

18 November 1985

MEMORANDUM FOR THE RECORD

SUBJECT: DOD Proposal to Establish a Revised Retirement System
for New Members of the Uniformed Services

Per discussions with the Director of Personnel on
15 November 1985, Office of Legislative Liaison was advised we
had no recommendation for comments on the attached DOD proposal.



STAT

OLL85-3423/1
8 November 1985

MEMORANDUM FOR: Director, Office of Personnel

FROM:

Legislation Division
Office of Legislative Liaison

STAT

SUBJECT: DOD Proposal to Establish a Revised Retirement System for New Members of the Uniformed Services

1. The Office of Management and Budget has requested the views of the Agency on the attached DOD proposed report to Congress on options to reduce military retirement accrual funding in fiscal year 1986. The DOD Authorization bill for FY86 requires the DOD to submit a report to the Congress that contains draft legislation on at least two options to reduce military retirement accrual funding by \$2.9 billion.

2. The DOD in its report strongly opposes any change in its retirement system. The DOD contends that reductions in retirement benefits would harm morale, reduce the rate of recruitment and retention, and lower combat performance. Nevertheless, the DOD has complied with the reporting requirement by proposing two alternative methods for reducing retirement cost by the specified amount. The first method would reduce the accrual rate, but compute retirement benefits based on the employees' 5 highest salary years. The second method would also reduce the accrual rate, but not as much as the first method. Under this second method, retirement benefits would be based on the employees' 3 highest salary years, and there would be a reduction in the cost of living adjustment by reducing the consumer price index used to calculate the COLA by one percentage point. There would also be a one time restoral of the amount lost due to the reduced COLA.

3. It is requested that the Office of Personnel review this proposal and provide this office with your comments by 13 November so that we may incorporate those comments into our final response to OMB.

STAT



Attachment as
stated

A BILL

To establish a revised retirement system for new members of the uniformed services, to revise the method of determining cost of living adjustments under the revised retirement system, and for other purposes.

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

3 **SHORT TITLE**

4 Section 1. This Act may be cited as the "Uniformed Services Retirement Cost
5 Reduction Act of 1985".

6 **AMENDMENTS AFFECTING GENERAL COMPUTATION OF RETIRED PAY**

7 Sec. 2. (a) Section 1331 of title 10, United States Code, relating to age
8 and service requirements for retired pay for non-regular service, is amended in
9 subsection (a) --

10 (1) by striking out "and" at the end of paragraph (3);

1 (2) by striking out the period at the end of paragraph (4) and inserting
2 in lieu thereof "; and"; and

3 (3) by inserting after paragraph (4) the following new paragraph (5):

4 "(5) in the case of a person who first became a member of a
5 uniformed service (as defined in section 1407(a)(2) of this title) on
6 or after the date of the enactment of the Uniformed Services Retirement
7 Cost Reduction Act of 1985, he is a member of a reserve component."

8 (b) Section 1401 of title 10, United States Code, relating to computation of
9 retired pay, is amended --

10 (1) in the first sentence --

11 (A) by inserting "(a)" before "The monthly"; and

12 (B) by inserting "who first became a member of a uniformed service
13 (as defined in section 1407(a)(2) of this title) before the date of
14 the enactment of the Uniformed Services Retirement Cost Reduction Act
15 of 1985, or who is retired for disability under chapter 61 of this
16 title" after "subtitle"; and

17 (2) by adding at the end thereof the following new subsection:

18 "(b) The monthly retired pay of a person entitled thereto under this subtitle
19 who first became a member of a uniformed service (as defined in section
20 1407(a)(2) of this title) on or after the date of the enactment of the
21 Uniformed Services Retirement Cost Reduction Act of 1985, and who has been
22 retired other than for disability under chapter 61 of this title, is computed
23 according to the following table. For each case covered by a section of this
24 title named in the column headed "For sections", retired pay is computed by
25 taking, in order, the steps prescribed opposite it in columns 1 and 2. The

1 amount computed, if not a multiple of \$1, shall be rounded to the next lower
 2 multiple of \$1. However, if a person would otherwise be entitled to retired
 3 pay computed under more than one pay formula of this table or of any other
 4 provision of law, he is entitled to be paid under the applicable formula that
 5 is most favorable to him. Section references below are to sections of this
 6 title.

FORMULA NO.	FOR SECTIONS	COLUMN 1 TAKE	COLUMN 2 MULTIPLY BY
1	1331	Monthly retired pay base as computed under section 1407(b).	2 1/2% of years of service credited to him under section 1333 multiplied by the percentage factor prescribed in section 1407a for years of service credited to him under section 1332.
2	564 1263 1293 1305	Monthly retired pay base as computed under section 1407(b).	The percentage factor prescribed in section 1407a for years of service credited to him under section 1405.
3	633 634 635 636 1251	Monthly retired pay base as computed under section 1407(b).	The percentage factor prescribed in section 1407a for years of service credited to him under section 1405."

7 (c) Subsection (a) of section 1402a of title 10, United States Code,
 8 relating to recomputation of retired or retainer pay to reflect later active
 9 duty, is amended --

10 (1) by inserting "(1)" after "(a)";

1 (2) by inserting "but before the date of the enactment of the Uniformed
2 Services Retirement Cost Reduction Act of 1985," after "September 7, 1980,";
3 and

4 (3) by adding after paragraph (1) the following new paragraph (2):

5 "(2) A member of an armed force who first became a member of a uniformed
6 service (as defined in section 1407(a)(2) of this title) on or after the date
7 of the enactment of the Uniformed Services Retirement Cost Reduction Act of
8 1985, who has become entitled to retired pay or retainer pay, and who
9 thereafter serves on active duty (other than for training), is entitled to
10 recompute his retired pay or retainer pay upon his release from that duty
11 according to the following table. The amount computed, if not a multiple of
12 \$1, shall be rounded to the next lower multiple of \$1.

COLUMN 1 TAKE	COLUMN 2 MULTIPLY BY
Monthly retired or retainer pay base under section 1407 of this title which he would be entitled to use if -- (1) he were retiring upon release from that active duty; or (2) he were transferring to the Fleet Reserve or Fleet Marine Corps Reserve upon that release from active duty.	The percentage factor prescribed in section 1407a of this title for the sum of -- (1) the years of service credited him in computing retired pay or retainer pay; and (2) his years of active service after becoming entitled to retired pay or retainer pay."

13 (d) Section 1403 of title 10, United States Code, relating to tax treatment
14 of disability retired pay, is amended by inserting "(a)" after "1401".

1 (e) Section 1405 of title 10, United States Code, relating to computing years
2 of service, is amended --

3 (1) by inserting "(a)" after "1401";

4 (2) by striking out "3991 (formula A), 3992" and inserting in lieu thereof
5 "1401(b) (formulas 2 and 3), 3991 (a) and (b) (formula A), 3992 (a) and
6 (b)"; and

7 (3) by striking out "8991 (formula A), or 8992" and inserting in lieu
8 thereof "8991 (a) and (b) (formula A), or 8992 (a) and (b)".

9 (f)(1) Section 1407(a)(2) of title 10, United States Code, is amended to read
10 as follows:

11 "(2) In this section:

12 "(A) 'Uniformed service' means --

13 "(i) any of the armed forces;

14 "(ii) the commissioned corps of the Public Health Service; or

15 "(iii) the commissioned corps of the National Oceanic and Atmospheric
16 Administration.

17 "(B) 'First became a member of a uniformed service' means the initial
18 date a person was enlisted or appointed in a uniformed service as an
19 officer, an enlisted member, or a cadet or midshipman."

1 (2) Section 1407(b)(3) of title 10, United States Code, relating to the
2 retired pay base, is amended --

3 (A) by inserting "(A)" after "(3)"; and

4 (B) by striking out "In" and inserting in lieu thereof "Except as provided
5 in subparagraph (B), in"; and

6 (C) by adding after subparagraph (A) the following new subparagraph (B):

7 "(B) The monthly retired pay base of a member who is retired under section
8 1331 of this title who first became a member of a uniformed service on or after
9 the date of the enactment of the Uniformed Services Retirement Cost Reduction
10 Act of 1985, shall be computed under subparagraph (A), except that in
11 determining the months which may be included in the 36 months referred to in
12 subparagraph (A) there shall be excluded any month after the date he is first
13 transferred to the inactive status list or to the Retired Reserve if such month
14 follows the date such member was notified under section 1331(d) of this title.
15 The monthly retired pay base computed under the preceding sentence shall be
16 increased by the percentage by which the Consumer Price Index (all items,
17 United States city average) published by the Bureau of Labor Statistics has
18 increased from the last of such 36 months to the month preceding the date the
19 member is entitled to retired pay."

20 (g)(1) Chapter 71 of title 10, United States Code, relating to computation of
21 retired pay, is amended by inserting after section 1407 the following new
22 section:

"§ 1407a. Retired pay multiplier for members who first became members on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985

1 "(a) Except as provided in subsection (b), in computing the retired pay or
 2 retainer pay of a person who first became a member of a uniformed service (as
 3 defined in section 1407(a)(2) of this title) on or after the date of the
 4 enactment of the Uniformed Services Retirement Cost Reduction Act of 1985, and
 5 who has been retired other than for disability under chapter 61 of this title
 6 or transferred to the Fleet Reserve or the Fleet Marine Corps Reserve, the
 7 percentage factor shall be the one listed in column 2 of the following table
 8 which corresponds to the applicable years of service in column 1.

COLUMN 1 YEARS OF SERVICE ¹	COLUMN 2 PERCENTAGE FACTOR ²
20	44.0%
21	47.1%
22	50.2%
23	53.3%
24	56.4%
25	59.5%
26	62.6%
27	65.7%
28	68.8%
29	71.9%
30 and over	75.0%

1 Before applying percentage factor in the case of a member with 20 but less than 30 years of service, add to the number of full years of service creditable to the member one-twelfth of a year for each full month of service that is in addition to such full years and disregard any remaining fractional part of a month.

2 In the case of a member who has had one-twelfth of a year added to his years of service under footnote 1 for each full month of service that is in addition to his full years of service, the percentage factor to be applied is determined by mathematical interpolation between the respective percentage factors.

1 "(b) In computing the retired pay of a person retired under section 1331 of
 2 this title who first became a member of a uniformed service (as defined in
 3 section 1407(a)(2) of this title) on or after the date of the enactment of the
 4 Uniformed Services Retirement Cost Reduction Act of 1985, the percentage factor
 5 shall be the one listed in column 2 of the following table which corresponds to
 6 the applicable years of service in column 1.

COLUMN 1 YEARS OF SERVICE UNDER SECTION 1332 OF THIS TITLE	COLUMN 2 PERCENTAGE FACTOR
20	88.00%
21	89.71%
22	91.27%
23	92.70%
24	94.00%
25	95.20%
26	96.31%
27	97.33%
28	98.29%
29	99.17%
30 and over	100.00%."

7 (2) The table of sections at the beginning of such chapter is amended by
 8 inserting after the item relating to section 1407 the following new item:

"Sec. 1407a. Retired pay multiplier for members who first became members on
 or after the date of enactment of the Uniformed Services
 Retirement Cost Reduction Act of 1985."

1 AMENDMENTS AFFECTING ADJUSTMENTS OF RETIRED AND RETAINER PAY TO REFLECT CHANGES
2 IN THE CONSUMER PRICE INDEX

3 Sec. 3. (a) Subsection (a) of section 1401a of title 10, United States Code,
4 relating to adjustments in retired and retainer pay to reflect changes in the
5 Consumer Price Index, is amended by striking out the second sentence and
6 inserting in lieu thereof "In this section, 'price index' means the Consumer
7 Price Index (all items, United States city average) published by the Bureau
8 of Labor Statistics; 'base quarter' means the calendar quarter ending on
9 September 30 of each year; and 'price index for the base quarter' means the
10 arithmetical mean of the price index for the three months comprising the base
11 quarter."

12 (b) Subsection (b) of such section is amended to read as follows:

13 "(b)(1) In accordance with regulations prescribed by the Secretary of
14 Defense, effective December 1 of each year the Secretary shall increase the
15 retired and retainer pay of members or former members of the armed forces --

16 "(A) who first became members of a uniformed service (as defined in
17 section 1407(a)(2) of this title) before the date of the enactment of

1 the Uniformed Services Retirement Cost Reduction Act of 1985, or who
2 are retired for disability under chapter 61 of this title, by the
3 percent (adjusted to the nearest one-tenth of 1 percent) that the price
4 index for the base quarter of such year exceeds the price index for the
5 base quarter of the preceding year in which an adjustment under this
6 subsection was made; or

7 "(B) who first became members of a uniformed service (as defined in
8 section 1407(a)(2) of this title) on or after the date of the enactment
9 of the Uniformed Services Retirement Cost Reduction Act of 1985, other
10 than a member retired for disability under chapter 61 of this title,
11 by the same percentage (adjusted to the nearest one-tenth of 1 percent)
12 by which retired and retainer pay is increased for members or former
13 members under paragraph (1)(A), but reduced by one percent (but not
14 resulting in a decrease in such pay if such percentage increase is less
15 than one percent).

16 "(2) In any case in which an increase in the retired or retainer pay of a
17 member of an armed force (other than a member retired for non-regular service

1 under chapter 67 of this title) has been made but reduced under paragraph
2 (1)(B) prior to the date such member completes 40 years as a member of a
3 uniformed service, then at the time the first increase in such pay is required
4 to be made on or after the date such member completes 40 years as a member of a
5 uniformed service the retired or retainer pay of such member shall be
6 recomputed by increasing the retired or retainer pay to which he was entitled
7 on the date of his retirement by the percent (adjusted to the nearest one-tenth
8 of 1 percent) that the price index for the base quarter immediately preceding
9 the date he completes 40 years as a member of a uniformed service exceeds the
10 price index for the base quarter immediately preceding the date of his
11 retirement. Percentage increases thereafter made under paragraph (1)(B) shall
12 be applied to such recomputed pay.

13 "(3) For purposes of this subsection, 'years as a member of a uniformed
14 service' includes (A) all periods of service creditable in computing a member's
15 basic pay under section 205 of title 37 at the time he became entitled to
16 retired or retainer pay, and (B) all periods on a retired list while entitled
17 to retired or retainer pay. However, a period of time may not be counted more
18 than once."

1 **AMENDMENTS AFFECTING COMPUTATION OF RETIRED PAY OF ARMY PERSONNEL**

2 Sec. 4. (a) Section 3991 of title 10, United States Code, relating to
3 computation of retired pay, is amended --

4 (1) in the first sentence --

5 (A) by inserting "(a)" before "The monthly"; and

6 (B) by inserting "who first became a member of a uniformed service
7 (as defined in section 1407(a)(2) of this title) before the date of the
8 enactment of the Uniformed Services Retirement Cost Reduction Act of
9 1985," after "subtitle";

10 (2) in the fourth sentence by inserting "(a)" after "1401"; and

11 (3) by adding at the end thereof the following new subsection:

12 "(b) The monthly retired pay of a person entitled thereto under this
13 subtitle who first became a member of a uniformed service (as defined in
14 section 1407(a)(2) of this title) on or after the date of the enactment of the
15 Uniformed Services Retirement Cost Reduction Act of 1985, is computed according
16 to the following table. For each case covered by a section of this title named
17 in the column headed "For sections", retired pay is computed by taking, in
18 order, the steps prescribed opposite it in columns 1, 2, and 3, as modified by
19 the footnote. The amount computed, if not a multiple of \$1, shall be rounded
20 to the next lower multiple of \$1. However, if a person would otherwise be
21 entitled to retired pay computed under more than one pay formula of this table
22 or the tables in section 1401 of this title, he is entitled to be paid under
23 the applicable formula that is most favorable to him. Section references below
24 are to sections of this title.

FORMULA	FOR SECTIONS	COLUMN 1 TAKE	COLUMN 2 MULTIPLY BY	COLUMN 3 ADD
A	3911 3918 3920 3924	The monthly retired pay base as computed under section 1407(c).	The percentage factor prescribed in section 1407a for the years of service credited to him under section 1405.	
B	3914	The monthly retired pay base as computed under section 1407(c).	The percentage factor prescribed in section 1407a for the years of service credited to him under section 3925.	10% of product of columns 1 and 2 for extraordinary heroism in line of duty, but in no case shall his retired pay be more than 75 percent of his monthly retired pay base as computed under section 1407(c). ¹
C	3917	The monthly retired pay base as computed under section 1407(c).	The percentage factor prescribed in section 1407a for the years of service credited to him under section 3925.	

¹ The Secretary of the Army's determination as to extraordinary heroism is conclusive for all purposes."

- 1 (b) Section 3992 of title 10, United States Code, relating to recomputation
- 2 of retired pay, is amended --
- 3 (1) by striking out the first sentence and inserting in lieu thereof:

1 "(a) An enlisted member of the Army who first became a member of a uniformed
2 service (as defined in section 1407(a)(2) of this title) before the date of the
3 enactment of the Uniformed Services Retirement Cost Reduction Act of 1985, who
4 is advanced on the retired list under section 3964 of this title is entitled to
5 recompute his retired pay under formula A of the following table, and a warrant
6 officer of the Army who first became a member of a uniformed service before the
7 date of the enactment of the Uniformed Services Retirement Cost Reduction Act
8 of 1985, who is so advanced is entitled to recompute his retired pay under
9 formula B of that table."; and

10 (2) by adding at the end thereof the following new subsection:

11 "(b) An enlisted member of the Army who first became a member of a uniformed
12 service (as defined in section 1407(a)(2) of this title) on or after the date
13 of the enactment of the Uniformed Services Retirement Cost Reduction Act of
14 1985, who is advanced on the retired list under section 3964 of this title is
15 entitled to recompute his retired pay under formula A of the following table,
16 and a warrant officer of the Army who first became a member of a uniformed
17 service on or after the date of the enactment of the Uniformed Services
18 Retirement Cost Reduction Act of 1985, who is so advanced is entitled to
19 recompute his retired pay under formula B of that table. The amount
20 recomputed, if not a multiple of \$1, shall be rounded to the next lower
21 multiple of \$1.

FORMULA	COLUMN 1 TAKE	COLUMN 2 MULTIPLY BY
A	The monthly retired pay base as computed under section 1407(c) of this title.	The percentage factor prescribed in section 1407a of this title for the number of years credited to him under section 3925 of this title.
B	The monthly retired pay base as computed under section 1407(c) of this title.	The percentage factor prescribed in section 1407a of this title for the number of years credited to him under section 1405 of this title."

1 **AMENDMENTS AFFECTING COMPUTATION OF RETIRED PAY OF NAVY AND MARINE CORPS PERSONNEL**

2 Sec. 5. (a) Section 6151 of title 10, United States Code, relating to
3 determination of higher retired grade and pay, is amended --

4 (1) in subsection (b) --

5 (A) by striking out "on or after September 8, 1980," in clause (B) of
6 paragraph (1) and inserting in lieu thereof "after September 7, 1980,
7 but before the date of the enactment of the Uniformed Services
8 Retirement Cost Reduction Act of 1985,";

9 (B) by redesignating paragraph (2) as paragraph (3); and

9 (C) by inserting after paragraph (1) the following new paragraph (2):
10 "(2) Each member, other than a former member of the Fleet Reserve or the
11 Fleet Marine Corps Reserve, who first became a member of a uniformed service
12 (as defined in section 1407(a)(2) of this title) on or after the date of the
13 enactment of the Uniformed Services Retirement Cost Reduction Act of 1985, who
14 is advanced on the retired list under this section is, unless otherwise

1 entitled to higher retired pay, entitled to retired pay at the rate determined
2 by taking the monthly retired pay base computed under section 1407(d) of this
3 title and multiplying that amount by the percentage factor prescribed under
4 section 1407a of this title for the years of service that may be credited to
5 him under section 1405 of this title."; and

6 (2) in subsection (c) —

7 (A) by striking out "on or after September 8, 1980," in paragraph (2)
8 and inserting in lieu thereof "after September 7, 1980, but before the
9 date of the enactment of the Uniformed Services Retirement Cost
10 Reduction Act of 1985,"; and

11 (B) by inserting after paragraph (2) the following new paragraph (3):

12 "(3) Each former member of the Fleet Reserve or the Fleet Marine Corps
13 Reserve who first became a member of a uniformed service (as defined in section
14 1407(a)(2) of this title) on or after the date of the enactment of the
15 Uniformed Services Retirement Cost Reduction Act of 1985, who is advanced on
16 the retired list under this section is entitled to retired pay at the rate
17 determined by taking the monthly retired pay base computed under section
18 1407(d) of this title and multiplying that amount by the percentage factor
19 prescribed under section 1407a of this title for the years of service
20 creditable for his retainer pay at the time of retirement.".

1 (b) Subsection (e) of section 6323 of title 10, United States Code, relating
2 to the retirement of an officer of the Navy or Marine Corps after completing
3 more than 20 years of active service, is amended --

4 (1) by inserting "(1)" after "(e)";

5 (2) by redesignating paragraphs (1) and (2) as clauses (A) and (B)
6 respectively, and in such clause (B) (as so redesignated) by striking out
7 "on or after September 8, 1980," and inserting in lieu thereof "after
8 September 7, 1980, but before the date of the enactment of the Uniformed
9 Services Retirement Cost Reduction Act of 1985,"; and

10 (3) by inserting after paragraph (1) the following new paragraph (2):

11 "(2) Unless otherwise entitled to higher pay, an officer who first became a
12 member of a uniformed service (as defined in section 1407(a)(2) of this title)
13 on or after the date of the enactment of the Uniformed Services Retirement Cost
14 Reduction Act of 1985, who is retired under this section is entitled to retired
15 pay at the rate determined by taking the monthly retired pay base computed
16 under section 1407(d) of this title and multiplying that amount by the
17 percentage factor prescribed under section 1407a of this title for the years of
18 service that may be credited to him under section 1405 of this title."

19 (c)(1) Subsection (a)(2) of section 6325 of title 10, United States Code,
20 relating to the retired grade and pay of certain officers of the Navy and
21 Marine Corps, is amended --

1 (A) by striking out "; or" at the end of clause (A) and inserting in lieu
2 thereof "multiplied by the number of years of service that may be credited
3 to him under section 1405 of this title, but the retired pay so computed may
4 not be more than 75 percent of the basic pay upon which the computation of
5 retired pay is based;"

6 (B) by striking out "on or after September 8, 1980," in clause (B) and
7 inserting in lieu thereof "after September 7, 1980, but before the date of
8 the enactment of the Uniformed Services Retirement Cost Reduction Act of
9 1985,"

10 (C) by striking out the semicolon at the end of clause (B) and inserting
11 in lieu thereof "multiplied by the number of years of service that may be
12 credited to him under section 1405 of this title, but the retired pay so
13 computed may not be more than 75 percent of the monthly retired pay base
14 upon which the computation of retired pay is based; or";

15 (D) by striking out "multiplied by the number of years of service that may
16 be credited to him under section 1405 of this title, but the retired pay so
17 computed may not be more than 75 percent of the basic pay or monthly retired
18 pay base upon which the computation of retired pay is based." where it
19 appears at the end of the paragraph; and

20 (E) by inserting after clause (B) the following new clause (C):

21 "(C) in the case of an officer who first became a member of a
22 uniformed service (as defined in section 1407(a)(2) of this title) on
23 or after the date of the enactment of the Uniformed Services Retirement

1 Cost Reduction Act of 1985, at the rate determined by taking the
2 monthly retired pay base computed under section 1407(d) of this title
3 and multiplying that amount by the percentage factor prescribed in
4 section 1407a of this title for the years of service that may be
5 credited to him under section 1405 of this title."

