget and Office of Personnel Management, throughout this 6-week effort to ensure a holistic review. Finally, the review included two sessions with leaders from the military and veterans' organizations. Senior leaders at every level of DOD reviewed the work on a weekly basis and provided critical input.

The internal DOD MCRMC response team was led by OSD Personnel and Readiness (P&R) on behalf of the Secretary and included individuals with requisite policy and analytic skill-sets from the Joint Staff, OSD Comptroller, and OSD Cost Assessment and Program Evaluation (CAPE) office. Sub-teams conducted the analysis and response that informed the Secretary's recommendations to the President. DOD leaders understood that Congress was determined to evolve these benefits and that the White House was similarly disposed. While there was never a mandate to accept these recommendations, DOD leaders knew that they had to genuinely consider each of the MCRMC recommendations if they hoped to have a positive influence on the final outcome. Therefore, the DOD

Figure 2. DOD Retirement Simulation of Annual Lifetime Income under Varying Scenarios

Scenario for this illustration:

Enlisted Servicemember
20-year career

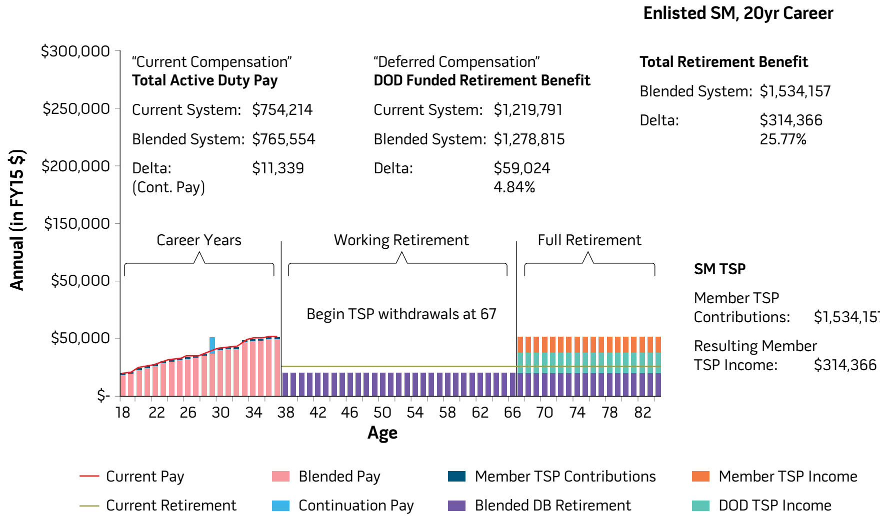
Defined contribution (TSP):

- At entry: Auto-enrolled in TSP at 3% of basic pay
- 1% automatic DOD contributions until End of Service (EOS)
- From 3 years of service until EOS, member contributes 4% to TSP and DOD matches 4%
- TSP has 7.3% nominal annual returns
- Member draws benefit at age of 67

Defined benefit: Multiplier of 2.0
Continuation pay: 3.37x monthly basic pay

Assumptions:

- Income is adjusted for inflation (constant FY15 $)
- SM retires after 20 years of service as an E7 and lives until age 85
- Continuation pay (3.37x monthly basic pay) added to Active-duty blended pay but not counted in retirement benefit
- **At entry: SM auto-enrolled in TSP at 3% of basic pay & DOD automatically contributes 1% through EoS**
- **Starting Year of Service (YOS) 3 – EOS: SM contributes 4% to TSP**
- **Starting YOS 3 – EOS: DOD matches 4% contribution**
- **TSP account annuitized at age 67**
- TSP has 7.3% nominal annual returns (L2040/L2050 fund class)



recommendations to the Secretary, and ultimately the President, had to be based in reproducible logic and could not blindly reject the commission's recommendations in favor of the status quo. Given the timeline and a strong status quo bias, failure here was possible.

