Teacher Pension Workshop: Connecting Evidence-Based Research to Pension Reform

Reforming the U.S. Military Retirement System

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REFORMING THE U.S. MILITARY RETIREMENT SYSTEM

Photo via the Miracle of America Museum.
For decades, the military retirement system worked satisfactorily.
But the retirement system had deficiencies

**Inefficient**
- Compensation costs are higher than necessary

**Inflexible**
- Retention is too similar across occupations

**Inequitable**
- Enlisted—14%
- Officers—34%
- Most servicemembers do not vest in retirement
The 2011 Defense Business Board proposed shifting to a defined contribution plan which put pressure on policy makers to respond with a viable alternative.
The current compensation system results in this baseline force
Our analysis revealed that the DBB plan would not meet manning requirements.
The shortfall would be concentrated in midcareer and early senior leadership.
The Pentagon convened a working group to consider alternatives to the current retirement system.
Past RAND research pointed to the value of hybrid systems

**Defined contribution**
- More equitable and portable

**Current compensation**
- Gain in cost savings, more flexibility for managing personnel

**Defined benefit**
- Minimal risk in saving for retirement
But there are many possible hybrid systems

Defined contribution
- What contribution rate?
- How long should contributions be made?
- When should it vest?

Current compensation
- What form?
- Bonus?
- Separation pay?
- How high?

Defined benefit
- How large?
- What formula to use?
- Give reservists immediate benefit?
Our analytic capability supported policy maker deliberations
Fitted model usable for policy simulations

Data on 130,000 individuals’ retention decisions

Future benefits, current decisions
Accommodates uncertainty
Individual preferences
The model’s mathematical basis was invented here in the 1950s.
Our model can optimize hybrid systems to meet manning requirements for the active force.
And meet additional requirements as well

- Simultaneously optimizes for the reserve force
- Estimates costs and cost savings
- Provides a benchmark for judging how hybrid systems affect DoD disability compensation
Cost savings begin immediately

Annual savings (2013 $Billion)

Years after implementation
Allowing members to opt in to the hybrid system accelerates cost savings

Annual savings (2013 $Billion)

Years after implementation

- Opt-in
- No opt-in
However, outlays initially increase

Annual outlay change (2013 $Billion)

Years after implementation
Allowing members to opt-in accelerates the change in outlays
The working group found hybrid retirement plans that would support government, military, and service member interests.

- **Cost savings**: $1.8 to $4.4 billion annually
- **Force management**: Meets force size and shape objectives
- **Equity**: Increases vesting, retains economic security
Aftermath

• Congress created the Military Compensation & Retirement Modernization Commission, which eventually resulted in the new military Blended Retirement System

• Modeling capability supported commission deliberations and the development of the new system