6 (2) Subsection (b)(2) of section 6325 of title 10, United States Code,
7 relating to the retired grade and pay of certain officers of the Navy and
8 Marine Corps, is amended —

9 (A) by striking out "; or" at the end of clause (A) and inserting in lieu
10 thereof "multiplied by the number of years of service that may be credited
11 to him under section 1405 of this title, but the retired pay so computed may
12 not be more than 75 percent of the basic pay upon which the computation of
13 retired pay is based;"

14 (B) by striking out "on or after September 8, 1980," in clause (B) and
15 inserting in lieu thereof "after September 7, 1980, but before the date of
16 the enactment of the Uniformed Services Retirement Cost Reduction Act of
17 1985,"

18 (C) by striking out the semicolon at the end of clause (B) and inserting
19 in lieu thereof "multiplied by the number of years of service that may be
20 credited to him under section 1405 of this title, but the retired pay so
21 computed may not be more than 75 percent of the monthly retired pay base
22 upon which the computation of retired pay is based; or";

1 (D) by striking out "multiplied by the number of years of service that may
2 be credited to him under section 1405 of this title, but the retired pay so
3 computed may not be more than 75 percent of the basic pay or monthly retired
4 pay base upon which the computation of retired pay is based." where it
5 appears at the end of the paragraph; and

6 (E) by inserting after clause (B) the following new clause (C):

7 "(C) in the case of an officer who first became a member of a
8 uniformed service (as defined in section 1407(a)(2) of this title) on
9 or after the date of the enactment of the Uniformed Services Retirement
10 Cost Reduction Act of 1985, at the rate determined by taking the
11 monthly retired pay base computed under section 1407(d) of this title
12 and multiplying that amount by the percentage factor prescribed in
13 section 1407a of this title for the years of service that may be
14 credited to him under section 1405 of this title."

15 (d) Subsection (c)(1) of section 6330 of title 10, United States Code,
16 relating to retainer pay for enlisted members transferred to the Fleet Reserve
17 or the Fleet Marine Corps Reserve, is amended --

18 (1) by striking out "; or" at the end of clause (A) and inserting in
19 lieu thereof "multiplied by the number of years of active service in the
20 armed forces;"

21 (2) by striking out "on or after September 8, 1980," in clause (B) and
22 inserting in lieu thereof "after September 7, 1980, but before the date of
23 the enactment of the Uniformed Services Retirement Cost Reduction Act of
24 1985,"

1 (3) by striking out the semicolon at the end of clause (B) and inserting
2 in lieu thereof "multiplied by the number of years of active service in the
3 armed forces; or";

4 (4) by striking out "multiplied by the number of years of active service
5 in the armed forces." where it appears at the end of the paragraph; and

6 (5) by inserting after clause (B) the following new clause (C):

7 "(C) in the case of a member who first became a member of a uniformed
8 service (as defined in section 1407(a)(2) of this title) on or after
9 the date of the enactment of the Uniformed Services Retirement Cost
10 Reduction Act of 1985, at the rate determined by taking the monthly
11 retainer pay base computed under section 1407(d) of this title and
12 multiplying that amount by the percentage factor prescribed in section
13 1407a of this title for the years of his active service in the armed
14 forces."

15 (e) Section 6383(c)(2) of title 10, United States Code, relating to the
16 retired pay of certain regular officers of the Navy and Marine Corps, is
17 amended to read as follows:

18 "(2) is entitled to retired pay --

19 "(A) in the case of an officer who first became a member of a
20 uniformed service (as defined in section 1407(a)(2) of this title)
21 before September 8, 1980, at the rate of 2 1/2 percent of the basic pay
22 to which he would be entitled if serving on active duty in the grade in

1 which he retired multiplied by the number of years of service credited
2 to him under section 1405 of this title, but the retired pay may not be
3 more than 75 percent of the basic pay upon which the computation of
4 retired pay is based;

5 "(B) in the case of an officer who first became a member of a
6 uniformed service (as defined in section 1407(a)(2) of this title)
7 after September 7, 1980, but before the date of the enactment of the
8 Uniformed Services Retirement Cost Reduction Act of 1985, at the rate
9 of 2 1/2 percent of the monthly retired pay base computed under section
10 1407(d) of this title multiplied by the number of years of service
11 credited to him under section 1405 of this title, but the retired pay
12 may not be more than 75 percent of the monthly retired pay base upon
13 which the computation of retired pay is based; or

14 "(C) in the case of an officer who first became a member of a
15 uniformed service (as defined in section 1407(a)(2) of this title) on
16 or after the date of the enactment of the Uniformed Services Retirement
17 Cost Reduction Act of 1985, at the rate determined by taking the
18 monthly retired pay base computed under section 1407(d) of this title
19 and multiplying that amount by the percentage factor prescribed under
20 section 1407a of this title for the number of years of service credited
21 to him under section 1405 of this title."

1 **AMENDMENTS AFFECTING COMPUTATION OF RETIRED PAY OF AIR FORCE PERSONNEL**

2 Sec. 6. (a) Section 8991 of title 10, United States Code, relating to
3 computation of retired pay, is amended —

4 (1) in the first sentence —

5 (A) by inserting "(a)" before "The monthly"; and

6 (B) by inserting "who first became a member of a uniformed service
7 (as defined in section 1407(a)(2) of this title) before the date of the
8 enactment of the Uniformed Services Retirement Cost Reduction Act of
9 1985," after "subtitle";

10 (2) in the fourth sentence by inserting "(a)" after "1401"; and

11 (3) by adding at the end thereof the following new subsection:

12 "(b) The monthly retired pay of a person entitled thereto under this subtitle
13 who first became a member of a uniformed service (as defined in section
14 1407(a)(2) of this title) on or after the date of the enactment of the
15 Uniformed Services Retirement Cost Reduction Act of 1985, is computed according
16 to the following table. For each case covered by a section of this title named
17 in the column headed "For sections", retired pay is computed by taking, in
18 order, the steps prescribed opposite it in columns 1, 2, and 3, as modified by
19 the footnote. The amount computed, if not a multiple of \$1, shall be rounded
20 to the next lower multiple of \$1. However, if a person would otherwise be
21 entitled to retired pay computed under more than one pay formula of this table
22 or the tables in section 1401 of this title, he is entitled to be paid under
23 the applicable formula that is most favorable to him. Section references below
24 are to sections of this title.

FORMULA	FOR SECTIONS	COLUMN 1 TAKE	COLUMN 2 MULTIPLY BY	COLUMN 3 ADD
A	8911 8918 8920 8924	The monthly retired pay base as computed under section 1407(e).	The percentage factor prescribed in section 1407a for the years of service credited to him under section 1405.	
B	8914	The monthly retired pay base as computed under section 1407(e).	The percentage factor prescribed in section 1407a for the years of service credited to him under section 8925.	10% of product of columns 1 and 2 for extraordinary heroism in line of duty, but in no case shall his retired pay be more than 75 percent of his monthly retired pay base as computed under section 1407(e). ¹
C	8917	The monthly retired pay base as computed under section 1407(e).	The percentage factor prescribed in section 1407a for the years of service credited to him under section 8925.	

¹ The Secretary of the Air Force's determination as to extraordinary heroism is conclusive for all purposes."

1 (b) Section 8992 of title 10, United States Code, relating to recomputation
2 of retired pay, is amended --

3 (1) by striking out the first sentence and inserting in lieu thereof:

1 "(a) An enlisted member of the Air Force who first became a member of a
2 uniformed service (as defined in section 1407(a)(2) of this title) before the
3 date of the enactment of the Uniformed Services Retirement Cost Reduction Act
4 of 1985, who is advanced on the retired list under section 8964 of this title
5 is entitled to recompute his retired pay under formula A of the following
6 table, and a warrant officer of the Air Force who first became a member of a
7 uniformed service before the date of the enactment of the Uniformed Services
8 Retirement Cost Reduction Act of 1985, who is so advanced is entitled to
9 recompute his retired pay under formula B of that table."; and

10 (2) by adding at the end thereof the following new subsection:

11 "(b) An enlisted member of the Air Force who first became a member of a
12 uniformed service (as defined in section 1407(a)(2) of this title) on or after
13 the date of the enactment of the Uniformed Services Retirement Cost Reduction
14 Act of 1985, who is advanced on the retired list under section 8964 of this
15 title is entitled to recompute his retired pay under formula A of the following
16 table, and a warrant officer of the Air Force who first became a member of a
17 uniformed service on or after the date of the enactment of the Uniformed
18 Services Retirement Cost Reduction Act of 1985, who is so advanced is entitled
19 to recompute his retired pay under formula B of that table. The amount
20 recomputed, if not a multiple of \$1, shall be rounded to the next lower
21 multiple of \$1.

FORMULA	COLUMN 1 TAKE	COLUMN 2 MULTIPLY BY
A	The monthly retired pay base as computed under section 1407(e) of this title.	The percentage factor prescribed in section 1407a of this title for the number of years credited to him under section 8925 of this title.
B	The monthly retired pay base as computed under section 1407(e) of this title.	The percentage factor prescribed in section 1407a of this title for the number of years credited to him under section 1405 of this title."

1 **AMENDMENTS AFFECTING COMPUTATION OF RETIRED PAY OF COAST GUARD PERSONNEL**

2 Sec. 7. (a) Subsection (b) of section 288 of title 14, United States Code,
3 relating to the retirement of captains, is amended by inserting "and (c)" after
4 "section 423(b)".

5 (b) Section 423 of title 14, United States Code, relating to the computation
6 of retired pay, is amended --

7 (1) in the first sentence of subsection (a) by inserting "and (c)" after
8 "subsection (b)";

9 (2) in the fourth sentence of subsection (a) by inserting "or by which the
10 percentage factor is determined under subsection (c)" after "multiplied";

11 (3) in subsection (b) by inserting "but before the date of the enactment
12 of the Uniformed Services Retirement Cost Reduction Act of 1985," after
13 "September 7, 1980,"; and

14 (4) by adding at the end thereof the following new subsection:

1 "(c) Notwithstanding any other provision of this title, the retired pay of
2 each officer or enlisted member of the Coast Guard who first became a member of
3 a uniformed service (as defined in section 1407(a)(2) of title 10) on or after
4 the date of the enactment of the Uniformed Services Retirement Cost Reduction
5 Act of 1985, is determined by taking the monthly retired pay base computed
6 under section 1407(f) of title 10 and multiplying that amount by the percentage
7 factor prescribed under section 1407a of title 10 for the number of years of
8 service that may be credited to him under section 1405 of title 10."

9 (c) Section 424 of title 14, United States Code, relating to limitations on
10 retirement and retired pay, is amended in the first sentence by striking out
11 "The" and inserting in lieu thereof "Except as provided in section 423 (b) and
12 (c) of this title, the".

13 **AMENDMENTS AFFECTING COMPUTATION OF RETIRED PAY OF COMMISSIONED OFFICERS OF THE**
14 **NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION**

15 Sec. 8. Subsection (a) of section 16 of the Coast and Geodetic Survey
16 Commissioned Officers' Act of 1948 (33 U.S.C. 853o) is amended --

17 (1) by inserting "(1)" after "(a)";

18 (2) by redesignating paragraphs (1) and (2) as clauses (A) and (B),
19 respectively;

20 (3) in clause (B) (as redesignated) by striking out "on or after September
21 8, 1980," and inserting in lieu thereof "after September 7, 1980, but before
22 the date of the enactment of the Uniformed Services Retirement Cost
23 Reduction Act of 1985,"; and

1 (4) by adding at the end thereof the following new paragraph (2):

2 "(2) Each commissioned officer who first became a member of a uniformed
3 service (as defined in section 1407(a)(2) of title 10, United States Code) on
4 or after the date of the enactment of the Uniformed Services Retirement Cost
5 Reduction Act of 1985, who is on the retired list shall receive retired pay at
6 the rate determined by taking the monthly retired pay base computed under
7 section 1407(g) of title 10, United States Code, and multiplying that amount by
8 the percentage factor prescribed under section 1407a of title 10, United States
9 Code, for the number of years of service that may be credited to him under
10 section 1405 of title 10, United States Code, as if his service were service as
11 a member of the Armed Forces. Retired pay, if not a multiple of \$1, shall be
12 rounded to the next lower multiple of \$1."

13 **AMENDMENTS AFFECTING COMPUTATION OF RETIRED PAY OF COMMISSIONED OFFICERS OF THE**
14 **PUBLIC HEALTH SERVICE**

15 Sec. 9. (a) Paragraph (3) of section 210(g) of the Public Health Service Act
16 (42 U.S.C. 211(g)(3)) is amended --

17 (1) by striking out "or" at the end of subparagraph (A);

18 (2) in subparagraph (B) --

19 (A) by striking out "on or after September 8, 1980," and inserting in
20 lieu thereof "after September 7, 1980, but before the date of the
21 enactment of the Uniformed Services Retirement Cost Reduction Act of
22 1985,"; and

1 (B) by striking out the period at the end thereof and inserting in
2 lieu thereof "; or"; and

3 (3) by adding at the end of subparagraph (B) a new subparagraph (C) as
4 follows:

5 "(C) in the case of an officer who first became a member of a
6 uniformed service on or after the date of the enactment of the
7 Uniformed Services Retirement Cost Reduction Act of 1985, at the rate
8 determined by taking the monthly retired pay base computed under
9 section 1407(h) of title 10, United States Code, and multiplying that
10 amount by the percentage factor prescribed under section 1407a of
11 title 10, United States Code, for the number of years, not in excess
12 of thirty, of his active commissioned service in the Service."

13 (b) Section 211(a) of such Act (42 U.S.C. 212(a)) is amended --

14 (1) in paragraph (4) by inserting "or (7)" after "paragraph (6)";

15 (2) by redesignating paragraph (7) as paragraph (8); and

16 (3) by adding after paragraph (6) the following new paragraph (7):

17 "(7) The retired pay under paragraph (4) in the case of a commissioned
18 officer who first became a member of a uniformed service on or after the date
19 of the enactment of the Uniformed Services Retirement Cost Reduction Act of
20 1985, is determined by taking the monthly retired pay base computed under
21 section 1407(h) of title 10, United States Code, and multiplying that amount by
22 the percentage factor prescribed under section 1407a of title 10, United States
23 Code, for the number of years of service credited to him under paragraph (4)."

SECTIONAL ANALYSIS

Section 1 of the bill provides as the title for the proposed act the "Uniformed Services Retirement Cost Reduction Act of 1985".

Section 2 of the bill amends subtitle A of title 10, United States Code, by amending sections 1331 (relating to retirement for non-regular service), 1401 (relating to computation of retired pay), 1402a (relating to recomputation of retired pay or retainer pay to reflect later active duty), 1403 (relating to tax treatment of disability retired pay), 1405 (relating to computing years of service), and 1407 (relating to the retired pay base), and adding a new section 1407a (relating to the retired pay multiplier) to reflect the adoption of a new method of computing non-disability retired pay for members of the armed forces who first became members of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985.

Subsection (a) of section 2 of the bill amends section 1331(a) (relating to age and service requirements for retired pay for non-regular service) to provide that a person who first became a member of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985, is entitled to retired pay for non-regular service only if he is a member of a reserve component at the time he otherwise becomes entitled to such retired pay.

Under current section 1331(a), there is no requirement that a person who is otherwise qualified for retired pay for non-regular service must have a military

status as a precondition to receipt of such pay. The proposed change brings the rules for receipt of retired pay for non-regular service into conformity with the rules for receipt of other types of military retired pay by requiring the recipient of that pay to hold a military status.

Subsection (b) of section 2 of the bill amends section 1401 (relating to computation of retired pay).

Clause (A) of section 2(b)(1) of the bill redesignates the existing text of section 1401 as subsection (a) of section 1401.

Clause (B) of section 2(b)(1) of the bill amends the redesignated subsection (a) by inserting "who first became a member of a uniformed service (as defined in section 1407(a)(2) of this title) before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985, or who is retired for disability under chapter 61 of this title" after "subtitle". This change would limit the computation of retired or retainer pay under section 1401(a) and its table to a person who first became a member of a uniformed service before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985. The existing formula that authorizes 2 1/2 percent for each year of service as a multiplier is preserved for such persons. Similarly, no change is made to the formula for computing the retired pay of a member retired for disability under chapter 61 of title 10 regardless of the date such member became a member of a uniformed service.

Paragraph (2) of section 2(b) of the bill adds a new subsection 1401(b) with a table to reflect a new formula for computing the non-disability retired

pay or retainer pay of a person who first became a member of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985. Under the new formula the percentage factor as prescribed by new section 1407a (retired pay multiplier for members who first became members on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985), added by subsection (g) of section 2 of the bill, would be used to compute retired pay or retainer pay.

Subsection (c) of section 2 of the bill amends section 1402a (relating to recomputation of retired or retainer pay to reflect later active duty).

Paragraph (1) of section 2(c) of the bill redesignates the text of existing section 1402a(a) as section 1402a(a)(1).

Paragraph (2) of section 2(c) of the bill amends the redesignated section 1402a(a)(1) to preserve the formula for the recomputation of retired or retainer pay for members who first became members of a uniformed service (as defined in section 1407(a)(2)) after September 7, 1980, but before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985. That formula provides that in calculating retired or retainer pay to reflect later active duty, the member's monthly retired or retainer pay base would be multiplied by 2 1/2 percent of the sum of the years of service credited to him in computing retired or retainer pay plus his years of active service performed after becoming entitled to retired or retainer pay.

Paragraph (3) of section 2(c) of the bill adds a new paragraph (2) to section 1402a(a) to provide a new formula for the recomputation of retired or

retainer pay of persons who first became members of a uniformed service (as defined in section 1407(a)(2)) on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985. Under the new formula the percentage factor (multiplier) prescribed by new section 1407a, as added by section 2(g) of the bill, would be used to recompute the retired or retainer pay in lieu of the existing system of multiplying 2 1/2 percent times the years of service the member has to his credit in recomputing such pay.

Subsection (d) of section 2 of the bill amends section 1403 (relating to tax treatment of disability retired pay) by inserting "(a)" after "1401" to reflect the redesignation of the existing text of section 1401 as subsection (a).

Subsection (e) of section 2 of the bill contains several amendments to section 1405 (relating to years of service) which add new section references made necessary by the redesignation of the existing text of sections 1401, 3991, 3992, 8991 and 8992 as, in each case, subsection (a), and the addition to each of these sections of a new subsection (b).

Subsection (f)(1) of section 2 of the bill adds a new definition to existing section 1407(a)(2) of title 10. The existing text of section 1407(a)(2) is designated as section 1407(a)(2)(A), and a new clause (B) is added to incorporate the new definition. The new definition makes clear when a member "first became a member of a uniformed service" for the purpose of determining the retirement rules under which the member is eligible to receive retired pay. The definition provides that a person first becomes a member of a uniformed service on the date he is first enlisted or was appointed in a uniformed service

as an officer, an enlisted member, a cadet, or a midshipman, as the case may be. Although the taking of the oath at the time of initial enlistment or appointment often is not coincident with active duty service, entitlement to pay or other indicia of military service, for the purposes of section 1407 the date of initial enlistment or appointment is the date to be used.

Included among those who have become members of a uniformed service for purposes of section 1407 are cadets at the U.S. Military Academy, the U.S. Air Force Academy, the Coast Guard Academy, or midshipmen at the U.S. Naval Academy, students enrolled in the Senior ROTC of an armed force, students in the Uniformed Services University of the Health Science, officer candidates attending Officer Training School and persons in the Delayed Entry Program.

Subsection (f)(2) of section 2 of the bill amends paragraph (3) of section 1407(b) (relating to determining the monthly retired pay base of reservists retired under section 1331) to provide a new method for computing the monthly retired pay base of a reservist who first became a member of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985.

Under the existing provisions of section 1407(b)(3), the monthly retired pay base of a person who first became a member of a uniformed service after September 7, 1980, who is retired under section 1331 of title 10, is one thirty-sixth of the highest total amount of monthly basic pay to which he would have been entitled during any thirty-six month period (whether or not consecutive) during the period he was a member of a uniformed service, had he served on active duty during those months.

Paragraph (2)(A) of subsection (f) redesignates paragraph (3) of section 1407(b) as subparagraph (3)(A).

Paragraph (2)(B) of subsection (f) inserts an introductory "Except as provided in subsection (b)" clause in section 1407(b)(3)(A) to clarify that this provision for determining the retired pay base for non-regular retirees is an exception in subparagraph (B) for persons who first became members on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985.

Paragraph (2)(C) of subsection (f) adds a new subparagraph (3)(B) to section 1407(b) which prescribes a new rule for computing the monthly retired pay base for a person retired under section 1331 who first became a member of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985.

Under that new rule the monthly retired pay base is computed in the same manner as under existing law except that if a reservist who, having been notified under section 1331(d) of title 10 that he has completed the years of service required to qualify for retired pay, is thereafter transferred to an inactive status list or the Retired Reserve, months of membership in a uniformed service thereafter may not be included in the 36 months used for computation of the monthly retired pay base. However, the monthly retired pay base will be increased by the percentage by which the Consumer Price Index increases from the last of the 36 months used in the computation of that base to the month preceding the date on which the member is entitled to retired pay.

Paragraph (1) of section 2(g) of the bill amends chapter 71 of title 10 (relating to computation of retired pay for members of the armed forces) by adding a new section 1407a following section 1407 to provide a new percentage factor (multiplier) for use in the computation of retired or retainer pay of persons who first become members of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985.

Subsection (a) of new section 1407a changes the rules for the computation of the retired or retainer pay of persons who first become members of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985, and who become entitled to retired or retainer pay for any reason other than physical disability or non-regular service. Under current law such persons who have completed 20 or more years of active service are entitled to compute their retired or retainer pay by multiplying 2 1/2 percent times their years of service creditable in computing that pay by either (a) the monthly basic pay of their retired grade if they first became a member of a uniformed service before September 8, 1980, or (b) their monthly retired or retainer pay base if they first became a member of a uniformed service after September 7, 1980.

There is no change in the existing method for computing the retired pay of persons retired for physical disability. There is a change in subsection (b) of new section 1407a for computing retired pay of persons entitled to retired pay for non-regular service (see discussion below).

The table in subsection (a) of section 1407a contains a listing of percentage factors to be used as a multiplier of the monthly retired or retainer pay base for persons who first became members of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985.

The table provides a percentage factor for each of the whole years of service from 20 through 30 which a member has to his credit for use as a multiplier in computing retired or retainer pay. The table is constructed on the basis of a 2.20 percent multiplier for the first 20 years of service and a 3.10 percent multiplier for the years over 20, with a ceiling of 75 percent (which is the same ceiling as under existing law) for persons with 30 or more years of service.