To combat that likelihood, and before the sub-team leads were chosen, the response team created an approach that forced a broader consideration of each of the 15 recommendations. Each sub-team had to deliver a structured narrative response for each recommendation that began with an explanation of the purpose of the benefit linked to that recommendation irrespective of either the status quo policy or the MCRMC's recommended change. In other words, it had to address and answer such questions as why DOD provides this benefit and what were the benefit's intended goals. That led to a description of specific policy attributes that would meet this goal—or, phrased differently, what "right" looks like when it comes to a policy shaped to meet the goals of the benefit. The next step was to discuss the MCRMC's recommendation in the context of whether it met the stated objectives of the benefit. Only then would sub-team analysts extend this logic to draft a final recommendation. While the status quo could be raised as a better alternative to the MCRMC recommendation, it only survived as such after a comprehensive discussion and evaluation of each MCRMC recommendation. Based on this approach, DOD generally found that MCRMC's objectives were consistent with its own, and any differences that existed largely concerned the best means of achieving those objectives. Simply put, DOD agreed in whole or in part with the majority of the MCRMC's recommendations based on defendable criteria and thorough analysis.

The process outlined above identified three objectives of a military retirement plan:

- do no harm to the all-volunteer force in terms of recruiting, retention, and workforce management
- provide the opportunity to yield a benefit that is equivalent to the traditional defined annuity benefit
- provide a transportable retirement benefit to a larger percentage of the force.

It also set up the empirics to explore the attributes of a retirement plan that met those objectives, including analysis of recruiting and retention consequences of various defined benefit, defined contribution, and continuation pay options.

Building Support

Congress included legislation for a modernized military retirement system in the FY 2016 NDAA. Both the House and Senate versions contained detailed sections on military retirement modernization that were placed in the Chairman's marks by the subcommittees on personnel and passed on the floors of both bodies of Congress.[17] Both versions reformed the currently defined benefit retirement system into a modernized hybrid contributory and defined benefit system that contained many common elements.[18] The main policy dispute was whether to include an element in the Senate version, known as a lump-sum payment, for those electing to take a portion of their retirement benefit early and defer collection on the rest until they reach Social Security retirement age.[19] As the basic structural reform was contained in both versions of the FY 2016 NDAA, a version of this reform was all but certain to remain in the final conferenced version of the bill. This triggered efforts within DOD to begin building consensus and recommendations for modifying the legislation contained in the House and Senate versions of the FY 2016 NDAA.

Support Within the Department of Defense. Two factors made retirement reform more difficult than most others. First, military retirement is an intensely critical and personal issue for military leaders. In part, it is an issue of keeping faith with fellow Servicemembers who are willing to sacrifice enormously for their country. There is also a real concern that any change could irrevocably harm the success of the current professional all-volunteer force. Finally, retirement benefits are notoriously difficult to understand.[20] It was clear to the working team that efforts to fairly weigh the pros and cons of a blended retirement benefit would have to provide the means to simply, and without bias, let decisionmakers see and compare the different aspects of a blended retirement system.

In response to the first issue, the OSD-led response team overwhelmingly agreed that the Joint Chiefs of Staff and Senior Enlisted Advisors (SELs) were the most appropriate group to help design and propose a reformed retirement plan for Servicemembers. OSD leaders understood that sometimes the best leadership decision is to know when to step aside; this was one of those times. For past and present military personnel to accept a radically different retirement benefit, they had to see that it was designed from within their military community. OSD P&R, Comptroller, and CAPE had already done a great deal of work evaluating alternative plan attributes during the working group process. They continued this work by actively supporting the Joint Staff–led subgroup both in preparing material and analyses and in attending decisionmaking forums. The process remained transparent and inclusive, just with a different lead.

