

# CRS Insights

FY2016 NDAA: A Comparison of House and Senate Provisions for Military Retirement Reform  
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## Overview

The military retirement system is a funded, noncontributory, defined benefit system that provides a monthly annuity to servicemembers after 20 years of qualifying service (for regular, non-disability retirees). The National Defense Authorization Act (NDAA) for FY2013 ([P.L. 113-66](#)) established a Military Compensation and Retirement Modernization Commission (MCRMC) to provide specific recommendations to modernize pay and benefits for the armed services. The commission delivered its [final report](#) and recommendations to Congress on January 29, 2015. The House-passed ([H.R. 1735](#)) and Senate committee-reported ([S. 1376](#)) versions of the FY2016 NDAA include many of the commission's proposed changes. See [Table 1](#) for a comparison of the current system against the House and Senate versions.

## A Blended System with Early Vesting

The House and Senate committee versions would change the existing system from a defined-benefit system that is vested at 20 years of qualifying service (YOS) to a blended system that authorizes government-matching contributions of up to 5% of basic pay to individual Thrift Savings Plan (TSP) accounts. While [S. 1376](#) would limit government-matching contributions only to 20 YOS, [H.R. 1735](#) would allow matching contributions for the duration of service. Under these proposals all servicemembers would be fully vested in their individual accounts after two years of service. While the 20-year vesting for the defined benefit would remain unchanged, [S. 1376](#) would authorize DOD to make future changes to the YOS requirement for occupational specialties as needed to shape the force.

## A Reduced Multiplier for the Defined Benefit

Currently, most non-disability retirees are eligible to receive a retired annuity equal to 50% of pay base after 20 years of service, based on a multiplier of 2.5% times the number of qualified years of service (with the exception of servicemembers in the Redux system, where it is calculated differently). Both versions of the FY2016 NDAA would reduce the multiplier for the defined benefit from 2.5% to 2.0% (a retirement annuity equal to 40% of pay base at 20 YOS).

Table 1. Military Retirement Reform Provisions Compared

Topic area	Current System	House-passed version ( <a href="#">H.R. 1735</a> )	Senate committee-reported version ( <a href="#">S. 1376</a> )
Defined benefit multiplier	2.5 (50% of pay base at 20 YOS)	2.0 (40% of pay base at 20 YOS)	2.0 (40% of pay base at 20 YOS)
Thrift Savings Plan (TSP)	Servicemembers may elect to enroll with individual contributions	Automatic individual enrolment at 3% of basic pay with government contributions of 1% of basic pay	Automatic individual enrolment at 3% of basic pay with government contributions of 1% of basic pay
Government matching and vesting	None	Up to 5% matching from 2 YOS through the duration of service,	Up to 5% matching from 2 YOS until 20 years of service vested

Years of service (YOS) requirement for retirement eligibility	20 YOS	vested after 2 YOS 20 YOS	after 2 YOS 20 YOS; however, authorizes DOD to modify YOS requirement for occupational specialties as needed for force-shaping
Lump sum payment of defined benefit at retirement	Not authorized	No provision	Authorizes the election of a lump sum payment as a percentage of the defined retirement benefit that would be due prior to becoming eligible for Social Security
Continuation pay	\$30,000 Career Status Bonus (CSB) authorized for those electing Redux system at 15 YOS for 5-year obligation	Incentive pay of a minimum of 2.5 times monthly base pay for AC and 0.5 times monthly base pay for RC authorized at 12 YOS for a 4-year obligation	Incentive pay of a minimum of 2.5 times monthly base pay for AC and 0.5 times monthly base pay for RC authorized at 12 YOS for a 4-year obligation
Modified Cost of Living Allowance (COLA) formula for retired pay	Effective for servicemembers joining on or after January 1, 2016 ( <a href="#">P.L. 113-67</a> §403 as amended by <a href="#">P.L. 113-291</a> §623)	Amends effective date to October 1, 2017	No provision (effective date remains January 1, 2016)
Date of implementation	NA	October 1, 2017	January 1, 2018

**Source:** For more background on the current military retirement system, please see CRS Report RL34751, [Military Retirement: Background and Recent Developments](#), by Kristy N. Kamarck.

**Notes:** AC is Active Component, RC is Reserve Component.

#### Continuation Pay as a Retention Incentive

With early vesting and a reduced defined benefit, some are concerned that retention would be affected by these proposals. Both versions of the bill would authorize a minimum continuation incentive pay of 2.5 times monthly base pay for the Active Component and 0.5 times monthly base pay for the Reserve Component at 12 YOS in exchange for a duty obligation of 4 years. Using 2015 pay scales this would be equal to approximately \$17,474 for an active duty officer in the O-4 pay grade (lieutenant commander or major) and \$6,128 for an active duty enlisted E-4 (corporal, petty officer 3<sup>rd</sup> Class, or airman). Both versions would also allow Service Secretaries to increase the amount of continuation pay as required (with some limitations) for retention purposes.

#### When Would the New System be Implemented?

The current legislation would allow DOD time to implement the new system. Existing servicemembers and those

entering the military prior to October 1, 2017 in the House version or January 1, 2018 in the Senate committee version would be grandfathered into the current system. Existing servicemembers would be given an opportunity to opt into the new system; however, a provision in S.1376 prohibits retroactive matching contributions for any pay period prior to opting into the new system.

#### Implementation of the Modified COLA Formula

The Bipartisan Budget Act of 2013 ([P.L. 113-67](#) §403 as amended by [P.L. 113-291](#) §623) modified how Cost of Living Allowances (COLAs) are calculated for servicemembers entering on or after January 1, 2016. The Senate committee version does not include a provision to amend this date. However, under H.R. 1735 the effective date of the COLA adjustment would be pushed back to apply to servicemembers entering on or after October 1, 2017. For more information see CRS Report R43393, [Reducing Cost-of-Living Adjustments for Military Retirees and the Bipartisan Budget Act: In Brief](#), by Amy Belasco and Lawrence Kapp.