In addition, footnotes to the the table provide a formula for an increase in the percentage factors (by mathematical interpolation between the relevant percentage factors) for additional whole months of creditable service, disregarding any remaining fractional part of a month.

The effect of the proposed new method of computing retired or retainer pay would be to reduce by 12 percent the amount of retired pay for persons retiring with 20 years of service, with a gradual decrease in that reduction for those retired with 21 through 29 years of service and no reduction for those retired with 30 or more years of service. This new method for computing the percentage factor (multiplier) is referred to in the following sections of title 10 (as amended by the bill): 1401, 1402a, 3991, 3992, 6151, 6323, 6325, 6330, 6383, 8991 and 8992.

In addition, this new method of computing the percentage factor (multiplier) is referred to in new subsection (c) of section 423 of title 14 (as added by section 7(b)(4) of the bill), relating to computation of retired pay of members of the Coast Guard; in new paragraph (2) of subsection (a) of section 16 of the Coast and Geodetic Survey Commissioned Officer's Act of 1948 (33 U.S.C. 853o) (as added by section 8(4) of the bill), relating to computing the retired pay of commissioned officers of the National Oceanic and Atmospheric Administration; and in new subparagraph (C) of paragraph (3) of section 210(g) of the Public Health Service Act (42 U.S.C. 211(g)(3) and in new clause (7) of Section 211(a) of such Act (42 U.S.C. 212(a)) (as added by sections 9(a)(3) and 9(b)(4) of the bill, respectively) relating to computing the retired pay of commissioned officers of the Public Health Service.

Subsection (b) of new section 1407a establishes a new rule for computing the retired pay for non-regular service (as authorized under section 1331 of title 10) for a person who first became a member of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985.

Under present law (section 1401 of title 10) a person who has completed 20 or more years of "satisfactory Federal service" as defined in section 1332 of title 10 is, at age 60, entitled to retired pay. That retired pay is computed by multiplying the "years" of service, including fractions thereof (as computed under section 1333 of title 10) by 2 1/2 percent of either (1) the monthly basic pay of the highest grade held satisfactorily at any time, in the case of a

person who first became a member of a uniformed service before September 8, 1980, or (2) the monthly retired pay base as computed under section 1407(b), in the case of a person who first became a member of a uniformed service after September 7, 1980.

Subsection (b) of new section 1407a would modify the computation of retired pay for non-regular service for such persons by applying a percentage factor (multiplier) provided in the table in that subsection to the amount of retired pay as computed under current law. These percentage factors have the effect of preserving the current method of computing the retired pay for non-regular service for reservists with 20 or more years of satisfactory Federal service, but reducing the amount of retired pay for such service at the same rate by which retired pay for persons retired with 20 or more years of active service is reduced under the bill. As with active service retirees, there is no reduction in the retired pay of reservists retired with 30 or more years of satisfactory Federal service.

Paragraph (2) of section 2(g) of the bill adds an item relating to new section 1407a in the table of sections at the beginning of chapter 71 of title 10.

Section 3 of the bill amends subsection (a) of section 1401a of title 10 (relating to adjustments in retired pay or retainer pay to reflect changes in the Consumer Price Index (CPI)) by adding two new definitions of terms, and amends subsection (b) by incorporating a modification of the existing provisions of subsection (b) in paragraph (1)(A), adding a new paragraph (1)(B), and adding new paragraphs (2) and (3).

Subsection (a) of section 1401a currently defines the term "Index" in the second sentence to mean the Consumer Price Index (all items, United States city average) published by the Bureau of Labor Statistics. As currently understood and applied the phrase "Consumer Price Index (all items, United States city average)", refers to the Consumer Price Index for urban wage earners and clerical workers. For purposes of clarity, the term "Index" is changed to "price index", with no change in the meaning. Because of changes made in subsection (b) of section 1401a, the terms "base quarter" and "price index for a base quarter" are also defined in the second sentence of subsection (a), conforming them to their usage and definition in section 8340 of title 5, the current basis for cost of living adjustments in retired and retainer pay. "Base quarter" is defined as the calendar quarter ending on September 30 of each year, and "price index for a base quarter" is defined as the arithmetical mean of the price index for the three months comprising the base quarter.

Subsection (b) of section 1401a currently provides that each time the annuities authorized for civil service annuitants under subchapter III of chapter 83 of title 5 are increased to reflect increases in the cost of living, the Secretary of Defense shall at the same time increase the retired or retainer pay of members of the armed forces by the same percent as the percentage by which those annuities are increased. Paragraph (1) of amended section 1401a(b) provides for the Secretary of Defense to issue regulations which will provide for CPI increases in a manner similar to that currently authorized, except that instead of the increases being linked to the determination of increases for civil service annuitants they will be determined directly by the Secretary of Defense based on the Consumer Price Index.

Clause (A) of amended section 1401a(b)(1) provides for increases for members of the armed services who first became members of a uniformed service before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985, or who are retired under chapter 61 of title 10 United States Code on the same basis as under the current system. Such members are "grandfathered" with respect to cost of living increases.

Clause (B) of amended section 1401a(b)(1) will reduce by one percent the amount of the periodic CPI increases for those retired members of the armed forces who first became members of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985, and are not entitled to retired pay for disability under chapter 61 of title 10.

Paragraph (2) of amended section 1401a(b) provides for a one-time "catch up" by means of a recomputation of the retired or retainer pay of any member of the armed forces (other than a member retired under chapter 67 of title 10) whose retired pay or retainer pay was reduced in accordance with the provisions of paragraph (1)(B) of section 1401a(b), with the recomputation to occur on the date of the first increase in retired pay authorized under the provisions of paragraph (1)(B) after the member completes 40 years as a member of a uniformed service. The retired pay that such a member is entitled to receive at

the time of that recomputation is an amount equal to the amount of retired pay that member would have been entitled to receive if the provisions for reducing that pay in paragraph (1)(B) had not been in effect. Thereafter, such a member would continue to receive CPI increases with the reductions as provided in paragraph (1)(B). The retired pay of reservists retired under chapter 67 of title 10 is not recomputed under this paragraph because their retired pay base was initially adjusted at the time of retirement under section 1407(b)(3)(B) of Title 10 as amended by the bill.

Paragraph (3) of amended section 1401a(b) defines "years as a member of a uniformed service" for the purpose of this subsection. Such years include all periods of service creditable for determining the member's basic pay under section 205 of title 37 at the time he retires, as well as all periods while entitled to retired pay. A restriction provides that no period may be counted more than once.

Section 4 of the bill amends subtitle B of title 10 by amending sections 3991 and 3992 as they relate to the computation of retired pay of members of the Army who first became members of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985. The amendments require the use of the percentage factor (multiplier) prescribed in new section 1407a, as added by subsection (g) of section 2 of the bill, rather than the formula prescribed in existing law.

Subsection (a) of section 4 of the bill amends section 3991 (relating to computation of retired pay of members of the Army) as follows:

Clause (A) of section 4(a)(1) of the bill redesignates the text of existing section 3991 as subsection 3991(a).

Clause (B) of section 4(a)(1) of the bill amends the redesignated subsection 3991(a) by inserting "who first became a member of a uniformed service (as defined in section 1407(a)(2) of this title) before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985," after "subtitle". This change limits the computation of retired pay under new subsection 3991(a) to a member who first became a member of a uniformed service before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985. Thus, it preserves for such members the entitlement to use the current formula that authorizes 2 1/2 percent for each year of creditable service as a multiplier in computing their retired pay.

Paragraph (2) of section 4(a) of the bill adds "(a)" after "1401" in the fourth sentence of subsection 3991(a), as redesignated, to reflect the redesignation of the existing text of section 1401 as section 1401(a).

Paragraph (3) of section 4(a) of the bill adds a new subsection (b) to section 3991 to provide a new formula for computing the retired pay of a member who first became a member of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985. Under the new formula the percentage factor (multiplier) prescribed by new section 1407a, as added by section 2(g) of the bill, would be used to compute retired pay. These changes correspond to the changes made to section 1401 by section 2(b) of the bill.

Subsection (b) of section 4 of the bill amends section 3992 (relating to recomputation of retired pay to reflect advancement on the retired list of members of the Army).

Paragraph (1) of section 4(b) of the bill incorporates the substance of the existing section 3992 in subsection 3992(a) and limits the recomputation of retired pay for an enlisted member and a warrant officer advanced to a higher grade under the provisions of redesignated subsection (a) to a member who first became a member of a uniformed service before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985. This change preserves for such members the entitlement to use the existing formula that authorizes 2 1/2 percent for each year of service as a multiplier in computing their retired pay.

Paragraph (2) of section 4(b) of the bill adds a new subsection (b) to section 3992 to provide a new formula for recomputing retired pay of enlisted members and warrant officers upon advancement on the retired list to a higher grade. Under the new formula, the percentage factor (multiplier) prescribed by new section 1407a, as added by section 2(g) of the bill, would be used to recompute retired pay.

Section 5 of the bill amends subtitle C of title 10 by amending sections 6151, 6323, 6325, 6330 and 6383 as they relate to the computation of retired or retainer pay of members of the Navy and Marine Corps who first became members of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985, to require the use of the percentage factor (multiplier) prescribed in new section 1407a, as added by

section 2(g) of the bill, rather than the formula prescribed in current law. Under existing law members of the Navy and Marine Corps are entitled to compute their retired or retainer pay by multiplying 2 1/2 percent times the years of service creditable in computing their retired or retainer pay by either (a) the monthly basic pay of the grade in which retired, if they first became a member of a uniformed service before September 8, 1980, or (b) their monthly retired or retainer pay base, if they first became a member of a uniformed service after September 7, 1980.

Subsection (a) of section 5 of the bill amends subsections (b) and (c) of section 6151 of title 10 (relating to determination of higher retired grade and pay in the case of persons advanced on the retired list). Under existing section 6151(b)(1)(A), a person (other than a former member of the Fleet Reserve or Fleet Marine Corps Reserve) who first became a member of a uniformed service before September 8, 1980, and who is advanced on the retired list to a higher grade, is entitled to compute his retired pay by multiplying the monthly basic pay for that higher grade by 2 1/2 percent of the years of service credited to him under section 1405 of title 10. That provision is not changed.

Clause (A) of section 5(a)(1) of the bill amends section 6151(b)(1)(B) by striking out the words "on or after September 8, 1980" and inserting in lieu thereof the words "after September 7, 1980, but before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985,". The effect of this change is to limit the applicability of the retired pay formula in clause (B) of section 6151(b)(1) to members of the Navy and Marine Corps (other than former members of the Fleet Reserve or Fleet Marine Corps Reserve who are covered by section 6151(c)(2) (see discussion below of section 5(a)(2)(A) of the

bill)) advanced on the retired list who first became members of a uniformed service after September 7, 1980 but before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985. This change is required in view of the new method prescribed in new paragraph (2) of section 6151(b), as added by section 5(a)(1)(C) of the bill (see discussion below), for computing the retired pay for persons advanced on the retired list who first became members of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985.

Clause (B) of section 5(a)(1) of the bill redesignates existing paragraph (2) of section 6151(b) as paragraph (3).

Clause (C) of section 5(a)(1) of the bill amends section 6151(b) by adding a new paragraph (2) which provides that a member of the Navy and Marine Corps (other than a former member of the Fleet Reserve or Fleet Marine Corps Reserve) who first became a member of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985, and who is advanced on the retired list shall, in the computation of his retired pay, use the percentage factor (multiplier) prescribed by new section 1407a, as added by section 2(g) of the bill, rather than the formula prescribed in current law.

Clause (A) section 5(a)(2) of the bill amends section 6151(c) by striking out the words "on or after September 8, 1980" in paragraph (2) and inserting "after September 7, 1980, but before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985," in lieu thereof. The effect of that change is to limit the applicability of the existing retired pay formula in

section 6151(c)(2) (relating to advancement on the retired list of former members of the Fleet Reserve or Fleet Marine Corps Reserve) to those members who first became members of a uniformed service after September 7, 1980, but before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985.

Clause (B) of section 5(a)(2) of the bill amends section 6151(c) by adding a new paragraph (3) which provides that each former member of the Fleet Reserve or Fleet Marine Corps Reserve who first became a member of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985, and who is advanced on the retired list, shall, in the computation of his retired pay, use the percentage factor (multiplier) prescribed in new section 1407a, as added by section 2(g) of the bill, rather than the formula prescribed in current law.

Subsection (b) of section 5 of the bill amends subsection (e) of section 6323 (relating to retirement of officers after 20 years of service).

Paragraph (1) of section 5(b) of the bill amends section 6323(e) by inserting "(1)" after "(e)" to reflect the redesignation of the existing text (as amended) as paragraph (1).

Paragraph (2) of section 5(b) of the bill amends section 6323(e) by redesignating existing paragraphs (1) and (2) as clauses (A) and (B), and by amending clause (B), as redesignated, by striking out the words "on or after September 8, 1980" and inserting "after September 7, 1980, but before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of

1985," in lieu thereof. The effect of this change is to limit the applicability of the retired pay formula in the redesignated clause (B) of section 6323(e)(1) to those officers who first became members of a uniformed service after September 7, 1980, but before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985.

Paragraph (3) of section 5(b) of the bill amends section 6323(e) by adding a new paragraph (2) which provides that an officer retired under section 6323(e) who first became a member of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985, shall, in the computation of his retired pay, use the percentage factor (multiplier) prescribed in new section 1407a, as added by section 2(g) of the bill, rather than the formula prescribed in current law.

Subsection (c)(1) of section 5 amends section 6325(a)(2) (relating to retired grade and pay of certain officers of the Navy and Marine Corps).

Clause (A) of section 5(c)(1) of the bill strikes out "; or" at the end of clause (A) of section 6325(a)(2) and adds language providing that the monthly basic pay would be multiplied by the years of service credited under section 1405, but that the amount of retired pay so computed could not exceed 75 percent of the monthly basic pay of the member's retired grade. The added language merely relocates in clause (A) the existing text currently contained in the last sentence of section 6325(a)(2), which is deleted by clause (D) of section 5(c)(1) of the bill (see discussion below).

Clause (B) of section 5(c)(1) of the bill amends clause (B) of section 6325(a)(2) by limiting the applicability of the retired pay formula to those officers who first became members of a uniformed service after September 8, 1980, but before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985. This change is necessary in view of the new rule for such officers set out in new clause (C) added to section 6325(a)(2) by clause (E) of section 5(c)(1) of the bill (see discussion below).

Clause (C) of section 5(c)(1) of the bill further amends clause (B) of section 6325(a)(2) by striking out the semicolon at the end and adding language providing that the monthly retired pay base would be multiplied by the years of service credited under section 1405, but that the amount of retired pay computed under that clause could not exceed 75 percent of the monthly retired pay base. The added language merely relocates in clause (B) the existing text currently contained in the last sentence of section 6325(a)(2), which is deleted by clause (D) of section 5(c)(1) of the bill (see discussion below).

Clause (D) of section 5(c)(1) of the bill deletes from paragraph (2) of section 6325(a) the existing language which has been inserted in clause (A) and clause (B) of section 6325(a)(2) by clauses (A) and (C) of section 5(c)(1) of the bill (see discussion above).

Clause (E) of section 5(c)(1) of the bill adds a new clause (C) to section 6325(a)(2). New clause (C) provides that in the case of an officer who first became a member of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985, his retired pay would be computed by using the percentage factor (multiplier) prescribed in new section 1407a, as added by section 2(g) of the bill.

Subsection (c)(2) of section 5 of the bill amends section 6325(b)(2) (relating to retired grade and pay of certain officers of the Navy and Marine Corps).

Clause (A) of subsection 5(c)(2) of the bill strikes out "; or" at the end of clause (A) of section 6325(b)(2) and adds language providing that the monthly basic pay would be multiplied by the years of service credited under section 1405, but that the amount of retired pay so computed could not exceed 75 percent of the monthly basic pay of the member's retired grade. The added language merely relocates in clause (A) the existing text of the language currently contained in the last sentence of section 6325(b)(2), which is deleted by clause (D) of section 5(c)(2) of the bill (see discussion below).

Clause (B) of section 5(c)(2) of the bill amends clause (B) of section 6325(b)(2) by limiting the applicability of the retired pay formula to those officers who first became members of a uniformed service after September 8, 1980, but before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985. This change is necessary in view of the new rule for such officers set out in new clause (C) as added by clause (E) of section 5(c)(2) of the bill (see discussion below).

Clause (C) of section 5(c)(2) of the bill further amends clause (B) of section 6325(b)(2) by striking the semicolon at the end and adding language providing that the monthly retired pay base would be multiplied by the years of service credited under section 1405, but that the amount of retired pay so

computed could not exceed 75 percent of the monthly retired pay base. The added language merely relocates in clause (B) the existing text currently contained in the last sentence of paragraph (2), which is deleted by clause (D) of section 5(c)(2) of the bill (see discussion below).

Clause (D) of section 5(c)(2) of the bill deletes from paragraph (2) of section 6325(b) the existing language which has been inserted in clause (A) and clause (B) of section 6325(b)(2) by clauses (A) and (C) of section 5(c)(2) of the bill (see discussion above).

Clause (E) of section 5(c)(2) of the bill adds a new clause (C) to section 6325(b)(2), which provides that in the case of an officer who first became a member of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985, his retired pay would be computed by using the percentage factor (multiplier) prescribed in new section 1407a, as added by section 2(g) of the bill.

Subsection (d) of section 5 of the bill amends paragraph (1) of section 6330(c) (relating to transfer of enlisted members of the Navy and Marine Corps to the Fleet Reserve or the Fleet Marine Corps Reserve and the computation of retainer pay for those so transferred). Under existing law enlisted members of the Navy and Marine Corps who are transferred to the Fleet Reserve or the Fleet Marine Corps Reserve are entitled to compute their retainer pay by multiplying 2 1/2 percent times the years of service creditable in computing their retainer pay by either (a) the monthly basic pay of the grade in which so transferred, if they first became a member of a uniformed service before September 8, 1980, or (b) their monthly retainer pay base if they first became a member of a uniformed service after September 7, 1980.

Paragraph (1) of subsection 5(d) amends clause (A) of section 6330(c)(1) by deleting the word "or" at the end and incorporating in clause (A) the existing text at the end of paragraph (1), which has the effect of preserving the current method of computing retainer pay for those enlisted members of the Navy and Marine Corps who first became members of a uniformed service before September 8, 1980.

Paragraphs (2) and (3) of section 5(d) of the bill amend clause (B) of section 6330(c)(1) by deleting the words "on or after September 8, 1980," and inserting the words "after September 7, 1980, but before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985," in lieu thereof, and by deleting the semicolon at the end and adding "multiplied by the number of years of active service in the armed forces; or". These changes preserve the formula contained in that clause for those persons who first became members of a uniformed service after September 7, 1980, but before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985.

Paragraph (4) of section 5(d) of the bill deletes the language at the end of section 6330(c)(1) made surplus by the amendments to paragraphs (1)(A) and (1)(B) of section 6330(c).

Paragraph (5) of section 5(d) of the bill adds new clause (C) to section 6330(c)(1) to provide that an enlisted member of the Fleet Reserve or Fleet Marine Corps Reserve who first became a member of a uniformed service on or

after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985, shall, in the computation of his retainer pay, use the new percentage factor (multiplier) prescribed in new section 1407a, as added by section 2(g) of the bill, rather than the formula prescribed in existing law.

Subsection (e) of section 5 of the bill amends paragraph (2) of section 6383(c) (relating to the retirement and computation of retired pay of certain officers of the regular Navy and Marine Corps) by restructuring existing clauses (A) and (B) and by adding a new clause (C).

Clause (A) of section 6383(c)(2) is amended by incorporating within the clause the language at the end of paragraph (2). This preserves the formula prescribed in existing law for computing the retired pay of those officers who first became members of a uniformed service before September 8, 1980.

Clause (B) of section 6383(c)(2) is amended by incorporating within the clause the language at the end of paragraph (2). This preserves the formula prescribed in existing law for computing the retired pay of those officers who first became members of a uniformed service after September 7, 1980, but before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985.

A new clause (C) of section 6383(c)(2) is added. This clause provides that those officers retired under section 6383 who first became members of a uniformed service on or after the date of the enactment of the Uniformed

Services Retirement Cost Reduction Act of 1985, shall, in the computation of their retired pay, use the percentage factor (multiplier) prescribed in new section 1407a, as added by section 2(g) of the bill, rather than the formula prescribed in current law.

Section 6 of the bill amends subtitle D of title 10 by amending sections 8991 and 8992 as they relate to the computation of retired pay of members of the Air Force who first became members of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985. The amendments require the use of the percentage factor (multiplier) prescribed in new section 1407a, as added by section 2(g) of the bill, rather than the formula prescribed in existing law.

Subsection (a) of section 6 of the bill amends section 8991 (relating to computation of retired pay of members of the Air Force) as follows:

Clause (A) of section 6(a)(1) of the bill redesignates the text of existing section 8991 as subsection 8991(a).

Clause (B) of section 6(a)(1) of the bill amends the redesignated subsection 8991(a) by inserting "who first became a member of a uniformed service (as defined in section 1407(a)(2) of this title) before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985," after "subtitle". This change limits the computation of retired pay under new subsection 8991(a) to a member who first became a member of a uniformed service

before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985. Thus, it preserves for such members the entitlement to use the current formula that authorizes 2 1/2 percent for each year of creditable service as a multiplier in computing their retired pay.

Paragraph (2) of section 6(a) of the bill adds "(a)" after "1401" in the fourth sentence of subsection 8991(a), as redesignated, to reflect the redesignation of section 1401 as section 1401(a).

Paragraph (3) of section 6(a) of the bill adds a new subsection (b) to section 8991 to provide a new formula for computing the retired pay of a member who first became a member of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985. Under the new formula the percentage factor (multiplier) prescribed by new section 1407a, as added by section 2(g) of the bill, would be used to compute retired pay. These changes correspond to the changes made to section 1401 by section 2(b) of the bill.

Subsection (b) of section 6 of the bill amends section 8992 (relating to recomputation of retired pay to reflect advancement on the retired list of members of the Air Force).

Paragraph (1) of section 6(b) of the bill incorporates the substance of the existing section 8992 in subsection 8992(a) and limits the recomputation of retired pay for an enlisted member and a warrant officer advanced to a higher grade under the provisions of redesignated subsection (a) to a member who first became a member of a uniformed service before the date of the enactment of the

Uniformed Services Retirement Cost Reduction Act of 1985. This change preserves for such members the entitlement to use the existing formula that authorizes 2 1/2 percent for each year of service as a multiplier in computing their retired pay.

Paragraph (2) of section 6(b) of the bill adds a new subsection (b) to section 8992 to provide a new formula for recomputing retired pay of enlisted members and warrant officers upon advancement on the retired list to a higher grade. Under the new formula, the percentage factor (multiplier) prescribed by new section 1407a, as added by section 2(g) of the bill, would be used to recompute retired pay.

Section 7 of the bill amends title 14 in section 288 (relating to the retirement of captains), section 423 (relating to computation of retired pay), and section 424 (relating to limitations on retirement and retired pay) to reflect the adoption of the new method of computing non-disability retired pay for members of the Coast Guard who first became members of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985.