In response to the second issue, the Joint Staff developed a simple compound interest simulation to illustrate the consequence of different blended plan attributes on the out-of-pocket expense and forecasted retirement benefit of an individual Servicemember (see figure 2). The model was designed for Active and Reserve, enlisted and officer Servicemembers. This simulation tool enabled open and frank senior leader discussions based on sound facts that clearly showed the range of possible blended retirement system outcomes for individual members. More specifically, it allowed the Joint Chiefs and the SELs to view what happens when they varied values associated with the DOD matching percentage to the Thrift Savings Plan (TSP), likely individual TSP contribution rates, likely age at fund withdrawal, and average fund performance over the life of a Servicemember. It also allowed them to understand the scenarios that were most likely to yield a retirement benefit at least as good as the current defined annuity benefit. When combined with the years of research on recruiting and retention that had already been assembled, the Joint Chiefs and SELs had the information they needed to make informed choices that met the three principles outlined above.

The Joint Chiefs and SELs designed their optimal blended retirement plan after multiple meetings where they worked through the history and attributes of the current plan and many variants of a blended plan illustrated through the simulation tool shown in figure 2. The Chairman sent the recommendation of the Joint Chiefs and SELs to the Secretary of Defense on May 19, 2015. After consulting with the deputy secretary and Service secretaries, Secretary Carter accepted the Chairman's recommendation and, in turn, recommended it to President Obama on June 8, 2015. Finally, the President accepted Secretary Carter's recommendation. (The attributes of the blended plan are listed in column 3 of the table.)

Support from Military Advocacy Groups. A motivated Congress and a united DOD position would not be enough to ensure a successfully reformed retirement benefit. Both Congress and DOD knew they needed to get some level of support from the various veterans' and Servicemembers' support organizations, which were not predisposed to favoring major changes in long-term benefits. While Congress held hearings and hosted meetings with the Armed Services Committee Members and staff, Secretary Carter hosted a roundtable of nearly 30 representatives from the larger support organizations. This allowed the OSD and Joint Staff team to brief the DOD findings on each of the MCRMC recommendations and walk through the implications of the retirement plan in detail. Once again, the simple simulation tool was instrumental in illustrating the most likely effects of plan attributes on individual members. At the very least, it seemed to allay some of their fears. While many of these support organizations remained concerned about the idea of having any portion of the retirement benefit in the uncertain hands of Servicemembers who might not be financially savvy or at the mercy of volatile financial markets, they did appreciate the real value of providing many more young Servicemembers with a portable retirement benefit. In the end, they did not aggressively oppose the recommended plan.

Congressional Action. Once DOD's preferred proposal cleared the White House, the process of reforming retirement was back where it started over a year earlier: Congress. While the President's plan (as recommended by DOD) was fairly well received by Members and professional staff, the two institutions differed in some of the specific attributes of a blended plan. These differences were about when TSP matching contributions would begin, how long matching would last, whether a lump-sum option would be allowed, and the total amount of matching. These differences highlighted one failure of the internal DOD process: for all the efforts to be transparent and inclusive across the executive branch, DOD failed to include some key staff members in its deliberative process. Whether that would have changed the outcome is unclear, but it would have better informed the deliberations between Congress and DOD earlier in the overall process.

That said, the collaboration was extremely effective on the issue of the COLA minus 1 percent (COLA–1) annuity reduction. DOD demonstrated that maintaining the COLA–1 adjustment would jeopardize the ability of a blended retirement plan to provide for a viable retirement benefit since it would essentially add to the reduction in working-age retirement income.[21] Since the revisions in the law largely reduced the savings associated with the COLA–1 reduction, DOD argued that the objectively low savings were not worth invoking likely opposition to any version of a blended plan. The savings from a blended plan were also

Former CNO Admiral Jonathan Greenert speaks with Servicemembers, civilians, and their families about U.S. rebalance to Pacific, shorter deployments, and potential upcoming changes to military compensation and retirement benefits, Pearl Harbor, February 6, 2015 (U.S. Navy/Brennan D. Knaresboro)

likely higher and more immediate than those associated with COLA–1. Congress supported the DOD analysis and allowed full COLA adjustments as part of the proposed blended retirement plan.

