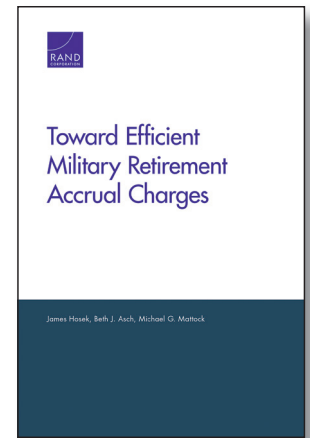




Toward Efficient Military Retirement Accrual Charges

James R. Hosek, Beth J. Asch, Michael G. Mattock

www.rand.org/t/RR1373



This report presents a theoretical model of the retirement accrual charge, critically reviews reforms suggested by past studies, and provides empirical estimates of the inaccuracy in each service's total and marginal accrual charges under the current system and indicates how this could be fixed by service-specific accrual charges with separate charges for officers and enlisted personnel.



RESEARCH QUESTIONS

- How large are the accrual charge inaccuracies by branch of service under the current accrual charge system?
- What approach can be taken to eliminate these inaccuracies?
- If a reformed accrual charge system were implemented, how would the services' personnel budgets be affected?



KEY FINDINGS

- The retirement accrual charge system, although producing an accurate accrual charge in aggregate, produces inaccurate accrual charges for each service.
- Both total accrual charges and marginal accrual charges are inaccurate, providing inaccurate signals to policy makers that can hamper efficient resource allocation.
- Estimates show that the accrual charge is too high for the Army, Marine Corps, and Navy, but too low for the Air Force.
- Changing to service-specific accrual charges, with separate accrual charges for officers and enlisted personnel within a service, would provide accurate information about total and marginal accrual costs, unlike the current system.

continued on back

- A service-specific system should eliminate controversy over whether a service is being overcharged and is cross-subsiding another service.



RECOMMENDATIONS

- Implementing service-specific accrual charges, with enlisted- and officer-specific charges, would eliminate accrual charge inaccuracies.
- Service-specific accrual charges could be implemented in future personnel budgets, without requiring budget adjustments for past over charges or past under charges.
- Service-specific accrual charges would provide accurate signals to the military services, Department of Defense, and Congress for budgeting and resource allocation decisions.
- DoD Officer of the Actuary would require time and resources to shift to a service-specific accrual charge system.
- In addition to service-specific accrual charges, any policy change affecting the retirement liability should include a separate analysis to estimate the change in the retirement liability as part of the cost-benefit analysis of the policy.