Subsection (a) of section 7 of the bill amends section 288(b) (relating to retirement of regular captains) by inserting "and (c)" after "section 423(b)" to reflect the amendment of section 423 by section 7(b) of the bill.

Subsection (b) of section 7 of the bill amends section 423 (relating to computation of retired pay).

Paragraph (1) of section 7(b) of the bill amends the first sentence of subsection 423(a) by inserting "and (c)" after "subsection (b)" to include new subsection (c) in the opening "Except as provided" clause.

Paragraph (2) of section 7(b) of the bill amends the fourth sentence of subsection 423(a) by inserting "or by which the percentage factor is determined under subsection (c)" after "multiplied" to reflect the new method of computing retired pay under new subsection (c).

Paragraph (3) of section 7(b) of the bill amends section 423(b) by inserting "but before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985" after "September 7, 1980,". This change preserves the existing entitlement that authorizes 2 1/2 percent for each year of service as a multiplier in computing the retired pay of a member of the Coast Guard who first became a member of a uniformed service after September 7, 1980, but before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985.

Paragraph (4) of section 7(b) of the bill adds a new subsection (c) to section 423 to provide a new formula for computing the retired pay of a member who first became a member of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985. Under the new formula the percentage factor (multiplier) prescribed by new section 1407a of title 10, as added by section 2(g) of the bill, would be used to compute retired pay. This new formula does not apply to the computation of disability retired pay.

Subsection (c) of section 7 of the bill amends section 424 by striking the word "The" in the first sentence and inserting "Except as provided in section 423 (b) and (c) of this title, the" in lieu thereof. This amendment makes clear that the limitations in section 424 do not affect the computation of retired pay in section 423 (b) or (c).

Section 8 of the bill amends section 16(a) of the Coast and Geodetic Survey Commissioned Officers' Act of 1948 (section 853o of title 33) (relating to computation of retired pay of commissioned officers of the National Oceanic and Atmospheric Administration) to reflect the new method of computing non-disability retired pay for commissioned officers of the National Oceanic and Atmospheric Administration who first become members of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985.

Paragraphs 1 and 2 of section 8 of the bill insert "(1)" after "(a)", thereby redesignating section 16(a) as 16(a)(1), and redesignate existing paragraphs (1) and (2) of section 16(a) as clauses (A) and (B), respectively.

Paragraph (3) of section 8 amends redesignated clause (B) by striking out "on or after September 8, 1980," and inserting in lieu thereof "after September 7, 1980, but before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985,". This change preserves the existing entitlement that authorizes 2 1/2 percent for each year of service as a multiplier in computing the retired pay of a commissioned officer of the National Oceanic and Atmospheric Administration who first became a member of a uniformed service before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985.

Paragraph (4) of section 8 adds a new paragraph (2) to section 16(a) to reflect the new formula for computing the retired pay of a commissioned officer who first became a member of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985. Under the new formula the percentage factor (multiplier) prescribed by new section 1407a of title 10, as added by section 2(g) of the bill, would be used to compute retired pay. This new formula does not apply to the computation of disability retired pay.

Section 9 of the bill amends section 210(g)(3) of the Public Health Service Act (section 211(g)(3) of title 42) (relating to separation and retirement of officers upon failure of section for promotion) and section 211 of that Act (section 212 of title 42) (relating to retirement of commissioned officers) to reflect the adoption of the new method of computing non-disability retired pay for commissioned officers of the Public Health Service who first became members of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985.

Section 9(a) of the bill amends section 210(g)(3) of the Public Health Service Act (section 211(g)(3) of title 42) (relating to computation of retired pay of commissioned officers).

Paragraph (1) of section 9(a) of the bill strikes out "or" at the end of subparagraph (A) of section 210(g)(3).

Paragraph (2) of section 9(a) of the bill amends subparagraph (B) of section 210(g)(3) by striking out "on or after September 8, 1980," and inserting in lieu thereof "after September 7, 1980, but before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985," and by striking out the period at the end thereof and inserting "; or" in lieu thereof. This amendment reflects that subparagraph (B) applies only to officers who first became members of a uniformed service after September 7, 1980, but before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985, and preserves the existing method of computing their retired pay.

Paragraph (3) of section 9(a) of the bill adds to section 210(g)(3) a new subparagraph (C) that contains a new formula for computing the retired pay of an officer who first became a member of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985. Under the new formula the percentage factor (multiplier) prescribed by new section 1407a of title 10, as added by section 2(g) of the bill, would be used to compute retired pay. This new formula does not apply to the computation of disability retired pay.

Paragraph (b) of section 9 of the bill contains three amendments to section 211(a) of the Public Health Service Act (section 212(a) of title 42).

Paragraph (1) of section 9(b) of the bill amends the first sentence of paragraph 4 of section 211(a) by inserting "or (7)" after "paragraph (6)" to include reference to new paragraph (7).

Paragraph (2) of section 9(b) of the bill redesignates existing paragraph (7) of section 211(a) as paragraph (8).

These first two amendments to section 211(a) preserve the existing entitlement that authorizes 2 1/2 percent for each year of service as a multiplier in computing the retired pay of a commissioned officer who first became a member of a uniformed service before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985.

Paragraph (3) of section 9 of the bill adds a new paragraph (7) to section 211(a) that contains a new formula for computing the retired pay of a commissioned officer of the Public Health Service who first became a member of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985. Under the new formula the percentage factor (multiplier) prescribed by new section 1407a of title 10, as added by section 2(g) of the bill, would be used to compute retired pay. This new formula does not apply to the computation of disability retired pay.



ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301-4000

FORCE MANAGEMENT
AND PERSONNEL

01 NOV 1985

Mr. Alton G. Keel
Associate Director for National
Security and International Affairs
Office of Management and Budget
Washington, D.C. 20503

Dear Mr. Keel:

The pending Defense Authorization Bill for fiscal year 1986 requires the Department of Defense to submit a report to the Congress that contains draft legislation on at least two options to reduce military retirement accrual funding by \$2.9 billion. Further, we understand that the Senate Budget Committee is stipulating in its pending legislation that the required report be submitted within ten days following the date of enactment.

Upon enactment of the Authorization Act, the Department is prepared to submit the required report immediately. A copy of the report is enclosed, together with a summary of the retirement changes. Our compliance should not be construed to mean that the Department supports the included legislative drafts. To the contrary, the forwarding report states that we are opposed to this significant degradation in military retirement compensation for the men and women who will serve in the future. Additionally, the effect of the Congressionally imposed reduction will not complement our efforts to maintain a strong combat readiness capability.

In order to comply with the anticipated Congressional requirements, your clearance of the enclosed report is requested as soon as possible.

Sincerely,

A handwritten signature in cursive script, appearing to read "Jerry L. Callahan".

Jerry L. Callahan
ASST. SECY. OF DEFENSE
(Force Management and Personnel)

Enclosures



THE SECRETARY OF DEFENSE

WASHINGTON, THE DISTRICT OF COLUMBIA

Honorable George Bush
President of the Senate
Washington, D.C. 20510

Dear Mr. President:

The enclosed report complies with the requirements of section 667 of the Defense Authorization Act for fiscal year 1986.

Included in the report are drafts of the two pieces of legislation that would change the military non-disability retirement system. Each would result in a reduction in military retirement accrual funding of \$2.9 billion in fiscal year 1986 as mandated by the Congress. This is a 16 percent reduction in military retired pay from the current system and is in addition to the 13 percent reduction that was imposed by the Congress in the high-three-year averaging adjustment in 1980.

Although the Department of Defense has prepared the draft legislation as required by the Congress, I want to make it absolutely clear that such action is not to be construed as support for either of the options for change. To the contrary, the Department of Defense is steadfastly opposed to the significant degradation in future combat readiness that would result from the changes required to achieve the mandated reduction. I am particularly concerned about the potential loss of mid-level officers, NCOs and Petty Officers who provide the first-line leadership and technical know-how so vital to the defense mission. Unless offsetting compensation is provided, our models conservatively indicate that our future manning levels in the 10 to 30 year portion of the force would drop below the dismal levels of the late 1970s when aviator shortages and shortfalls in Army NCO and Navy Petty Officer leadership seriously degraded our national security posture.

While the changes we have been required to submit technically affect only future entrants, we expect an insidious and immediate effect on the morale of the current force. No matter how the reduction is packaged, it communicates the same message, i.e., the perception that there is an erosion in support from the American people for the Service men and women whom we call upon to ensure our safety. It says in absolute terms that the unique, dangerous and vital sacrifices they routinely make are not worth the taxpayers' dollars they receive, which is not overly generous. I do not believe the majority of the American people support this view and ask that you consider this in your deliberations on this very crucial issue to our national security.

Enclosure



THE SECRETARY OF DEFENSE

WASHINGTON, THE DISTRICT OF COLUMBIA

Honorable Thomas P. O'Neill, Jr.
Speaker of the House of
Representatives
Washington, D.C. 20515

Dear Mr. Speaker:

The enclosed report complies with the requirements of section 667 of the Defense Authorization Act for fiscal year 1986.

Included in the report are drafts of the two pieces of legislation that would change the military non-disability retirement system. Each would result in a reduction in military retirement accrual funding of \$2.9 billion in fiscal year 1986 as mandated by the Congress. This is a 16 percent reduction in military retired pay from the current system and is in addition to the 13 percent reduction that was imposed by the Congress in the high-three-year averaging adjustment in 1980.

Although the Department of Defense has prepared the draft legislation as required by the Congress, I want to make it absolutely clear that such action is not to be construed as support for either of the options for change. To the contrary, the Department of Defense is steadfastly opposed to the significant degradation in future combat readiness that would result from the changes required to achieve the mandated reduction. I am particularly concerned about the potential loss of mid-level officers, NCOs and Petty Officers who provide the first-line leadership and technical know-how so vital to the defense mission. Unless offsetting compensation is provided, our models conservatively indicate that our future manning levels in the 10 to 30 year portion of the force would drop below the dismal levels of the late 1970s when aviator shortages and shortfalls in Army NCO and Navy Petty Officer leadership seriously degraded our national security posture.

While the changes we have been required to submit technically affect only future entrants, we expect an insidious and immediate effect on the morale of the current force. No matter how the reduction is packaged, it communicates the same message, i.e., the perception that there is an erosion in support from the American people for the Service men and women whom we call upon to ensure our safety. It says in absolute terms that the unique, dangerous and vital sacrifices they routinely make are not worth the taxpayers' dollars they receive, which is not overly generous. I do not believe the majority of the American people support this view and ask that you consider this in your deliberations on this very crucial issue to our national security.

Enclosure



DOD REPORT TO THE CONGRESS

ON OPTIONS TO

REDUCE MILITARY RETIREMENT ACCRUAL FUNDING

IN FISCAL YEAR 1986

SECTION 1

INTRODUCTION

This report on the military retirement system is submitted in accordance with section 667 of the Department of Defense Authorization Act, 1986.

Military Retirement System: Unlike the majority of retirement programs in the civilian sector, the military retirement system is not an old-age income maintenance plan. Rather, it is designed and intended to operate as an element of the military compensation structure and as an element of the personnel management system. Retired pay has been characterized by the Supreme Court as reduced pay for reduced military service on the basis that members retain their military status, remain subject to the Uniform Code of Military Justice, and are subject to recall to military duty. Indeed, contingency mobilization plans include the recall of retired members to supplement the active standing force and reserve force.

Unlike civilian retirement plans, there are no rights of ownership to military retired pay--receipt is a conditional entitlement subject to the provision of continued enabling legislation. These statutory restrictions and limitations are not resident in any civilian retirement program, public or private, and have been enacted into law recognizing the governmental function to provide for the security and defense of the nation. As such, statutory requirements extend sovereign authority to the retired military community and set aside certain personal freedoms, rights, and entitlements for the common good of the country. This basic function of government--to provide for the defense and protection of the citizenry--has been reflected in the military retirement laws and underlies its basic purpose.

As a personnel management tool, the retirement system operates as a retention incentive and an egress mechanism to shape and sustain the force compatible with the defense requirements and readiness capability that must be maintained to fulfill the national defense mission. Through retirement and separation, the age/skill/experience mix of the active force is kept in proper balance with military requirements. This reflects the necessity of maintaining a youthful and vigorous force capable of sustained combat, of providing a means of enhancing the flow of experience and talent through the force, and of offering a means to remove selectively individuals from the force consistent with the force profile requirements. For individuals it offers an incentive for career commitments, and for management it permits selective retention to maintain a quality force.

Many proponents of change advocate revision based upon cost considerations only without regard to the effect on force

composition or readiness capability. Such criticism fails to recognize the national policy to maintain a standing force of at least two million since the mid-1950s. That force size is now reflected in a maturing retirement system--the force size is stabilizing. In concert with continued control of inflation, retired pay growth will stabilize and cease to be a cost growth issue.

Military Service--"A Way of Life": The most common misconception among critics of military compensation is the equating of military service with civilian employment. The two are distinctly different. Military service is distinctly different from civilian employment by the very nature of such service. To be a member of the military service is to agree to accept the surrender of certain personal freedoms. There is no such sacrifice in civilian employment. The Service member can be ordered to go anywhere at anytime. He has taken an oath to serve. If the member does not like the orders he receives, e.g., the location of the next duty station, he cannot change jobs. No civilian job restricts the personal freedom of an individual in this way.

A military career demands long hours of work with no overtime pay, forced family separations, frequent exposure to risk, inability to control one's working and living conditions, the acceptance of a highly disciplined life and the abridgment of individual freedoms: It takes unique people to give of themselves in such measure. In times of war, the American civilian sector has proven it can match that sacrifice for long periods. But the American public has clearly demonstrated its reluctance to accept that measure of sacrifice as a continuing way of life. While personal satisfaction can be achieved through a military career, Service members know that their personal preferences must be subordinated to the good of the military unit (whether it be an infantry squad or the crew of a ship or aircraft) and of the entire nation. Thus, the call to serve in the armed forces is less a "job" and more "a way of life." Because it is a way of life, body and soul, the compensation structure is entirely different.

The way of life is not limited to the Service member alone. It is a way of life for the military family as well. Military service involves both frequent and lengthy periods of separation from the family. The spouse is forced to assume the role of a single parent with all the pressures and responsibilities that entails. The Service member is often absent as the children grow, when they enter school, and as they attempt to adjust to a new environment incident to frequent moves. The spouse attempts to obtain employment and finds that the periodic moves result in higher unemployment rates and lower salaries for the working military spouse. Finally, the military member and his family realize that many of his civilian counterparts have developed an equity in their home that represents a savings that can be used in old age or to finance the children's education. The periodic

moves, time overseas and government housing develop no such savings. The Service member's primary savings is the military retirement pay he has developed through years of service to the nation.

Basic Question: If military retirement benefits are too great or too lucrative as some have claimed, why do so few remain for a career? The fact is that given existing pay and the existing military retirement system, additional reenlistment bonus funding has been required to retain Service members. The reduced retirement benefit implemented in 1980 for new entrants--high-3-- has decreased the average value of military retirement pay by 13 percent. This reduction will affect retention in the early 1990s as Service members reach their second reenlistment point and evaluate military retirement pay as an incentive.

Events Leading to This Report: Until 1984, military retired and retainer pay was financed on a "pay-as-you-go" basis. Funds to defray the costs of retired and retainer pay entitlements of retired military personnel were appropriated annually by Congress and charged to the Department of Defense operating budget. Partially because this method of financing military retirement pay did not adequately recognize the future costs of current manpower and force-structuring decisions, and partially because it was not consistent with the then-current practice of private sector employers under the Employee Retirement Income Security Act of 1974, Congress adopted, in the Department of Defense Authorization Act, 1984, a requirement to establish a Department of Defense Military Retirement Fund (see sections 1461 through 1467 of title 10, United States Code).

Accordingly, the Department of Defense now "pays" for military retirement benefits when they are being earned by members of the active duty force and the selected reserve, not when such members later become entitled to benefits. Actuarially determined payments that represent the accrued cost of future military retirement payments attributable to a given year's service by members of the armed forces are made to the Fund for that year. Because such payments appear in the Department of Defense personnel budget each year, the Congress reviews future retirement costs annually.

In reviewing the Department of Defense's proposed budget for fiscal year 1986 for authorization purposes, both the House and Senate Committees on Armed Services recommended a ceiling on the total dollars available for transfer to the Military Retirement Fund. The Senate recommended a reduction of \$1.8 billion, while the House recommended \$4 billion. The Committee of Conference on S. 1160 agreed on \$2.9 billion.

Pursuant to that agreement, the Secretary of Defense was instructed to submit two alternative proposals for changing the non-disability retirement system to achieve the \$2.9 billion reduction. One of the proposals was to achieve the required

reduction by changes to the military retirement system other than by changing the procedure for periodic cost-of-living adjustments, i.e., structure-only change; the second was unconstrained.

The Congressional guidance provided that changes should not apply to any individual already retired or to any individual who had entered the military before the effective date of the legislation; that such changes should, to the extent compatible with military requirements, encourage members who become eligible for retirement after completing 20 years of service to remain on active duty; and that the actuarial methods and assumptions used to calculate the savings shall be the same as those approved by the Board of Actuaries for use in calculating the military retirement accrual funding in the President's budget for FY 86.

Report: The report is organized into six sections and responds to the specific requests of Congress as follows:

- This, the first section provides background information on the military retirement system, summarizes events leading to the report, and provides an outline of the report.
- The second describes the two options developed in response to Congressional direction to reduce retirement accrual funding by \$2.9B in FY 86.
- In the third section, several quantitative methods are used to analyze the impact of these options on the individual, on retention and recruiting and on combat readiness.
- The fourth section provides the Department's views on a four-year transition plan.
- In the fifth section, the Department's views are provided on adjustments to other personnel or military compensation policies that would be required should retirement benefits be reduced.
- Finally, the sixth section analyzes the impact of the five specified levels of military retirement accrual funding reduction--\$1.8B, \$2.9B, \$3.6B, \$4.0B, and \$5.4B--employing the quantitative methods used to analyze the impact of the two options in the third section.

Tables and figures are included in the sections they support. The draft legislation for the two options to reduce retirement accrual by \$2.9B in FY 86 are attached as Appendix A and B.

SECTION 2

TWO OPTIONS TO ACHIEVE A \$2.9B REDUCTION IN RETIREMENT ACCRUAL FUNDING IN FY 86

As directed by the Congress, the Department of Defense has developed two options to reduce retirement accrual funding by \$2.9B in FY 86. The \$2.9B savings would occur if the new system applied as of October 1, 1985, to new entrants only. All current and former Service members would be totally grandfathered, i.e., would continue to accrue retirement benefits under the retirement system currently in effect for them.

Development of these two options and submission to the Congress should not be construed to mean that the Department of Defense supports either option. To the contrary, the Department is opposed to this significant reduction in military retirement benefits for the men and women who will serve their country in uniform in the future.

Of the two options submitted, one is a structure-only change involving reduced multipliers for years of service and incorporating high-5 (highest 60 months' basic pay) as the basis for determining retirement pay. The other is a combination option which includes reduced multipliers and a reduction to the cost-of-living adjustment (COLA). The combination option assumes high-3 (highest 36 months' basic pay) as the basis for determining retirement pay, which has been in effect for new entrants since September 8, 1980.

The two options are:

o Structure-only

- Basis: high-5, retired pay computed based on highest 60 months' basic pay

- Multipliers:

-- 2.15 percent per year for years 1-20

-- 3.2 percent per year for years 21-30

- COLA: existing system of full CPI

o Combination

- Basis: existing high-3 system for new entrants

- Multipliers:

-- 2.2 percent per year for years 1-20

-- 3.1 percent per year for years 21-30

- COLA: Non-disability retirees would receive CPI-1 for life with restoral at the 40th anniversary of entry into service. Retirees would receive a COLA of the percentage increase in the Consumer Price Index minus one percentage point (CPI-1) for life with a one-time restoral. Restoral is defined as recomputing retirement pay at that point assuming full CPI had been in effect. Disability retirees and survivors receive full CPI protection.

The following major considerations guided the development of these options:

- Any revision to the military retirement system will apply only to those entering after the enactment of the revision.

- The Services must maintain a youthful and vigorous force relative to the labor force of society as a whole or the civil service labor force for that matter.

- The initial retirement eligibility point of 20 years of service should be maintained both to provide the youthful and vigorous force and to provide the necessary career incentive for those serving in the relatively greater arduous duty locations.

- The multipliers (percent of basic pay per year of service) are the most visible aspects of any revision.

- The revision should provide an incentive for all to serve 20 years of service, yet encourage members to remain on active duty past 20 years of service.

- Any reduction to COLA must be restored to preclude the real value of retired pay falling to an unacceptable level in old age. The requirements of a youthful and vigorous force as implemented by the Defense Officer Personnel Management Act and Service policies result in the forced retirement of Service members from the military. Thus, the duration of retirement from the military is longer, and without restoral a reduced COLA would unduly lower the real value of retired pay in old age.

SECTION 3

IMPACT OF REDUCING RETIREMENT BENEFITS TO ACHIEVE A \$2.9B SAVINGS IN FY 86

There are several quantitative ways to view the impact of the two options submitted and they will be presented in this section.

First, the reduction of \$2.9B in FY 86 retirement accrual payments equates to a reduction of 16 percent--original figure for FY 86 was \$18.2B. As the actuarial method for FY 86 involved costing the accrual payment based on the retirement benefit available for individuals entering the armed forces in FY 86, the reduction translates directly to a 16 percent reduction in retirement benefits for such individuals. This reduction in benefits is independent of the option selected--the two submitted or any others developed that also would save \$2.9B. Further, this reduction is an addition to the 13 percent reduction on high-3--implemented in 1980 for all new entrants. It is intuitively obvious that an additional 16 percent reduction in future retirement benefits will be a disincentive for reenlistment and to a lesser degree for initial enlistment. Surveys conducted by the armed forces at reenlistment have repeatedly found that the military retirement system is the single greatest factor influencing decisions to reenlist. An additional 16 percent reduction in benefits will significantly degrade the Department of Defense's ability to maintain the personnel required for combat readiness.

A second view of the impact of such change is to look at the degradation of initial retirement pay. Table 1 displays the initial percentage of final basic pay that typical retirees receive currently upon retirement, that those entering since September 1980 who are under high-3 will receive, and what would be received under the two options. Whereas the current retiree receives from 50 percent to 75 percent of basic pay depending upon years of service, even without further change to the military retirement system this range will be reduced to from 45 percent to 69 percent for Service members entering since 1980. The options would further reduce retirement pay to 36 percent of basic pay for the 20-year retiree under the structural-only option, and 40 percent under the combination option.

As retirement pay is calculated on the basis of a portion of total pay, basic pay only, Table 2 provides information similar to Table 1 but shows initial retirement pay as a percentage of final total pay, excluding special pays such as aviator continuation incentive pay, sea pay, etc. The special pays have been excluded as they vary significantly for individuals; however, if included the percentages in Table 2 would be lower. This Table dispels the myth that a Service member retires at half pay after 20 years of service. Those retiring today

receive only 34 percent of final pay, and the younger Service members will receive only 31 percent of final pay after 20 YOS. Under the structural-only option, the 20-year retiree would receive 25 percent of final pay and those serving 30 years or more would receive only 46 percent of final pay. For the combination option, the percentages of final pay would be 27 for 20 years and 50 for 30 years or more. These reductions would clearly indicate that the Congress and the nation place a significantly lower value on service to country.