Ultimately, Congress passed the blended retirement reform as part of the FY 2016 NDAA, which was signed into law on November 25, 2015.

The attributes of the modernized military retirement plan contained in the FY 2016 NDAA legislation are listed in the right column of the table. Note that the final outcome written into law by Congress does not entirely match the solution submitted to it. However, there are obvious similarities across all three versions created by Congress, the MCRMC, and DOD. In the year following the passage of the FY 2016 NDAA, Congress and DOD have continued to work closely on technical and conforming changes to the law. Congress set the implementation date for the blended retirement system for January 1, 2018, to ensure that a robust financial education process is in place for a smooth transition. The FY 2017 NDAA contains further technical and clarifying amendments on the modernized retirement system as a result of this ongoing process.[22]

Final Thoughts

Retirement reform, in the context of the larger compensation efforts of the MCRMC, was a first major step in evolving how DOD manages the all-volunteer force. The challenge in maintaining this force is that DOD must grow the majority of its own labor force from within because military skills, especially at the middle and senior grades, cannot be hired from the civilian labor market. That means that DOD must not only attract qualified applicants, but also train and retain the best of these individuals for decades—far longer than the typical applicant ever plans on spending in any job. As the labor market becomes more competitive and the technical skills required of military members grow, this challenge becomes even more acute. For these reasons, DOD must continue to evolve how military personnel are recruited, compensated, promoted, and managed to make sure that the Services are able to maintain a professional workforce now and well into the future. The reform of the retirement benefit was a sound step.

As we look at other broad and key personnel issues, reform of the military healthcare system is also necessary in order to decrease growing costs and better ensure high-quality, safe, and accessible health care. In addition, the civilian national security workforce requires changes in how it approaches identifying, training, and retaining highly skilled personnel. Each of these reforms is at least as controversial and complex as retirement reform and, if they are to succeed, require the same level of transparent analyses and coordination within and among the executive and legislative branches, military and veteran advocacy organizations, and think tanks.

Retirement reform deservedly and necessarily had many mothers and fathers. It is an example of government collaboration at its best. This was a highly orchestrated process of analytic-based consensus-building that was never one individual or even one institution's reform. It is unlikely that it would have ever succeeded as such. As new reforms begin to take shape, those charged with designing and implementing them should consider the lessons this case study offers. **JFQ**

Notes

[1] National Defense Authorization Act (NDAA) for Fiscal Year 2013 (Public Law 112-239; 126 Stat. 1632), § 675.

[2] Defined benefit plans from private-sector employers also carried an element of risk in that the annuity was contingent on the solvency of the employer. If the employer suffered critical losses or folded completely, retirement annuities could be severely compromised.

[3] Kristy N. Kamarck, *Military Retirement: Background and Recent Developments*, RL34751 (Washington, DC: Congressional Research Service, September 12, 2016), 14. The 10th Quadrennial Review of Military Compensation (QRMC) was published in 2008, and the 11th was published in 2012.

[4] If Servicemembers volunteered to invest in the Federal Thrift Savings Plan (TSP), they can maintain those assets regardless of how long they serve. Under the defined benefit program, the TSP investments are not really a retirement benefit in the sense that there are no government/employer contributions. Servicemembers invest their own money into these funds.

[5] Phillip Carter and Katherine Kidder, *Military Compensation and Retirement Modernization: A Primer* (Washington, DC: Center for a New American Security, January 2015), available at <www.dillonconsult.com/wp-content/uploads/2013/03/Military-Compensation-policy-brief_0.pdf>; Mackenzie Eaglen, *Trends in Military Compensation: A Chartbook* (Washington, DC: American Enterprise Institute, July 2014), available at <www.aei.org/wp-content/uploads/2014/07/-eaglentrendsinmilitarycompensationjuly2014chartbook_141227584026.pdf>; Matthew Goldberg, *Costs of Military Pay and Benefits in the Defense Budget* (Washington, DC: Congressional Budget Office, November 14, 2012), available at <www.cbo.gov/publication/43574>.