Next, the impact on individual retired pay over time is exhibited in Figures 1 and 2. Monthly retired pay is displayed for typical officer and enlisted retirees currently retiring, for those who entered after September 1980 and will retire under high-3, and for the two options. The initial retired pay shows the effect of high-5 combined with the multiplier reduction for that alternative. The value of retired pay with respect to inflation or real retired pay over time for the retirees is displayed to capture the effect of the COLA reduction. As previously stated, both options reduce current benefits by 16 percent. As Figures 1 and 2 reveal, the combination option provides relatively more retired pay initially and less retired pay prior to restoral at the 40th anniversary, more retirement pay following restoral and less in old age due to the COLA reduction. The typical enlisted retiree initially would receive \$941 per month currently, \$813 under high-3, \$684 per month under the structure-only option and \$743 per month under the combination option. Whereas the real monthly retired pay would be maintained for the structure-only option, it would decrease to \$693 at age 75 under the combination option. Without the absolutely necessary restoral feature, the effect of a continuous CPI-1 would reduce the real value of retired pay to \$522 at age 75. Given the nature of a military career as previously discussed, the High-3 system which applies to Service members who entered since 1980 provides only \$813 per month to the typical enlisted retiree and \$1838 per month to the typical officer retiree is far from "lavish" and is considered the minimum amount necessary to provide the incentive for young Americans to opt for a career in the armed forces, anticipating periods of war as well as peace.

Finally, Tables 3 through 6 display the impact of the options on recruiting and retention. These tables were formulated using the recruiting and retention model developed for use by the recently completed Fifth Quadrennial Review of Military Compensation. As can be seen, the impact of both options is similar.

Assuming today's total force size, Tables 3 through 6 display the change in force size at various experience levels (years of service) resulting from a change in retention and the concomitant increase in accessions required to sustain the force size. The resultant force projected for the options is a steady-state force. In other words, it is the force that would

result in the long run, after the effect of the change to the military retirement system had stabilized.

The effect of the options is shown first relative to today's force (7-year average) which includes a career force whose retention decisions were based on a retirement system wherein retired pay is calculated based on terminal pay, i.e., not high-3. Then the projected impact of high-3, which will affect all Service members entering since September 7, 1980, and the impact of the options relative to it are displayed.

Relative to today's force (Tables 3 and 5), the options would significantly reduce the experience level of the enlisted force as can be seen by the reduction of 38 to 39 thousand Service members in the 11-20 year group and 19 to 20 thousand Service members in the 21-30 year group. Such a hemorrhage of experience--approximately 12 percent of the mid-grade force and 35 percent of the senior force--would significantly reduce combat readiness. The complexity of warfare today and in the future exacerbates the degradation in combat readiness which would result from the loss of experienced officers, non-commissioned officers and petty officers. This degradation in combat readiness would be the direct result of a loss in leadership capability and overall technical expertise. Even a sizable increase in training funds for careerists could not totally alleviate the problem. Concomitantly, the options would increase the number of accessions required by 20 thousand. Given the improving economy and in particular the reduced unemployment rate, this would place a significant burden on our recruiting force. In FY 86 the Department of Defense will spend approximately \$1.5B on recruiting. Given the degradation in the military retirement system incentive, recruiting costs would most likely exceed the 6 percent or \$90M in FY 86 dollars indicated by a proportional increase. Likewise, recruit training costs would increase as would other first-term training costs and permanent change of station and temporary duty costs.

The impact of high-3 for those entering since September 1980 has not had time to materialize as few have faced the first reenlistment decision and none have reached the subsequent reenlistment decisions which shape the force. Nevertheless, the options are presented relative to high-3 as well. As can be seen in Tables 4 and 6, the impact of the options relative to high-3 is similar but not as great. The exception is that while fewer Service members would opt for a military career (reduction in the 11- to 20-year group) more of those who remained for 20 YOS would choose to remain longer.

The effect on recruiting and retention shown in Tables 3 through 6 is the output of the modified Annualized Cost of Leaving (ACOL) model used by the 5th Quadrennial Review of Military Compensation. While this model takes into account the direct effect of a reduction in retirement benefits, it does not take into account the change in propensity to serve in the armed

forces resulting from a perception that such a reduction by the Congress is indicative of the nation's placing less value on such service. Such a perception would exacerbate the impact on retention and recruiting.

In the final analysis, the impact of a change to the military retirement system required to reduce accrual costs by \$2.9B in FY 86 would

- reduce individual retirement benefits an average of 16 percent
- significantly decrease the career content, experience level, leadership capability and technical expertise of the armed forces
- increase required accessions, recruiting costs, training costs and permanent change of station costs
- significantly degrade the combat readiness of the armed forces and the Department of Defense's ability to meet national security objectives.

TABLE 1

Initial Military Retired Pay As A Percentage of Final Basic Pay *

<u>Years of Service At Retirement</u>	<u>Option</u>			
	<u>Current</u>	<u>Hi-Three</u>	<u>Structure Only</u>	<u>Combination</u>
20	50.0%	45.3%	36.3%	39.8%
21	52.5	48.1	39.5	43.2
22	55.0	47.6	40.0	43.4
23	57.5	51.1	43.5	47.3
24	60.0	54.4	46.9	51.2
25	62.5	57.8	50.3	55.0
26	65.0	53.6	47.9	51.6
27	67.5	58.1	52.3	56.6
28	70.0	62.6	56.3	61.6
29	72.5	67.1	60.2	66.5
30	75.0	69.3	64.3	69.3

* The effect of averaging basic pay in computing initial retired pay varies by paygrade. Figures shown are for grade E-7.

The computation of percentages are based on the following:
Current-based on final basic pay and applies to members who entered service prior to September 8, 1980; Hi-Three-based on average of high three basic pay and applies to members who entered service on or after September 8, 1980; Structure Only-based on average of high five basic pay;
Combination-based on average of high three basic pay.

Computation of basic pay assumes a 6.2% pay growth and accounts for longevity increases but not for promotions. Excluding promotions understates the effect of averaging basic pay to compute initial retired pay.

TABLE 2

Initial Military Retired Pay As A Percentage of Final Total Pay *

Years of Service At Retirement	Option			
	Current	Hi-Three	Structure Only	Combination
20	34.3%	31.1%	24.9%	27.3%
21	36.0	33.0	27.2	29.6
22	38.4	33.2	27.9	30.3
23	40.1	35.6	30.4	33.0
24	41.9	38.0	32.7	35.7
25	43.6	40.3	35.1	38.3
26	46.6	38.4	34.3	37.0
27	48.4	41.7	37.5	40.5
28	50.2	44.9	40.3	44.1
29	52.0	48.0	43.2	47.7
30	53.8	49.7	46.1	49.7

* The effect of averaging basic pay in computing initial retired pay varies by paygrade. Figures shown are for grade E-7.

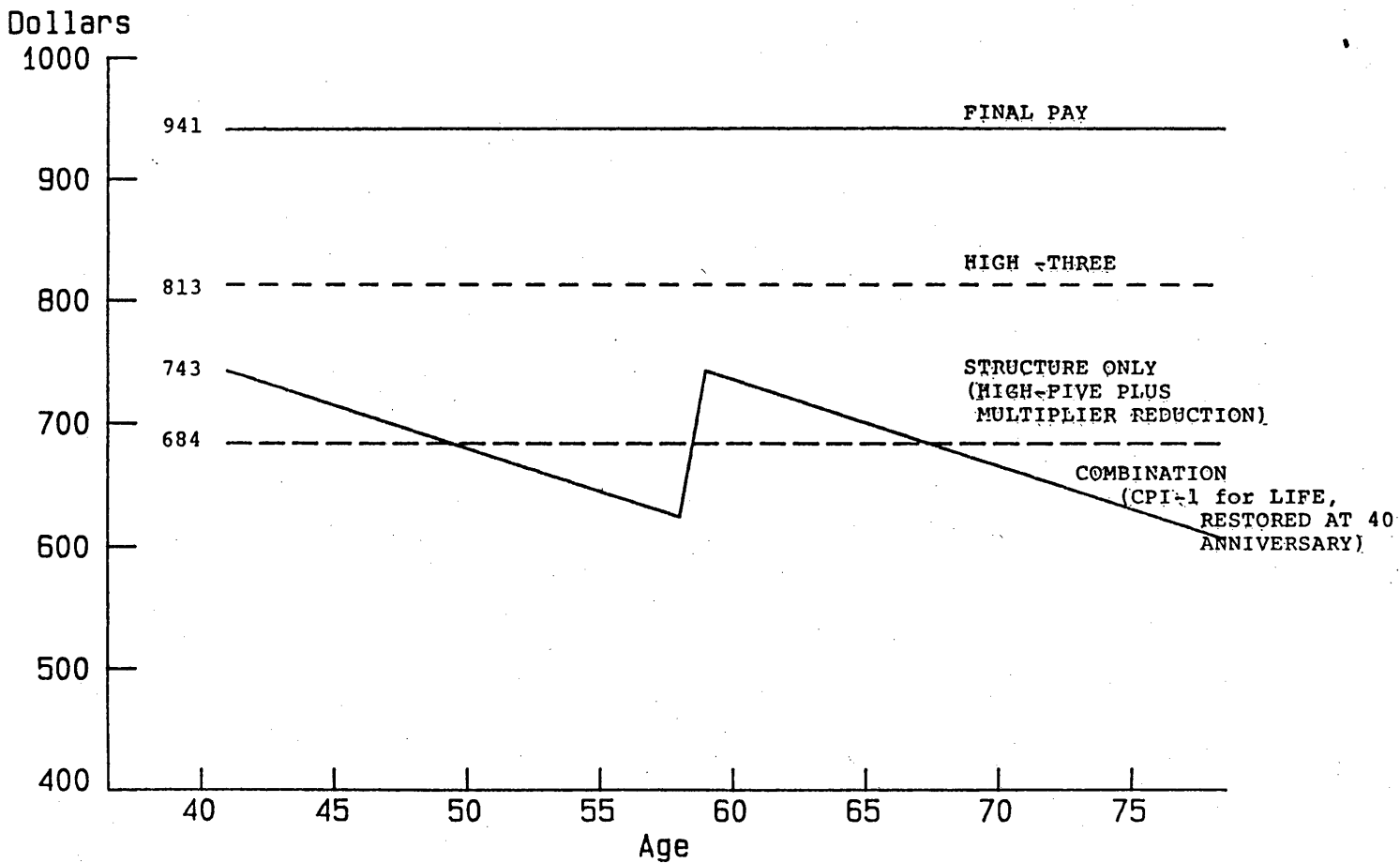
The computation of percentages are based on the following: Current-based on final basic pay and applies to members who entered service prior to September 8, 1980; Hi-Three-based on average of high three basic pay and applies to members who entered service on or after September 8, 1980; Structure Only--based on average of high five basic pay; Combination-based on average of high three basic pay.

Computation of basic pay assumes 6.2% pay growth and accounts for longevity increases but not for promotions. Excluding promotions understates the effect of averaging basic pay to compute initial retired pay.

FIGURE 1

ENLISTED

MONTHLY RETIRED PAY - 1985 DOLLARS ALTERNATIVE SYSTEMS E-7 W/22 YOS

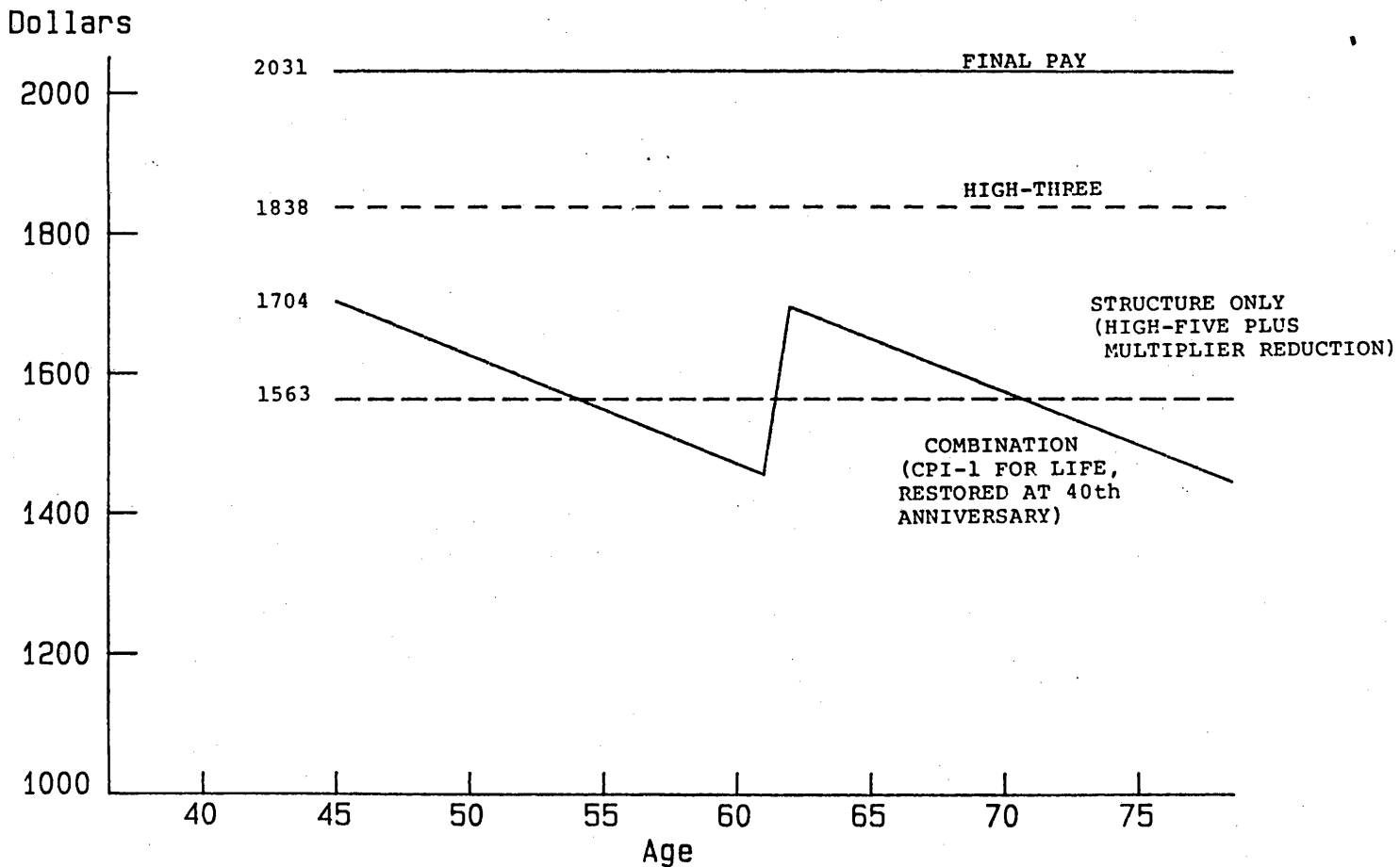


3-7

OFFICER

MONTHLY RETIRED PAY - 1985 DOLLARS

ALTERNATIVE SYSTEMS 0-5 W/23 YOS



3-8

TABLE 3

IMPACT RELATIVE TO TODAY'S FORCE

ENLISTED

	TODAY'S 7-YR AVG	STRUCTURE-ONLY OPTION	COMBINATION OPTION
	-----	-----	-----
ACCESSIONS	332,548	352,895	352,743
DIFF		20347	20195
%CHANGE		6.1	6.1
(YOS) 1-4	1,030,730	1,091,797	1,091,423
DIFF		61067	60693
%CHANGE		5.9	5.9
(YOS) 5-10	389,129	386,499	386,647
DIFF		-2630	-2482
%CHANGE		-0.7	-0.6
(YOS) 11-20	329,617	291,468	290,358
DIFF		-38149	-39259
%CHANGE		-11.6	-11.9
(YOS) 21-30+	55,262	34,977	36,310
DIFF		-20285	-18952
%CHANGE		-36.7	-34.3
(YOS) 5-20	718,746	677,967	677,005
DIFF		-40779	-41741
%CHANGE		-5.7	-5.8
(YOS) 5-30+	774,008	712,944	713,315
DIFF		-61064	-60693
%CHANGE		-7.9	-7.8

TABLE 4
-----IMPACT RELATIVE TO FORCE
WITH HIGH-3 AVERAGING

ENLISTED

	TODAY'S 7-YR AVG -----	FUTURE Hi-3 -----	STRUCTURE-ONLY OPTIONS -----	COMBINATION OPTIONS -----
ACCESSIONS	332,548	340,315	352,895	352,743
DIFF			12580	12428
%CHANGE			3.7	3.7
(YOS) 1-4	1,030,730	1,054,389	1,091,797	1,091,423
DIFF			37408	37034
%CHANGE			3.5	3.5
(YOS) 5-10	389,129	390,308	386,499	386,647
DIFF			-3809	-3661
%CHANGE			-1.0	-0.9
(YOS) 11-20	329,617	320,978	291,468	290,358
DIFF			-29510	-30620
%CHANGE			-9.2	-9.5
(YOS) 21-30+	55,262	39,061	34,977	36,310
DIFF			-4084	-2751
%CHANGE			-10.5	-7.0
(YOS) 5-20	718,746	711,286	677,967	677,005
DIFF			-33319	-34281
%CHANGE			-4.7	-4.8
(YOS) 5-30+	774,008	750,347	712,944	713,315
DIFF			-37403	-37032
%CHANGE			-5.0	-4.9

TABLE 5

IMPACT RELATIVE TO TODAY'S FORCE

OFFICERS

	TODAY'S 7-YR AVG -----	STRUCTURE-ONLY OPTION -----	COMBINATION OPTION -----
ACCESSIONS	25,775	27,788	27,852
DIFF		2013	2077
%CHANGE		7.8	8.1
(YOS) 1-4	93,764	100,532	100,848
DIFF		6768	7084
%CHANGE		7.2	7.6
(YOS) 5-10	81,398	83,416	83,505
DIFF		2018	2107
%CHANGE		2.5	2.6
(YOS) 11-20	73,772	67,977	67,870
DIFF		-5795	-5902
%CHANGE		-7.9	-8.0
(YOS) 21-30+	20,967	17,878	17,674
DIFF		-3089	-3293
%CHANGE		-14.7	-15.7
(YOS) 5-20	155,170	151,393	151,375
DIFF		-3777	-3795
%CHANGE		-2.4	-2.4
(YOS) 5-30+	176,137	169,271	169,049
DIFF		-6866	-7088
%CHANGE		-3.9	-4.0

TABLE 6
-----IMPACT RELATIVE TO FORCE
WITH HIGH-3 AVERAGING

OFFICERS

	TODAY'S 7-YR AVG -----	FUTURE Hi-3 -----	STRUCTURE-ONLY OPTIONS -----	COMBINATION OPTIONS -----
ACCESSIONS	25,775	26,572	27,788	27,852
DIFF			1216	1280
%CHANGE			4.6	4.8
(YOS) 1-4	93,764	96,437	100,632	100,848
DIFF			4195	4411
%CHANGE			4.3	4.6
(YOS) 5-10	81,398	82,114	83,416	83,505
DIFF			1302	1391
%CHANGE			1.6	1.7
(YOS) 11-20	73,772	72,447	67,977	67,870
DIFF			-4470	-4577
%CHANGE			-6.2	-6.3
(YOS) 21-30+	20,967	18,912	17,878	17,674
DIFF			-1034	-1238
%CHANGE			-5.5	-6.5
(YOS) 5-20	155,170	154,561	151,393	151,375
DIFF			-3168	-3186
%CHANGE			-2.0	-2.1
(YOS) 5-30+	176,137	173,473	169,271	169,049
DIFF			-4202	-4424
%CHANGE			-2.4	-2.6

SECTION 4

IMPLEMENTATION PLAN

The Authorization Bill further requests DoD to submit a plan for implementing the options submitted over a four-year period. If the military retirement system is to be degraded in spite of the DoD's objections, the Department requests the change be implemented in full rather than over a four-year period for the following reasons:

(1) The options to the retirement system must reduce the accrual funding to the military retirement fund by \$2.9B in FY 86. Thus, that portion of any total change which is implemented in FY 86 must save \$2.9B in that year. Any portion of the total change deferred for implementation in the next three years would increase the total degradation of the military retirement system beyond that contained in the options submitted.

(2) The retirement benefit for today's Service members who entered before September 7, 1980, is based on final pay. For those entering after that date, it is based on highest 36 months (High-3). A change to the system will introduce a third class of Service members with respect to retirement pay. Such is far from desirable but definitely preferable to not grandfathering individuals who entered the service and chose to remain under a previous retirement system. However, a four-year phased implementation of either option submitted would create unnecessary additional classes which would be unacceptable.

SECTION 5OFFSETS FOR FURTHER DEGRADATION OF THE MILITARY RETIREMENT SYSTEM

The accrual reduction of each option as determined by the DoD Actuary was calculated employing the methods and economic assumptions used to submit the accrual funding requirement in the President's budget. As such, the \$2.9B reduction is determined by changing the retirement benefits and then applying those benefits to the force structure used to calculate the accrual payment for FY 86. In other words, the benefit is changed and the accrual reduction is determined based upon recent retention rates and today's force size. If the significant degradation to the career force projected actually occurs, the accrual reductions are substantially underestimated. On the other hand, one can argue that the nation will not degrade its national security and additional funding in the form of pay, bonuses and training will be appropriated to offset the change to the retirement system. If so, the reduction to retirement accrual is not overstated, but the net projected reduction to the DoD budget will be significantly less. As an aside, the accrual reduction decreases the DoD budget but has no effect on overall federal outlays nor the deficit for approximately 20 years.

Projecting the amount of funding and its form, i.e., pay raises, bonuses, etc., that would be required to offset the lower retention resulting from reducing the retirement element of compensation is difficult, to say the least. For example, high-3 was implemented in 1980 for new entrants at a time of extremely low retention resulting from successive pay caps. The pay raises and other compensation initiatives (e.g., the variable housing allowance) authorized and appropriated by the Congress in 1980 and 1981 resulted in significantly improved retention and most likely mitigated the potential initial impact of high-3. Furthermore, surveys and analyses reveal that while the retirement system is a major incentive for the first reenlistment decision, it becomes an even more significant factor affecting reenlistment decisions of Service members with eight to ten years of service and thereafter. As high-3 affects only those entering in the last five years, insufficient time has passed to determine the compensation changes that will be required to offset this 1980 change to the military retirement system. These facts significantly hamper the Department's ability to project the increases to compensation that would be required to offset further change.

Nevertheless, the following Congressional actions would be prudent if the military retirement system is again changed to further reduce military retired pay and the retention incentive of the system.

- o Ensure military pay remains fair, competitive and comparable with pay in the private sector,

- o Quickly respond to requests to increase bonus levels and total bonus funding,

- o Fully fund requests to increase non-pay components of compensation such as medical and dental care for dependents, military housing, permanent change of station allowances and other elements affecting the Service member and the military family,

- o Be receptive to the necessity either to overturn the change implemented or to consider and test other alternatives that may be proposed by the Department, such as lump-sum payments or an Individual Career Investment account.

SECTION 6EVALUATION OF SPECIFIED LEVELS OF REDUCTION IN RETIREMENT
ACCRUAL FUNDING

The Defense Authorization Act for FY 86 further requested an evaluation of the effects of reducing the retired accrual payment by \$1.8B, \$2.9B, \$3.6B, \$4.0B, and \$5.4B in FY 86. Specific options for the four other levels were not developed. However, the relative impact of these changes can be captured by assessing the effects of structural-only alternatives, which include high-5 and reduced multipliers, rounded to the nearest tenth of a percent. These alternatives are:

<u>Reduction</u> ((\$B)	<u>Pay Basis</u>	<u>Multiplier (%)</u>	
		<u>Years 1-20</u>	<u>Years 21-30</u>
1.8	High-5	2.4	2.7
2.9	High-5	2.15	3.2
3.6	High-5	2.0	3.5
4.0	High-5	1.9	3.7
5.4	High-5	1.6	4.3

The effect of the alternatives will be presented in a manner similar to that presented for the two options. First, each of the five levels can be translated directly into a percentage reduction in retirement benefits. The \$1.8B reduction is a 10 percent reduction in retirement benefits, whereas \$2.9B reduces it 16 percent, \$3.6B reduces it 20 percent, \$4.0B reduces it 22 percent, and \$5.4B reduces it 30 percent. The greater the reduction in retirement benefits, the greater the negative effect on retention and recruiting, though for technical reasons discussed below this relationship is not proportional.

Again, the effect of these five levels can be viewed by looking at the degradation of initial retirement pay as a percentage of final basic pay (Table 7) and as a percentage of total pay (Table 8). The previously discussed caveats for total pay apply. Without further reduction of military retired pay, new entrants in FY 86 would receive 45 percent of final basic pay and 31 percent of final total pay when retiring after 20 years of service. The percentages for 30 years of service would be 69 percent and 50 percent, respectively. The figures for retirement pay as a percentage of total pay are overestimated in that they do not account for the effect high-5 averaging has on pay due to promotions during the last five years of service, nor do they include special pays. Nevertheless, 31 percent of final pay for 20 years' service and 50 percent for 30 years' service is not lavish. In fact, the Department of Defense is concerned that such percentages may be insufficient to provide the necessary career incentive in the 1990s to those who entered service after 1980. The alternative levels of accrual reduction would further reduce retirement pay. As can be seen in Table 8, at the extreme

case of a \$5.4B reduction, retired pay as a percentage of total pay would be reduced to 18 percent for 20 years of service and 46 percent for 30 years of service, virtually eliminating retired pay as a career incentive.

The effect on retired pay for typical enlisted and officer retirees is shown in Figures 3 and 4. In all cases--today's retirees, high-3 retirees and the five levels of reduction under high-5--retired pay is assumed to be fully protected against inflation. Current retired pay levels will be reduced significantly by the effect of high-3 when Service members who entered since 1980 retire. Thus, the retired pay for the typical enlisted retiree who entered service in FY 86 will be only \$813 per month (Figure 3). For the typical officer, the figure for 20 years' service will be \$1838 per month (Figure 4). The alternative levels of accrual reduction would further reduce these figures. At the \$5.4B level, the typical enlisted would receive \$562 per month and the officer \$1335 per month. Thus, further reduction of military retired pay will unduly decrease the effect of the military retirement system as a career incentive and undercompensate Americans who choose to serve their country as careerists in times of both peace and war.

Finally, Tables 9 through 12 display the impact on retention and recruiting for the five levels of retirement accrual reduction using the ACOL model developed by the 5th Quadrennial Review of Military Compensation. Again, the impact is shown for enlisted personnel and for officers, first in relation to Service members retiring today (Tables 9 and 11) and then in relation to high-3 retirees, those who entered since 1980 (Tables 10 and 12). As one would expect, the reduction in numbers of mid-grade officers, non-commissioned officers and petty officers increases progressively as the level of accrual reduction increases. The loss of mid-grade enlisted personnel ranges from 8 percent to 16 percent compared to today's force and from 5 percent to 14 percent compared to the projected high-3 force. The losses are similar for mid-grade officers. In contrast, the number of officers and enlisted personnel progressively increases in absolute terms for the 20-30+ year groups. Nevertheless, there is significant loss of senior personnel. For the senior enlisted leadership, the loss ranges from 42 percent to 20 percent with respect to today's force. For senior officers, the range of losses is from 18 percent to 9 percent for today's force. The losses are similar for both senior enlisted personnel and senior officers with respect to the projected high-3 force, with one exception. The gain shown for the \$5.4B level results from the characteristics of the model that will be discussed in subsequent paragraphs and from the fact that the model is unconstrained by Congressionally imposed grade limitations for officers and senior enlisted personnel (E-8/E-9). The net result is a progressive decrease in available leadership capability and technical expertise, and increased accessions, recruiting costs, first-term training costs and permanent change of station costs.

Inspection of Table 9 and Table 11 reveals that there is not a direct, proportional relationship between the actuarial estimates of accrual cost savings from a change in the retirement system, and the impact that change has on force manning. A change in the system that saves \$1.8B, for example, reduces the size of the enlisted career force (YOS 5-30+) by 6 percent and the size of the officer force by 3 percent, relative to today's force. However, moving from a system which the actuary estimates will save \$4.0B to one that saves \$5.4B, an increase in accrual savings of \$1.4B, has a negligible impact on enlisted and officer force manning, as measured by the number of members with five or more years of service.

The reason for the absence of a direct relationship between accrual cost savings and force impact is a fundamental difference between the assumptions required for the actuarial model generating the accrual estimates and the way the retention effects are modeled in the Annualized Cost of Leaving (ACOL) model. The estimates of accrual cost savings resulting from a change in the retirement system assume that retention rates, and therefore numbers of people leaving at each year of service, are unaffected by the change in the retirement system. The retention model, on the other hand, assumes that members adjust their retention behavior as their financial incentives change.

Consider, for example, the force impact of the alternative that saves \$1.8B in accrual costs. The ACOL model predicts that retention rates prior to 20 years of service decline. However, individuals with less than 20 years of service will still look primarily to the 20-year retirement point in calculating the financial advantage of staying in military service. The incentive to remain beyond 20 years of service, once the 20-year point is achieved, increases, but only modestly. Now consider the effect on force manning from doubling the accrual savings (from \$1.8B to \$3.6B). Even with the effect of high-3 removed, as in Table 10, the additional impact is less than twice the impact of the original \$1.8B cut in accrual. The reason for this is, primarily, the incentive to remain beyond 20 years of service, once the 20-year point has been reached, increases dramatically relative to the \$1.8B reduction. Retention rates beyond the 20-year point increase, offsetting partially the decline in retention rates prior to 20 years of service.

When moving from the option that saves \$3.6B in accrual costs to the one that saves \$5.4B, the force manning impact is much less than could reasonably be inferred from the previous cases. There are two reasons for this. First, as in the previous instance, the incentive to remain in service beyond the 20-year point, once the 20-year point is reached, increases substantially. Hence, the increase in post-20-year of service retention rates offsets, partially, the decline in retention rates prior to 20 years of service. The second reason is related to how the ACOL model works. For a member at, say, the tenth year of service, the difference in the financial incentive to

stay when comparing the system implied by the \$3.6B reduction in accrual costs to that of the \$5.4B reduction, when the twentieth year of service is used as the "time horizon" for the calculation, is large. However, as one pushes this time horizon beyond the twentieth, the differential financial incentive becomes less and less, until it disappears at the thirtieth year of service. The ACOL model is constructed to search for the "horizon" which provides the greatest financial incentive to stay, for this is implicitly how an optimizing military member views the problem. In the last three levels of retirement change, the ACOL model is beginning to look at horizons beyond the 20-year point, for some reenlistment decisions before the twentieth year. Hence, the relative changes in the retention incentive of alternative retirement systems as computed by the ACOL model will not always be consistent with the relative changes in cost as computed by the actuarial model that employs assumptions and methods peculiar to actuarial science.

The models developed by the 5th Quadrennial Review of Military Compensation (5th QRMC) are good models, but this is not to say that they are uniquely the best. Models which project the effect of a major change of a magnitude that has not been observed in the past are extremely sensitive to assumptions. In this case, the projections of the effect of change to the retirement system on force structure are highly sensitive to discount rates which represent the individual's preference of pay over time and to continuation rates which incorporate the effect changes in benefits have on retention.

For example, the Army has developed its version of the ACOL model to project the impact of retirement changes which incorporates lower personal discount rates and higher elasticities. Some studies show that people decrease their retirement assets at an implicit discount rate which is very low. People value the certainty of retirement pay highly. This implies that the present value of retirement income could be larger than the 5th QRMC's estimate; and therefore people will be more sensitive to reductions in retirement.

The elasticities used in the 5th QRMC models were estimated from changes in reenlistment bonuses. These elasticities relate the effect that a temporary change in income will have on behavior. However, a change in retirement is a permanent change in income. One could expect much more significant effects from a permanent change. Further, the 5th QRMC estimates of elasticity were made using data collected when the current retirement system was in effect. A significant change in retirement could substantially alter the attractiveness of a military career. No one knows what continuation rates will be after a major change in retirement. Using elasticities estimated from temporary changes in income and continuation rates in effect under the current retirement system could produce an optimistic effect compared to what will occur if retirement benefits are reduced.

As a result of the change in the personal discount rate and continuation rates used, the Army version of the ACOL model predicts an impact on force retention up to twice that shown in Tables 9 through 12. Both are appropriate models based on reasonable but different assumptions. Given the magnitude of difference in the projections, the effect of the options on force structure as displayed using the 5th QRMC model may be optimistic; i.e., the degradation of the force and combat readiness may be far greater than projected.

In summary, the increasing levels of accrual reduction would in turn progressively decrease the career content of the armed forces, combat readiness, and the ability of the Department of Defense to satisfy national security requirements. None of the levels are considered prudent nor acceptable; however, of the five, the \$1.8B reduction in accrual funding is least damaging. Thus, if the Congress intends to reduce military retired pay for future entrants in spite of the Department of Defense's objections and the projected degradation to national security, the Department would strongly prefer the \$1.8B level over the others specified in the Defense Authorization Act.

Table 1Military Retired Pay As A Percentage of Final Basic Pay *

<u>Years of Service At Retirement</u>	<u>Option</u>						
	<u>Current</u>	<u>Hi-Three</u>	<u>1.8B</u>	<u>2.9B</u>	<u>3.6B</u>	<u>4.0B</u>	<u>5.4B</u>
20	50.0%	45.3%	40.5%	36.3%	33.8%	32.1%	27.0%
21	52.5	48.1	43.4	39.5	37.2	35.7	31.1
22	55.0	47.6	43.3	40.0	38.1	36.8	32.9
23	57.5	51.1	46.4	43.5	41.8	40.6	37.1
24	60.0	54.4	49.4	46.9	45.4	44.4	41.3
25	62.5	57.8	52.5	50.3	49.0	48.2	45.6
26	65.0	53.6	49.4	47.9	47.0	46.4	44.5
27	67.5	58.1	53.5	52.3	51.5	51.1	49.6
28	70.0	62.6	57.1	56.3	55.8	55.4	54.4
29	72.5	67.1	60.7	60.2	60.0	59.8	59.3
30	75.0	69.3	64.3	64.3	64.3	64.3	64.3

* The effect of averaging basic pay in computing initial retired pay varies by paygrade. Figures shown are for grade E-7.

The computation of percentages are based on the following: Current-based on final basic pay and applies to members who entered service prior to September 8, 1980; Hi-Three-based on average of high three basic pay and applies to members who entered service on or after September 8, 1980; Structure Only-based on average of high five basic pay; Combination-based on average of high three basic pay.

Computation of basic pay assumes 6.2% pay growth and accounts for longevity increases but not for promotions. Excluding promotions understates the effect of averaging basic pay to compute initial retired pay.

Military Retired Pay As A Percentage of Final Total Pay *

Years of Service At Retirement	Option						
	Current	Hi-Three	1.8B	2.9B	3.6B	4.0B	5.4B
20	34.3%	31.1%	27.8%	24.9%	23.2%	22.0%	18.5%
21	36.0	33.0	29.8	27.2	25.6	24.5	21.3
22	38.4	33.2	30.2	27.9	26.6	25.7	22.9
23	40.1	35.6	32.3	30.4	29.1	28.3	25.9
24	41.9	38.0	34.5	32.7	31.7	30.9	28.8
25	43.6	40.3	36.6	35.1	34.2	33.6	31.8
26	46.6	38.4	35.4	34.3	33.7	33.2	31.9
27	48.4	41.7	38.3	37.5	36.9	36.6	35.6
28	50.2	44.9	40.9	40.3	40.0	39.7	39.0
29	52.0	48.0	43.5	43.2	43.0	42.9	42.5
30	53.8	49.7	46.1	46.1	46.1	46.1	46.1

* The effect of averaging basic pay in computing initial retired pay varies by paygrade. Figures shown are for grade E-7.

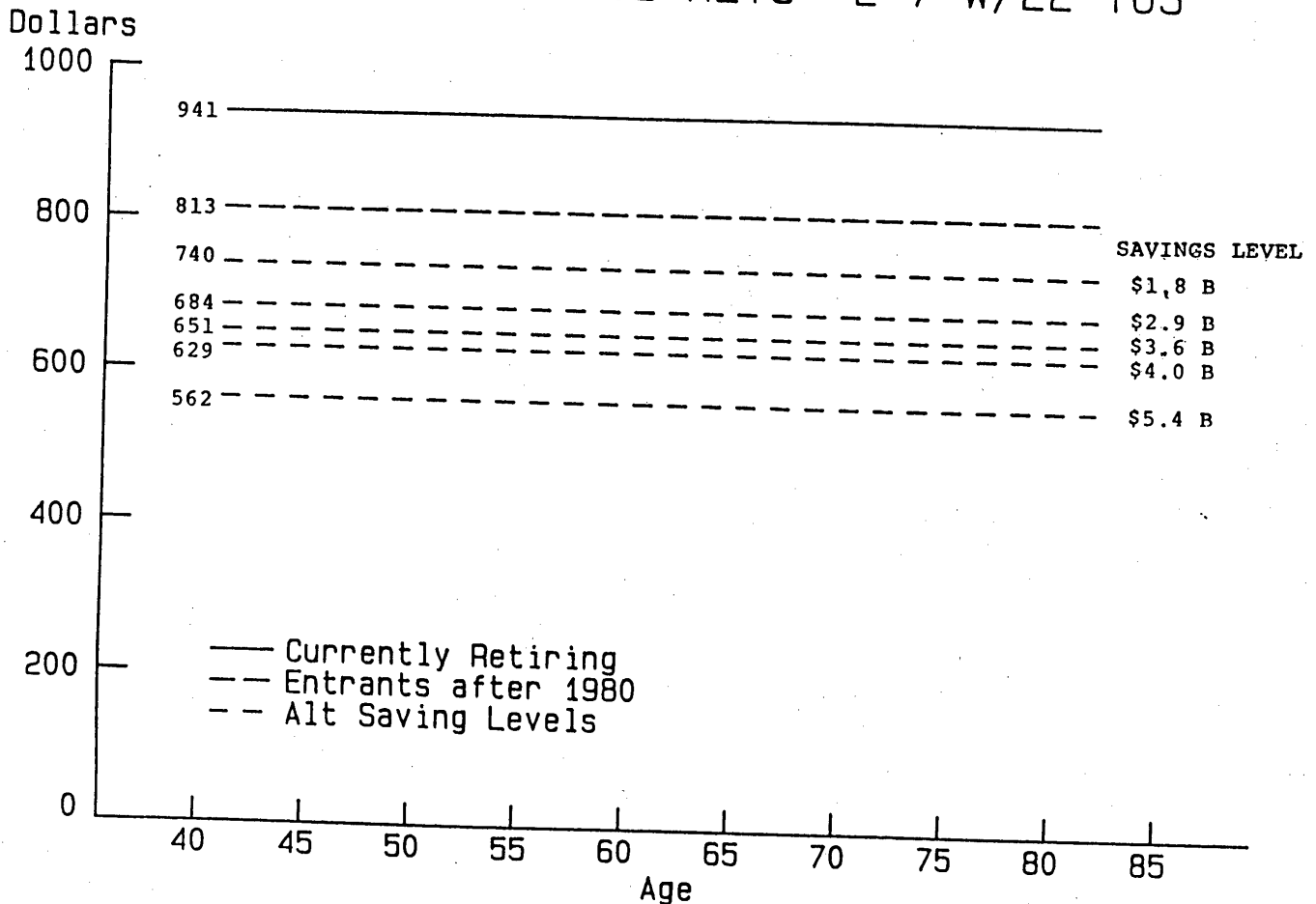
The computation of percentages are based on the following: Current-based on final basic pay and applies to members who entered service prior to September 8, 1980; Hi-Three-based on average of high three basic pay and applies to members who entered service on or after September 8, 1980; Structure Only-based on average of high five basic pay; Combination-based on average of high three basic pay.

Computation of basic pay assumes 6.2% pay growth and accounts for longevity increases but not for promotions. Excluding promotions understates the effect of averaging basic pay to compute initial retired pay.

6-7

FIGURE 3

MONTHLY RETIRED PAY - 1985 DOLLARS STRUCTURAL CHANGE ALTS E-7 w/22 YOS



8-9

FIGURE 4

MONTHLY RETIRED PAY - 1985 DOLLARS STRUCTURAL CHANGE ALTS 0-5 W/23 YOS

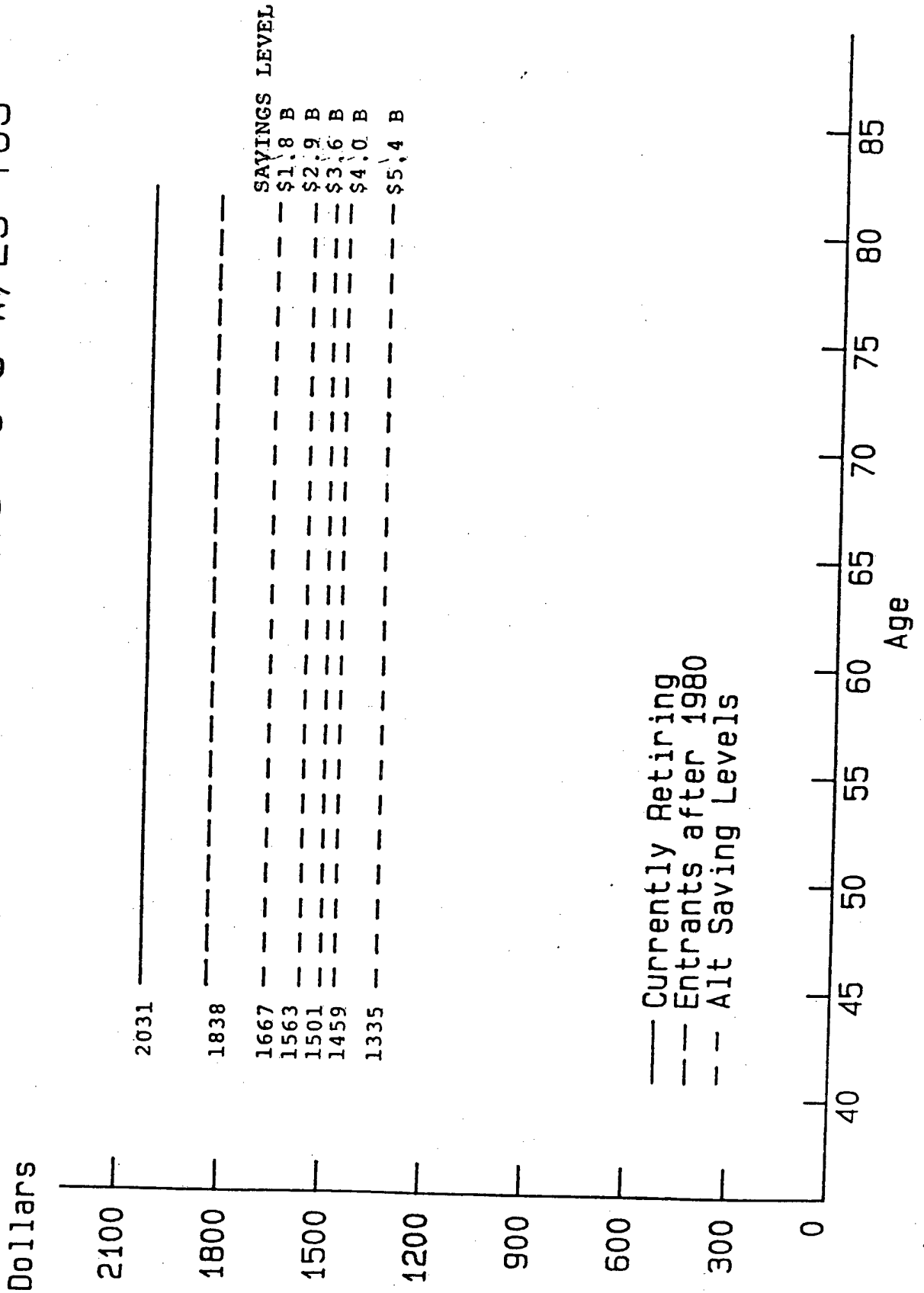


TABLE 9

IMPACT RELATIVE TO TODAY'S FORCE

ENLISTED

	TODAY'S 7-YR AVG	OPTIONS FOR 1.8B DEDUCTION	OPTIONS FOR 2.9B DEDUCTION	OPTIONS FOR 3.6B DEDUCTION	OPTIONS FOR 4.0B DEDUCTION	OPTIONS FOR 5.4B DEDUCTION
	-----	-----	-----	-----	-----	-----
ACCESSIONS	332,548	348,960	352,895	354,172	354,627	354,901
DIFF		16412	20347	21624	22079	22353
%CHANGE		4.9	6.1	6.5	6.6	6.7
(YOS) 1-4	1,030,730	1,080,060	1,091,797	1,095,691	1,097,073	1,097,840
DIFF		49330	61067	64961	66343	67110
%CHANGE		4.8	5.9	6.3	6.4	6.5
(YOS) 5-10	389,129	388,142	386,499	386,445	386,626	386,618
DIFF		-987	-2630	-2684	-2503	-2511
%CHANGE		-0.3	-0.7	-0.7	-0.6	-0.6
(YOS) 11-20	329,617	304,700	291,468	285,474	282,339	276,237
DIFF		-24917	-38149	-44143	-47278	-53380
%CHANGE		-7.6	-11.6	-13.4	-14.3	-16.2
(YOS) 21-30+	55,262	31,831	34,977	37,130	38,699	44,046
DIFF		-23431	-20285	-18132	-16563	-11216
%CHANGE		-42.4	-36.7	-32.8	-30.0	-20.3
(YOS) 5-20	718,746	692,842	677,967	671,919	668,965	662,855
DIFF		-25904	-40779	-46827	-49781	-55891
%CHANGE		-3.6	-5.7	-6.5	-6.9	-7.8
(YOS) 5-30+	774,008	724,673	712,944	709,049	707,664	706,901
DIFF		-49335	-61064	-64959	-66344	-67107
%CHANGE		-6.4	-7.9	-8.4	-8.6	-8.7