[6] Defense Business Board, *Modernizing the Military Retirement System Task Group* (Washington, DC: Office of the Secretary of Defense, July 21, 2011).

[7] *Concepts for Modernizing Military Retirement* (Washington, DC: The Joint Staff, March 2014) was sent to the Military Compensation and Retirement Modernization Commission by Acting Deputy Undersecretary of Defense Christine Fox, March 2014.

[8] Note that the Office of the Secretary of Defense also supported and even advocated for an outside review for the same reasons.

[9] FY 2013 NDAA.

[10] Conference Report Accompanying the National Defense Authorization Act for Fiscal Year 2013 (House Rept. 112–705).

[11] In 2015, Senator John McCain (R-AZ) became chairman of the Senate Armed Services Committee and Representative Mac Thornberry (R-TX) became chairman of the House Armed Services Committee. At the same time, the personnel subcommittee chairmen in both chambers changed to Senator Lindsey Graham (R-SC) in the Senate and Representative Joe Heck (R-NV) in the House. Both Senator Graham and Representative Heck were serving members of the Air Force and Army Reserves, respectively (Mr. Graham as a judge advocate and Dr. Heck as a medical commander).

[12] Section 403 of the Bi-Partisan Budget Act of 2013 changed the cost of living (COLA) formula for military retired pay during a Servicemember's "working age" years (under the age of 62) from full COLA to COLA minus 1 percent (COLA–1). At age 62, retired pay would be recalculated as if full COLA had been in effect during the working age period, and increased by full COLA each year thereafter. This change applied to all military retirees. Within a month of enactment, and after vocal concerns from Servicemembers, retirees, and groups that advocate for them, Congress passed legislation to water down the effects of COLA–1 by exempting disability retirees and their survivors and survivors of members who die on Active duty. Eventually they also grandfathered all current retirees and members who entered military service prior to January 1, 2014, and delayed implementation by 1 year.

[13] FY 2013 NDAA. Note that the MCRMC's final report listed 15 recommendations. One of these was for a blended retirement system.

[14] The MCRMC shared highlights of their recommendations with the Department of Defense (DOD) on January 15, 2015, 2 weeks prior to their official release, in order to allow DOD more review time.

[15] These five recommendations were Reserve component statuses, exceptional family members' support, commissary and exchange consolidation, the health benefit program, and the blended retirement system.

[16] Memorandum from Secretary of Defense Ashton Carter to President Barack Obama on the Department of Defense Review of the Military Compensation and Retirement Modernization Commission Recommendations, April 27, 2015.

[17] S.1376, FY 2016 NDAA, introduced by Senator McCain (May 19, 2015); H.R. 1735, National Defense Authorization Act for Fiscal Year 2016, introduced by Representative Thornberry (April 13, 2015).

[18] Ibid.

[19] S.1376, FY 2016 NDAA, § 633.

[20] Two economists point out that even the most lauded economists at the University of Chicago almost never make any changes to their retirement account and, among those that started their 401k while single, still listed their mothers as their beneficiary. See Richard H. Thaler and Cass R. Sunstein, *Nudge: Improving Decisions about Health, Wealth, and Happiness* (New Haven: Yale University Press, 2008).

[21] All versions of the blended retirement reform reduced the value of the annuity from a multiple of 2.5 times basic pay to a multiple of 2.0. Since retirees cannot draw on the TSP income until they reach 59½ years old (in most cases), the annuity is their only retirement income during the years between their military retirement and allowable TSP withdrawal ages. If COLA–1 had remained in law, it would have further reduced the value of this annuity over the working age period of a Servicemember's life.

[22] Sections 631–634 of S. 2943, FY 2017 NDAA, contain provisions with conforming and technical changes to the modernized retirement system that were coordinated with DOD as part of the implementation process.