TABLE 10
-----IMPACT RELATIVE TO FORCE
WITH HIGH-3 AVERAGING

ENLISTED

	TODAY'S 7-YR AVG	FUTURE Hi-3	OPTIONS FOR 1.8B SAVINGS	OPTIONS FOR 2.9B SAVINGS	OPTIONS FOR 3.6B SAVINGS	OPTIONS FOR 4.0B SAVINGS	OPTIONS FOR 5.4B SAVINGS
	-----	-----	-----	-----	-----	-----	-----
ACCESSIONS	332,548	340,315	348,960	352,895	354,172	354,627	354,901
DIFF			8645	12580	13857	14312	14586
%CHANGE			2.5	3.7	4.1	4.2	4.3
(YOS) 1-4	1,030,730	1,054,389	1,080,060	1,091,797	1,095,691	1,097,073	1,097,840
DIFF			25671	37408	41302	42684	43451
%CHANGE			2.4	3.5	3.9	4.0	4.1
(YOS) 5-10	389,129	390,308	388,142	386,499	386,445	386,626	386,618
DIFF			-2166	-3809	-3863	-3682	-3690
%CHANGE			-0.6	-1.0	-1.0	-0.9	-0.9
(YOS) 11-20	329,617	320,978	304,700	291,468	285,474	282,339	276,237
DIFF			-16278	-29510	-35504	-38639	-44741
%CHANGE			-5.1	-9.2	-11.1	-12.0	-13.9
(YOS) 21-30+	55,262	39,061	31,831	34,977	37,130	38,699	44,046
DIFF			-7230	-4084	-1931	-362	4985
%CHANGE			-18.5	-10.5	-4.9	-0.9	12.8
(YOS) 5-20	718,746	711,286	692,842	677,967	671,919	668,965	662,855
DIFF			-18444	-33319	-39367	-42321	-48431
%CHANGE			-2.6	-4.7	-5.5	-5.9	-6.8
(YOS) 5-30+	774,008	750,347	724,673	712,944	709,049	707,664	706,901
DIFF			-25674	-37403	-41298	-42683	-43446
%CHANGE			-3.4	-5.0	-5.5	-5.7	-5.6

TABLE 11

IMPACT RELATIVE TO TODAY'S FORCE

OFFICERS

	TODAY'S 7-YR AVG	OPTIONS FOR 1.8B DEDUCTION	OPTIONS FOR 2.9B DEDUCTION	OPTIONS FOR 3.6B DEDUCTION	OPTIONS FOR 4.0B DEDUCTION	OPTIONS FOR 5.4B DEDUCTION
ACCESSIONS	25,775	27,510	27,788	27,900	27,955	28,096
DIFF		1735	2013	2125	2180	2321
%CHANGE		6.7	7.8	8.2	8.5	9.0
(YDS) 1-4	93,764	99,635	100,632	101,035	101,235	101,731
DIFF		5871	6868	7271	7471	7967
%CHANGE		6.3	7.3	7.8	8.0	8.5
(YDS) 5-10	81,398	83,057	83,416	83,670	83,816	84,206
DIFF		1659	2018	2272	2418	2808
%CHANGE		2.0	2.5	2.8	3.0	3.4
(YDS) 11-20	73,772	70,024	67,977	66,949	66,365	64,934
DIFF		-3748	-5795	-6823	-7407	-6838
%CHANGE		-5.1	-7.9	-9.2	-10.0	-12.0
(YDS) 21-30+	20,967	17,180	17,878	18,249	18,487	19,029
DIFF		-3787	-3089	-2718	-2480	-1938
%CHANGE		-18.1	-14.7	-13.0	-11.8	-9.2
(YDS) 5-20	155,170	153,081	151,393	150,619	150,181	149,140
DIFF		-2089	-3777	-4551	-4989	-6030
%CHANGE		-1.3	-2.4	-2.9	-3.2	-3.9
(YDS) 5-30+	176,137	170,261	169,271	168,868	168,668	168,169
DIFF		-5876	-6866	-7269	-7469	-7968
%CHANGE		-3.3	-3.9	-4.1	-4.2	-4.5

TABLE 12

IMPACT RELATIVE TO FORCE
WITH HIGH-3 AVERAGING

OFFICERS

	TODAY'S 7-YR AVG	FUTURE Hi-3	OPTIONS FOR 1.8B SAVINGS	OPTIONS FOR 2.9B SAVINGS	OPTIONS FOR 3.6B SAVINGS	OPTIONS FOR 4.0B SAVINGS	OPTIONS FOR 5.4B SAVINGS
ACCESSIONS	25,775	26,572	27,510	27,788	27,900	27,955	28,096
DIFF			938	1216	1328	1383	1524
%CHANGE			3.5	4.6	5.0	5.2	5.7
(YOS) 1-4	93,764	96,437	99,635	100,532	101,035	101,235	101,731
DIFF			3198	4095	4598	4798	5294
%CHANGE			3.3	4.2	4.8	5.0	5.5
(YOS) 5-10	81,398	82,114	83,057	83,416	83,670	83,816	84,206
DIFF			943	1302	1556	1702	2092
%CHANGE			1.1	1.6	1.9	2.1	2.5
(YOS) 11-20	73,772	72,447	70,024	67,977	66,949	66,365	64,934
DIFF			-2423	-4470	-5498	-6052	-7513
%CHANGE			-3.3	-6.2	-7.6	-8.4	-10.4
(YOS) 21-30+	20,967	18,912	17,180	17,878	18,249	18,467	19,029
DIFF			-1732	-1034	-663	-425	117
%CHANGE			-9.2	-5.5	-3.5	-2.2	0.6
(YOS) 5-20	155,170	154,561	153,081	151,393	150,619	150,181	149,140
DIFF			-1480	-3168	-3942	-4380	-5421
%CHANGE			-1.0	-2.0	-2.6	-2.8	-3.5
(YOS) 5-30+	176,137	173,473	170,261	169,271	168,868	168,668	168,169
DIFF			-3212	-4202	-4605	-4805	-5304
%CHANGE			-1.9	-2.4	-2.7	-2.8	-3.1

A BILL

To establish a revised retirement system for new members of the uniformed services and for other purposes.

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

3 **SHORT TITLE**

4 Section 1. This Act may be cited as the "Uniformed Services Retirement Cost
5 Reduction Act of 1985".

6 **AMENDMENTS AFFECTING GENERAL COMPUTATION OF RETIRED PAY**

7 Sec. 2. (a) Section 1331 of title 10, United States Code, relating to age
8 and service requirements for retired pay for non-regular service, is amended in
9 subsection (a) —

10 (1) by striking out "and" at the end of paragraph (3);

1 (2) by striking out the period at the end of paragraph (4) and inserting
2 in lieu thereof "; and"; and

3 (3) by inserting after paragraph (4) the following new paragraph (5):

4 "(5) in the case of a person who first became a member of a uniformed
5 service (as defined in section 1407(a)(2) of this title) on or after
6 the date of the enactment of the Uniformed Services Retirement Cost
7 Reduction Act of 1985, he is a member of a reserve component."

8 (b) Section 1401 of title 10, United States Code, relating to computation of
9 retired pay, is amended --

10 (1) in the first sentence --

11 (A) by inserting "(a)" before "The monthly"; and

12 (B) by inserting "who first became a member of a uniformed service
13 (as defined in section 1407(a)(2) of this title) before the date of
14 the enactment of the Uniformed Services Retirement Cost Reduction Act
15 of 1985, or who is retired for disability under chapter 61 of this
16 title" after "subtitle"; and

17 (2) by adding at the end thereof the following new subsection:

18 "(b) The monthly retired pay of a person entitled thereto under this subtitle
19 who first became a member of a uniformed service (as defined in section
20 1407(a)(2) of this title) on or after the date of the enactment of the
21 Uniformed Services Retirement Cost Reduction Act of 1985, and who has been
22 retired other than for disability under chapter 61 of this title, is computed
23 according to the following table. For each case covered by a section of this
24 title named in the column headed "For sections", retired pay is computed by
25 taking, in order, the steps prescribed opposite it in columns 1 and 2. The

1 amount computed, if not a multiple of \$1, shall be rounded to the next lower
 2 multiple of \$1. However, if a person would otherwise be entitled to retired
 3 pay computed under more than one pay formula of this table or of any other
 4 provision of law, he is entitled to be paid under the applicable formula that
 5 is most favorable to him. Section references below are to sections of this
 6 title.

FORMULA NO.	FOR SECTIONS	COLUMN 1 TAKE	COLUMN 2 MULTIPLY BY
1	1331	Monthly retired pay base as computed under section 1407(b).	2 1/2% of years of service credited to him under section 1333 multiplied by the percentage factor prescribed in section 1407a for years of service credited to him under section 1332.
2	564 1263 1293 1305	Monthly retired pay base as computed under section 1407(b).	The percentage factor prescribed in section 1407a for years of service credited to him under section 1405.
3	633 634 635 636 1251	Monthly retired pay base as computed under section 1407(b).	The percentage factor prescribed in section 1407a for years of service credited to him under section 1405."

7 (c) Subsection (a) of section 1402a of title 10, United States Code,
 8 relating to recomputation of retired or retainer pay to reflect later active
 9 duty, is amended --

10 (1) by inserting "(1)" after "(a)";

1 (2) by inserting "but before the date of the enactment of the Uniformed
2 Services Retirement Cost Reduction Act of 1985," after "September 7, 1980,";
3 and

4 (3) by adding after paragraph (1) the following new paragraph (2):

5 "(2) A member of an armed force who first became a member of a uniformed
6 service (as defined in section 1407(a)(2) of this title) on or after the date
7 of the enactment of the Uniformed Services Retirement Cost Reduction Act of
8 1985, who has become entitled to retired pay or retainer pay, and who
9 thereafter serves on active duty (other than for training), is entitled to
10 recompute his retired pay or retainer pay upon his release from that duty
11 according to the following table. The amount computed, if not a multiple of
12 \$1, shall be rounded to the next lower multiple of \$1.

COLUMN 1 TAKE	COLUMN 2 MULTIPLY BY
Monthly retired or retainer pay base under section 1407 of this title which he would be entitled to use if — (1) he were retiring upon release from that active duty; or (2) he were transferring to the Fleet Reserve or Fleet Marine Corps Reserve upon that release from active duty.	The percentage factor prescribed in section 1407a of this title for the sum of — (1) the years of service credited him in computing retired pay or retainer pay; and (2) his years of active service after becoming entitled to retired pay or retainer pay."

13 (d) Section 1403 of title 10, United States Code, relating to tax treatment
14 of disability retired pay, is amended by inserting "(a)" after "1401".

1 (e) Section 1405 of title 10, United States Code, relating to computing years
2 of service, is amended --

3 (1) by inserting "(a)" after "1401";

4 (2) by striking out "3991 (formula A), 3992" and inserting in lieu thereof
5 "1401(b) (formulas 2 and 3), 3991 (a) and (b) (formula A), 3992 (a) and
6 (b)"; and

7 (3) by striking out "8991 (formula A), or 8992" and inserting in lieu
8 thereof "8991 (a) and (b) (formula A), or 8992 (a) and (b)".

9 (f)(1) Section 1407(a)(2) of title 10, United States Code, is amended to
10 read as follows:

11 "(2) In this section:

12 "(A) 'Uniformed service' means --

13 "(i) any of the armed forces;

14 "(ii) the commissioned corps of the Public Health Service; or

15 "(iii) the commissioned corps of the National Oceanic and Atmospheric
16 Administration.

17 "(B) 'First became a member of a uniformed service' means the initial
18 date a person was enlisted or appointed in a uniformed service as an
19 officer, an enlisted member, or a cadet or midshipman."

1 (2) Section 1407(b)(3) of such title is amended --

2 (A) by inserting "(A)" after "(3)";

3 (B) by inserting "who first became a member of a uniformed service after
4 September 7, 1980, but before the date of the enactment of the Uniformed
5 Services Retirement Cost Reduction Act of 1985" after "title"; and

6 (C) by adding after subparagraph (A) the following new paragraph (B):

7 "(B) In the case of a member who is retired under section 1331 of this title
8 who first became a member of a uniformed service on or after the date of the
9 enactment of the Uniformed Services Retirement Cost Reduction Act of 1985, the
10 monthly retired pay base is one sixtieth of the total amount of monthly basic
11 pay to which he would have been entitled during any 60 months (whether or not
12 consecutive) of service --

13 "(i) in the active service, or

14 "(ii) as a Reserve in an active status (as described in section
15 267(b) of this title),

16 had he served on active duty during such months. However, in determining the
17 months which may be included in such 60 months there shall be excluded any
18 month after the date he is first transferred to the inactive status list or to
19 the Retired Reserve if such month follows the date such member was notified
20 under section 1331(d) of this title. The monthly retired pay base computed
21 under the preceding sentence shall be increased by the percentage by which the
22 Consumer Price Index (all items, United States city average) published by the
23 Bureau of Labor Statistics has increased from the last of such 60 months to the
24 month preceding the date the member is entitled to retired pay."

1 (3) Paragraphs (4) and (5) of section 1407(b) of such title are amended to
2 read as follows:

3 "(4) In the case of a member who is retired under section 564, 633, 634, 635,
4 636, 1251, 1263, 1293, or 1305 of this title, the monthly retired pay base
5 is --

6 "(A) if he first became a member of a uniformed service after September
7 7, 1980, but before the enactment of the Uniformed Services Retirement
8 Cost Reduction Act of 1985, one thirty-sixth of the total amount of monthly
9 basic pay which the member received for any 36 months (whether or not
10 consecutive) of active duty as a member of a uniformed service; or

11 "(B) if he first became a member of a uniformed service on or after the
12 date of the enactment of the Uniformed Services Retirement Cost Reduction
13 Act of 1985, one sixtieth of the total amount of monthly basic pay which
14 the member received for any 60 months (whether or not consecutive) of
15 active duty as a member of a uniformed service.

16 "(5) In the case of a member whose retired or retainer pay is recomputed
17 under section 1402a(d) of this title, the monthly retired pay base is --

18 "(A) if he first became a member of a uniformed service after September
19 7, 1980, but before the date of the enactment of the Uniformed Services
20 Retirement Cost Reduction Act of 1985, one thirty-sixth of the total amount
21 of monthly basic pay which the member received for any 36 months (whether
22 or not consecutive) of active duty as a member of a uniformed service; or

23 "(B) if he first became a member of a uniformed service on or after the
24 date of the enactment of the Uniformed Services Retirement Cost Reduction
25 Act of 1985, one sixtieth of the total amount of monthly basic pay which

1 the member received for any 60 months (whether or not consecutive) of
2 active duty as a member of a uniformed service."

3 (4) Subsections (c) through (h) of section 1407 of such title are amended to
4 read as follows:

5 "(c)(1) In the case of a member whose retired pay is computed under section
6 3991 of this title (other than a member who is retired under section 3914 of
7 this title) or who is entitled to retired pay under section 3992 of this title,
8 the monthly retired pay base is --

9 "(A) if he first became a member of a uniformed service after September
10 7, 1980, but before the date of the enactment of the Uniformed Services
11 Retirement Cost Reduction Act of 1985, one thirty-sixth of the total amount
12 of monthly basic pay which the member received for any 36 months (whether
13 or not consecutive) of active duty as a member of a uniformed service; or

14 "(B) if he first became a member of a uniformed service on or after the
15 date of the enactment of the Uniformed Services Retirement Cost Reduction
16 Act of 1985, one sixtieth of the total amount of monthly basic pay which
17 the member received for any 60 months (whether or not consecutive) of
18 active duty as a member of a uniformed service.

19 "(2) In the case of a member who is retired under section 3914 of this title,
20 the monthly retired pay base is --

21 "(A) if he first became a member of a uniformed service after September
22 7, 1980, but before the date of the enactment of the Uniformed Services
23 Retirement Cost Reduction Act of 1985, one thirty-sixth of the total amount
24 of monthly basic pay which the member received for any 36 months (whether
25 or not consecutive) of active duty as an enlisted member; or

1 "(B) if he first became a member of a uniformed service on or after the
2 date of the enactment of the Uniformed Services Retirement Cost Reduction
3 Act of 1985, one sixtieth of the total amount of monthly basic pay which
4 the member received for any 60 months (whether or not consecutive) of
5 active duty as an enlisted member.

6 "(d)(1) In the case of a member whose retired pay is computed under section
7 6322, 6323, 6325, 6326, or 6383 of this title or who is advanced on the retired
8 list under section 6151 of this title, the monthly retired pay base is --

9 "(A) if he first became a member of a uniformed service after September
10 7, 1980, but before the date of the enactment of the Uniformed Services
11 Retirement Cost Reduction Act of 1985, one thirty-sixth of the total amount
12 of monthly basic pay which the member received for any 36 months (whether
13 or not consecutive) of active duty as a member of a uniformed service; or

14 "(B) if he first became a member of a uniformed service on or after the
15 date of the enactment of the Uniformed Services Retirement Cost Reduction
16 Act of 1985, one sixtieth of the total amount of monthly basic pay which
17 the member received for any 60 months (whether or not consecutive) of
18 active duty as a member of a uniformed service.

19 "(2) In the case of a member transferred to the Fleet Reserve or Fleet Marine
20 Corps Reserve under section 6330 of this title, the monthly retainer pay base
21 is --

22 "(A) if he first became a member of a uniformed service after September
23 7, 1980, but before the date of the enactment of the Uniformed Services
24 Retirement Cost Reduction Act of 1985, one thirty-sixth of the total amount
25 of monthly basic pay which the member received for any 36 months (whether

1 or not consecutive) of active duty as an enlisted member; or

2 "(B) if he first became a member of a uniformed service on or after the
3 date of the enactment of the Uniformed Services Retirement Cost Reduction
4 Act of 1985, one sixtieth of the total amount of monthly basic pay which
5 the member received for any 60 months (whether or not consecutive) of
6 active duty as an enlisted member.

7 "(e)(1). In the case of a member whose retired pay is computed under section
8 8991 of this title (other than a member who is retired under section 8914 of
9 this title) or who is entitled to retired pay under section 8992 of this title,
10 the monthly retired pay base is --

11 "(A) if he first became a member of a uniformed service after September
12 7, 1980, but before the date of the enactment of the Uniformed Services
13 Retirement Cost Reduction Act of 1985, one thirty-sixth of the total amount
14 of monthly basic pay which the member received for any 36 months (whether
15 or not consecutive) of active duty as a member of a uniformed service; or

16 "(B) if he first became a member of a uniformed service on or after the
17 date of the enactment of the Uniformed Services Retirement Cost Reduction
18 Act of 1985, one sixtieth of the total amount of monthly basic pay which
19 the member received for any 60 months (whether or not consecutive) of
20 active duty as a member of a uniformed service.

21 "(2) In the case of a member who is retired under section 8914 of this title,
22 the monthly retired pay base is --

23 "(A) if he first became a member of a uniformed service after September
24 7, 1980, but before the date of the enactment of the Uniformed Services
25 Retirement Cost Reduction Act of 1985, one thirty-sixth of the total amount

1 of monthly basic pay which the member received for any 36 months (whether
2 or not consecutive) of active duty as an enlisted member; or

3 "(B) if he first became a member of a uniformed service on or after the
4 date of the enactment of the Uniformed Services Retirement Cost Reduction
5 Act of 1985, one sixtieth of the total amount of monthly basic pay which
6 the member received for any 60 months (whether or not consecutive) of
7 active duty as an enlisted member.

8 "(f) In the case of a member who is retired under any section of title 14,
9 the monthly retired pay base is --

10 "(A) if he first became a member of a uniformed service after September
11 7, 1980, but before the date of the enactment of the Uniformed Services
12 Retirement Cost Reduction Act of 1985, one thirty-sixth of the total amount
13 of monthly basic pay which the member received for any 36 months (whether
14 or not consecutive) of active duty as a member of a uniformed service; or

15 "(B) if he first became a member of a uniformed service on or after the
16 date of the enactment of the Uniformed Services Retirement Cost Reduction
17 Act of 1985, one sixtieth of the total amount of monthly basic pay which
18 the member received for any 60 months (whether or not consecutive) of
19 active duty as a member of a uniformed service.

20 "(g) In the case of a member whose retired pay is computed under section 16
21 of the Coast and Geodetic Survey Commissioned Officers' Act of 1948 (33 U.S.C.
22 853o), the monthly retired pay base is --

23 "(A) if he first became a member of a uniformed service after September
24 7, 1980, but before the date of the enactment of the Uniformed Services
25 Retirement Cost Reduction Act of 1985, one thirty-sixth of the total

1 amount of monthly basic pay which the member received for any 36 months
2 (whether or not consecutive) of active duty as a member of a uniformed
3 service; or

4 "(B) if he first became a member of a uniformed service on or after the
5 date of the enactment of the Uniformed Services Retirement Cost Reduction
6 Act of 1985, one sixtieth of the total amount of monthly basic pay which
7 the member received for any 60 months (whether or not consecutive) of
8 active duty as a member of a uniformed service.

9 "(h) In the case of a member who is retired under section 210(g) or 211(a) of
10 the Public Health Service Act (42 U.S.C. 211(g) and 212(a)), the monthly
11 retired pay base is --

12 "(A) if he first became a member of a uniformed service after September
13 7, 1980, but before the date of the enactment of the Uniformed Services
14 Retirement Cost Reduction Act of 1985, one thirty-sixth of the total amount
15 of monthly basic pay which the member received for any 36 months (whether
16 or not consecutive) of active duty as a member of a uniformed service; or

17 "(B) if he first became a member of a uniformed service on or after the
18 date of the enactment of the Uniformed Services Retirement Cost Reduction
19 Act of 1985, one sixtieth of the total amount of monthly basic pay which
20 the member received for any 60 months (whether or not consecutive) of
21 active duty as a member of a uniformed service."

22 (g)(1) Chapter 71 of title 10, United States Code, relating to computation of
23 retired pay, is amended by inserting after section 1407 the following new
24 section:

"§ 1407a. Retired pay multiplier for members who first became members on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985

1 "(a) Except as provided in subsection (b), in computing the retired pay or
 2 retainer pay of a person who first became a member of a uniformed service (as
 3 defined in section 1407(a)(2) of this title) on or after the date of the
 4 enactment of the Uniformed Services Retirement Cost Reduction Act of 1985, and
 5 who has been retired other than for disability under chapter 61 of this title
 6 or transferred to the Fleet Reserve or the Fleet Marine Corps Reserve, the
 7 percentage factor shall be the one listed in column 2 of the following table
 8 which corresponds to the applicable years of service in column 1.

COLUMN 1 YEARS OF SERVICE ¹	COLUMN 2 PERCENTAGE FACTOR ²
20	43.00%
21	46.20%
22	49.40%
23	52.60%
24	55.80%
25	59.00%
26	62.20%
27	65.40%
28	68.60%
29	71.80%
30 and over	75.00%

¹ Before applying percentage factor in the case of a member with 20 but less than 30 years of service, add to the number of full years of service creditable to the member one-twelfth of a year for each full month of service that is in addition to such full years and disregard any remaining fractional part of a month.

² In the case of a member who has had one-twelfth of a year added to his years of service under footnote 1 for each full month of service that is in addition to his full years of service, the percentage factor to be applied is determined by mathematical interpolation between the respective percentage factors.

1 "(b) In computing the retired pay of a person retired under section 1331 of
 2 this title who first became a member of a uniformed service (as defined in
 3 section 1407(a)(2) of this title) on or after the date of the enactment of the
 4 Uniformed Services Retirement Cost Reduction Act of 1985, the percentage factor
 5 shall be the one listed in column 2 of the following table which corresponds to
 6 the applicable years of service in column 1.

COLUMN 1 YEARS OF SERVICE UNDER SECTION 1332 OF THIS TITLE	COLUMN 2 PERCENTAGE FACTOR
20	86.00%
21	88.00%
22	89.82%
23	91.48%
24	93.00%
25	94.40%
26	95.69%
27	96.89%
28	98.00%
29	99.03%
30 and over	100.00%."

7 (2) The table of sections at the beginning of such chapter is amended by
 8 inserting after the item relating to section 1407 the following new item:

"Sec. 1407a. Retired pay multiplier for members who first became members on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985."

1 **AMENDMENTS AFFECTING ADJUSTMENTS OF RETIRED AND RETAINER PAY TO REFLECT CHANGES**
2 **IN THE CONSUMER PRICE INDEX**

3 Sec. 3. (a) Subsection (a) of section 1401a of title 10, United States Code,
4 relating to adjustments in retired and retainer pay to reflect changes in the
5 Consumer Price Index, is amended by striking out the second sentence and
6 inserting in lieu thereof "In this section, 'price index' means the Consumer
7 Price Index (all items, United States city average) published by the Bureau
8 of Labor Statistics; 'base quarter' means the calendar quarter ending on
9 September 30 of each year; and 'price index for the base quarter' means the
10 arithmetical mean of the price index for the three months comprising the base
11 quarter."

12 (b) Subsection (b) of such section is amended to read as follows:

13 "(b) In accordance with regulations prescribed by the Secretary of Defense,
14 effective December 1 of each year the Secretary shall increase the retired and
15 retainer pay of members or former members of the armed forces by the percent
16 (adjusted to the nearest one-tenth of 1 percent) that the price index for the
17 base quarter of such year exceeds the price index for the base quarter of the
18 preceding year in which an adjustment under this subsection was made."

1 **AMENDMENTS AFFECTING COMPUTATION OF RETIRED PAY OF ARMY PERSONNEL**

2 Sec. 4. (a) Section 3991 of title 10, United States Code, relating to
3 computation of retired pay, is amended --

4 (1) in the first sentence --

5 (A) by inserting "(a)" before "The monthly"; and

6 (B) by inserting "who first became a member of a uniformed service
7 (as defined in section 1407(a)(2) of this title) before the date of the
8 enactment of the Uniformed Services Retirement Cost Reduction Act of
9 1985," after "subtitle";

10 (2) in the fourth sentence by inserting "(a)" after "1401"; and

11 (3) by adding at the end thereof the following new subsection:

12 "(b) The monthly retired pay of a person entitled thereto under this
13 subtitle who first became a member of a uniformed service (as defined in
14 section 1407(a)(2) of this title) on or after the date of the enactment of the
15 Uniformed Services Retirement Cost Reduction Act of 1985, is computed according
16 to the following table. For each case covered by a section of this title named
17 in the column headed "For sections", retired pay is computed by taking, in
18 order, the steps prescribed opposite it in columns 1, 2, and 3, as modified by
19 the footnote. The amount computed, if not a multiple of \$1, shall be rounded
20 to the next lower multiple of \$1. However, if a person would otherwise be
21 entitled to retired pay computed under more than one pay formula of this table
22 or the tables in section 1401 of this title, he is entitled to be paid under
23 the applicable formula that is most favorable to him. Section references below
24 are to sections of this title.

FORMULA	FOR SECTIONS	COLUMN 1 TAKE	COLUMN 2 MULTIPLY BY	COLUMN 3 ADD
A	3911 3918 3920 3924	The monthly retired pay base as computed under section 1407(c).	The percentage factor prescribed in section 1407a for the years of service credited to him under section 1405.	
B	3914	The monthly retired pay base as computed under section 1407(c).	The percentage factor prescribed in section 1407a for the years of service credited to him under section 3925.	10% of product of columns 1 and 2 for extraordinary heroism in line of duty, but in no case shall his retired pay be more than 75 percent of his monthly retired pay base as computed under section 1407(c). ¹
C	3917	The monthly retired pay base as computed under section 1407(c).	The percentage factor prescribed in section 1407a for the years service credited to him under section 3925.	

¹ The Secretary of the Army's determination as to extraordinary heroism is conclusive for all purposes."

- 1 (b) Section 3992 of title 10, United States Code, relating to recomputation
2 of retired pay, is amended --
3 (1) by striking out the first sentence and inserting in lieu thereof:

1 "(a) An enlisted member of the Army who first became a member of a uniformed
2 service (as defined in section 1407(a)(2) of this title) before the date of the
3 enactment of the Uniformed Services Retirement Cost Reduction Act of 1985, who
4 is advanced on the retired list under section 3964 of this title is entitled to
5 recompute his retired pay under formula A of the following table, and a warrant
6 officer of the Army who first became a member of a uniformed service before the
7 date of the enactment of the Uniformed Services Retirement Cost Reduction Act
8 of 1985, who is so advanced is entitled to recompute his retired pay under
9 formula B of that table."; and

10 (2) by adding at the end thereof the following new subsection:

11 "(b) An enlisted member of the Army who first became a member of a
12 uniformed service (as defined in section 1407(a)(2) of this title) on or after
13 the date of the enactment of the Uniformed Services Retirement Cost Reduction
14 Act of 1985, who is advanced on the retired list under section 3964 of this
15 title is entitled to recompute his retired pay under formula A of the following
16 table, and a warrant officer of the Army who first became a member of a
17 uniformed service on or after the date of the enactment of the Uniformed
18 Services Retirement Cost Reduction Act of 1985, who is so advanced is entitled
19 to recompute his retired pay under formula B of that table. The amount
20 recomputed, if not a multiple of \$1, shall be rounded to the next lower
21 multiple of \$1.

FORMULA	COLUMN 1 TAKE	COLUMN 2 MULTIPLY BY
A	The monthly retired pay base as computed under section 1407(c) of this title.	The percentage factor prescribed in section 1407a of this title for the number of years credited to him under section 3925 of this title.
B	The monthly retired pay base as computed under section 1407(c) of this title.	The percentage factor prescribed in section 1407a of this title for the number of years credited to him under section 1405 of this title."

1 **AMENDMENTS AFFECTING COMPUTATION OF RETIRED PAY OF NAVY AND MARINE CORPS PERSONNEL**

2 Sec. 5. (a) Section 6151 of title 10, United States Code, relating to
3 determination of higher retired grade and pay, is amended --

4 (1) in subsection (b) --

5 (A) by striking out "on or after September 8, 1980," in clause (B) of
6 paragraph (1) and inserting in lieu thereof "after September 7, 1980,
7 but before the date of the enactment of the Uniformed Services
8 Retirement Cost Reduction Act of 1985,";

9 (B) by redesignating paragraph (2) as paragraph (3); and

10 (C) by inserting after paragraph (1) the following new paragraph (2):

11 "(2) Each member, other than a former member of the Fleet Reserve or the
12 Fleet Marine Corps Reserve, who first became a member of a uniformed service
13 (as defined in section 1407(a)(2) of this title) on or after the date of the
14 enactment of the Uniformed Services Retirement Cost Reduction Act of 1985, who
15 is advanced on the retired list under this section is, unless otherwise

1 entitled to higher retired pay, entitled to retired pay at the rate determined
2 by taking the monthly retired pay base computed under section 1407(d) of this
3 title and multiplying that amount by the percentage factor prescribed under
4 section 1407a of this title for the years of service that may be credited to
5 him under section 1405 of this title."; and

6 (2) in subsection (c) —

7 (A) by striking out "on or after September 8, 1980," in paragraph (2)
8 and inserting in lieu thereof "after September 7, 1980, but before the
9 date of the enactment of the Uniformed Services Retirement Cost
10 Reduction Act of 1985,"; and

11 (B) by inserting after paragraph (2) the following new paragraph (3):

12 "(3) Each former member of the Fleet Reserve or the Fleet Marine Corps
13 Reserve who first became a member of a uniformed service (as defined in section
14 1407(a)(2) of this title) on or after the date of the enactment of the
15 Uniformed Services Retirement Cost Reduction Act of 1985, who is advanced on
16 the retired list under this section is entitled to retired pay at the rate
17 determined by taking the monthly retired pay base computed under section
18 1407(d) of this title and multiplying that amount by the percentage factor
19 prescribed under section 1407a of this title for the years of service
20 creditable for his retainer pay at the time of retirement."

21 (b) Subsection (e) of section 6323 of title 10, United States Code, relating
22 to the retirement of an officer of the Navy or Marine Corps after completing
23 more than 20 years of active service, is amended —

1 (1) by inserting "(1)" after "(e)";

2 (2) by redesignating paragraphs (1) and (2) as clauses (A) and (B)
3 respectively, and in such clause (B) (as so redesignated) by striking out
4 "on or after September 8, 1980," and inserting in lieu thereof "after
5 September 7, 1980, but before the date of the enactment of the Uniformed
6 Services Retirement Cost Reduction Act of 1985,"; and

7 (3) by inserting after paragraph (1) the following new paragraph (2):

8 "(2) Unless otherwise entitled to higher pay, an officer who first became a
9 member of a uniformed service (as defined in section 1407(a)(2) of this title)
10 on or after the date of the enactment of the Uniformed Services Retirement Cost
11 Reduction Act of 1985, who is retired under this section is entitled to retired
12 pay at the rate determined by taking the monthly retired pay base computed
13 under section 1407(d) of this title and multiplying that amount by the
14 percentage factor prescribed under section 1407a of this title for the years of
15 service that may be credited to him under section 1405 of this title."

16 (c)(1) Subsection (a)(2) of section 6325 of title 10, United States Code,
17 relating to the retired grade and pay of certain officers of the Navy and
18 Marine Corps, is amended --

19 (A) by striking out "; or" at the end of clause (A) and inserting in lieu
20 thereof "multiplied by the number of years of service that may be credited
21 to him under section 1405 of this title, but the retired pay so computed may
22 not be more than 75 percent of the basic pay upon which the computation of
23 retired pay is based;"

1 (B) by striking out "on or after September 8, 1980," in clause (B) and
2 inserting in lieu thereof "after September 7, 1980, but before the date of
3 the enactment of the Uniformed Services Retirement Cost Reduction Act of
4 1985,";

5 (C) by striking out the semicolon at the end of clause (B) and inserting
6 in lieu thereof "multiplied by the number of years of service that may be
7 credited to him under section 1405 of this title, but the retired pay so
8 computed may not be more than 75 percent of the monthly retired pay base
9 upon which the computation of retired pay is based; or";

10 (D) by striking out "multiplied by the number of years of service that may
11 be credited to him under section 1405 of this title, but the retired pay so
12 computed may not be more than 75 percent of the basic pay or monthly retired
13 pay base upon which the computation of retired pay is based." where it
14 appears at the end of the paragraph; and

15 (E) by inserting after clause (B) the following new clause (C):

16 "(C) in the case of an officer who first became a member of a
17 uniformed service (as defined in section 1407(a)(2) of this title) on
18 or after the date of the enactment of the Uniformed Services Retirement
19 Cost Reduction Act of 1985, at the rate determined by taking the
20 monthly retired pay base computed under section 1407(d) of this title
21 and multiplying that amount by the percentage factor prescribed in
22 section 1407a of this title for the years of service that may be

1 credited to him under section 1405 of this title."

2 (2) Subsection (b)(2) of section 6325 of title 10, United States Code,
3 relating to the retired grade and pay of certain officers of the Navy and
4 Marine Corps, is amended --

5 (A) by striking out "; or" at the end of clause (A) and inserting in lieu
6 thereof "multiplied by the number of years of service that may be credited
7 to him under section 1405 of this title, but the retired pay so computed may
8 not be more than 75 percent of the basic pay upon which the computation of
9 retired pay is based;"

10 (B) by striking out "on or after September 8, 1980," in clause (B) and
11 inserting in lieu thereof "after September 7, 1980, but before the date of
12 the enactment of the Uniformed Services Retirement Cost Reduction Act of
13 1985,"

14 (C) by striking out the semicolon at the end of clause (B) and inserting
15 in lieu thereof "multiplied by the number of years of service that may be
16 credited to him under section 1405 of this title, but the retired pay so
17 computed may not be more than 75 percent of the monthly retired pay base
18 upon which the computation of retired pay is based; or";

19 (D) by striking out "multiplied by the number of years of service that may
20 be credited to him under section 1405 of this title, but the retired pay so
21 computed may not be more than 75 percent of the basic pay or monthly retired
22 pay base upon which the computation of retired pay is based." where it

1 appears at the end of the paragraph; and

2 (E) by inserting after clause (B) the following new clause (C):

3 "(C) in the case of an officer who first became a member of a
4 uniformed service (as defined in section 1407(a)(2) of this title) on
5 or after the date of the enactment of the Uniformed Services Retirement
6 Cost Reduction Act of 1985, at the rate determined by taking the
7 monthly retired pay base computed under section 1407(d) of this title
8 and multiplying that amount by the percentage factor prescribed in
9 section 1407a of this title for the years of service that may be
10 credited to him under section 1405 of this title."

11 (d) Subsection (c)(1) of section 6330 of title 10, United States Code,
12 relating to retainer pay for enlisted members transferred to the Fleet Reserve
13 or the Fleet Marine Corps Reserve, is amended --

14 (1) by striking out "; or" at the end of clause (A) and inserting in
15 lieu thereof "multiplied by the number of years of active service in the
16 armed forces;"

17 (2) by striking out "on or after September 8, 1980," in clause (B) and
18 inserting in lieu thereof "after September 7, 1980, but before the date of
19 the enactment of the Uniformed Services Retirement Cost Reduction Act of
20 1985,"

1 (3) by striking out the semicolon at the end of clause (B) and inserting
2 in lieu thereof "multiplied by the number of years of active service in the
3 armed forces; or";

4 (4) by striking out "multiplied by the number of years of active service
5 in the armed forces." where it appears at the end of the paragraph; and

6 (5) by inserting after clause (B) the following new clause (C):

7 "(C) in the case of a member who first became a member of a uniformed
8 service (as defined in section 1407(a)(2) of this title) on or after
9 the date of the enactment of the Uniformed Services Retirement Cost
10 Reduction Act of 1985, at the rate determined by taking the monthly
11 retainer pay base computed under section 1407(d) of this title and
12 multiplying that amount by the percentage factor prescribed in section
13 1407a of this title for the years of his active service in the armed
14 forces."

15 (e) Section 6383(c)(2) of title 10, United States Code, relating to the
16 retired pay of certain regular officers of the Navy and Marine Corps, is
17 amended to read as follows:

18 "(2) is entitled to retired pay --

19 "(A) in the case of an officer who first became a member of a
20 uniformed service (as defined in section 1407(a)(2) of this title)
21 before September 8, 1980, at the rate of 2 1/2 percent of the basic pay
22 to which he would be entitled if serving on active duty in the grade in

1 which he retired multiplied by the number of years of service credited
2 to him under section 1405 of this title, but the retired pay may not be
3 more than 75 percent of the basic pay upon which the computation of
4 retired pay is based;

5 "(B) in the case of an officer who first became a member of a
6 uniformed service (as defined in section 1407(a)(2) of this title)
7 after September 7, 1980, but before the date of the enactment of the
8 Uniformed Services Retirement Cost Reduction Act of 1985, at the rate
9 of 2 1/2 percent of the monthly retired pay base computed under section
10 1407(d) of this title multiplied by the number of years of service
11 credited to him under section 1405 of this title, but the retired pay
12 may not be more than 75 percent of the monthly retired pay base upon
13 which the computation of retired pay is based; or

14 "(C) in the case of an officer who first became a member of a
15 uniformed service (as defined in section 1407(a)(2) of this title) on
16 or after the date of the enactment of the Uniformed Services Retirement
17 Cost Reduction Act of 1985, at the rate determined by taking the
18 monthly retired pay base computed under section 1407(d) of this title
19 and multiplying that amount by the percentage factor prescribed under
20 section 1407a of this title for the number of years of service credited
21 to him under section 1405 of this title."

1 **AMENDMENTS AFFECTING COMPUTATION OF RETIRED PAY OF AIR FORCE PERSONNEL**

2 Sec. 6. (a) Section 8991 of title 10, United States Code, relating to
3 computation of retired pay, is amended --

4 (1) in the first sentence --

5 (A) by inserting "(a)" before "The monthly"; and

6 (B) by inserting "who first became a member of a uniformed service
7 (as defined in section 1407(a)(2) of this title) before the date of the
8 enactment of the Uniformed Services Retirement Cost Reduction Act of
9 1985," after "subtitle";

10 (2) in the fourth sentence by inserting "(a)" after "1401"; and

11 (3) by adding at the end thereof the following new subsection:

12 "(b) The monthly retired pay of a person entitled thereto under this subtitle
13 who first became a member of a uniformed service (as defined in section
14 1407(a)(2) of this title) on or after the date of the enactment of the
15 Uniformed Services Retirement Cost Reduction Act of 1985, is computed according
16 to the following table. For each case covered by a section of this title named
17 in the column headed "For sections", retired pay is computed by taking, in
18 order, the steps prescribed opposite it in columns 1, 2, and 3, as modified by
19 the footnote. The amount computed, if not a multiple of \$1, shall be rounded
20 to the next lower multiple of \$1. However, if a person would otherwise be
21 entitled to retired pay computed under more than one pay formula of this table
22 or the tables in section 1401 of this title, he is entitled to be paid under
23 the applicable formula that is most favorable to him. Section references below
24 are to sections of this title.

FORMULA	FOR SECTIONS	COLUMN 1 TAKE	COLUMN 2 MULTIPLY BY	COLUMN 3 ADD
A	8911 8918 8920 8924	The monthly retired pay base as computed under section 1407(e).	The percentage factor prescribed in section 1407a for the years of service credited to him under section 1405.	
B	8914	The monthly retired pay base as computed under section 1407(e).	The percentage factor prescribed in section 1407a for the years of service credited to him under section 8925.	10% of product of columns 1 and 2 for extraordinary heroism in line of duty, but in no case shall his retired pay be more than 75 percent of his monthly retired pay base as computed under section 1407(e). ¹
C	8917	The monthly retired pay base as computed under section 1407(e).	The percentage factor prescribed in section 1407a for the years of service credited to him under section 8925.	

¹ The Secretary of the Air Force's determination as to extraordinary heroism is conclusive for all purposes."

- 1 (b) Section 8992 of title 10, United States Code, relating to recomputation
- 2 of retired pay, is amended —
- 3 (1) by striking out the first sentence and inserting in lieu thereof:

1 "(a) An enlisted member of the Air Force who first became a member of a
2 uniformed service (as defined in section 1407(a)(2) of this title) before the
3 date of the enactment of the Uniformed Services Retirement Cost Reduction Act
4 of 1985, who is advanced on the retired list under section 8964 of this title
5 is entitled to recompute his retired pay under formula A of the following
6 table, and a warrant officer of the Air Force who first became a member of a
7 uniformed service before the date of the enactment of the Uniformed Services
8 Retirement Cost Reduction Act of 1985, who is so advanced is entitled to
9 recompute his retired pay under formula B of that table."; and

10 (2) by adding at the end thereof the following new subsection:

11 "(b) An enlisted member of the Air Force who first became a member of a
12 uniformed service (as defined in section 1407(a)(2) of this title) on or after
13 the date of the enactment of the Uniformed Services Retirement Cost Reduction
14 Act of 1985, who is advanced on the retired list under section 8964 of this
15 title is entitled to recompute his retired pay under formula A of the following
16 table, and a warrant officer of the Air Force who first became a member of a
17 uniformed service on or after the date of the enactment of the Uniformed
18 Services Retirement Cost Reduction Act of 1985, who is so advanced is entitled
19 to recompute his retired pay under formula B of that table. The amount
20 recomputed, if not a multiple of \$1, shall be rounded to the next lower
21 multiple of \$1.

FORMULA	COLUMN 1 TAKE	COLUMN 2 MULTIPLY BY
A	The monthly retired pay base as computed under section 1407(e) of this title.	The percentage factor prescribed in section 1407a of this title for the number of years credited to him under section 8925 of this title.
B	The monthly retired pay base as computed under section 1407(e) of this title.	The percentage factor prescribed in section 1407a of this title for the number of years credited to him under section 1405 of this title."

1 **AMENDMENTS AFFECTING COMPUTATION OF RETIRED PAY OF COAST GUARD PERSONNEL**

2 Sec. 7. (a) Subsection (b) of section 288 of title 14, United States Code,
3 relating to the retirement of captains, is amended by inserting "and (c)" after
4 "section 423(b)".

5 (b) Section 423 of title 14, United States Code, relating to the computation
6 of retired pay, is amended —

7 (1) in the first sentence of subsection (a) by inserting "and (c)" after
8 "subsection (b)";

9 (2) in the fourth sentence of subsection (a) by inserting "or by which the
10 percentage factor is determined under subsection (c)" after "multiplied";

11 (3) in subsection (b) by inserting "but before the date of the enactment
12 of the Uniformed Services Retirement Cost Reduction Act of 1985," after
13 "September 7, 1980,"; and

14 (4) by adding at the end thereof the following new subsection:

1 "(c) Notwithstanding any other provision of this title, the retired pay of
2 each officer or enlisted member of the Coast Guard who first became a member of
3 a uniformed service (as defined in section 1407(a)(2) of title 10) on or after
4 the date of the enactment of the Uniformed Services Retirement Cost Reduction
5 Act of 1985, is determined by taking the monthly retired pay base computed
6 under section 1407(f) of title 10 and multiplying that amount by the percentage
7 factor prescribed under section 1407a of title 10 for the number of years of
8 service that may be credited to him under section 1405 of title 10."

9 (c) Section 424 of title 14, United States Code, relating to limitations on
10 retirement and retired pay, is amended in the first sentence by striking out
11 "The" and inserting in lieu thereof "Except as provided in section 423 (b) and
12 (c) of this title, the".

13 **AMENDMENTS AFFECTING COMPUTATION OF RETIRED PAY OF COMMISSIONED OFFICERS OF THE**
14 **NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION**

15 Sec. 8. Subsection (a) of section 16 of the Coast and Geodetic Survey
16 Commissioned Officers' Act of 1948 (33 U.S.C. 853o) is amended --

17 (1) by inserting "(1)" after "(a)";

18 (2) by redesignating paragraphs (1) and (2) as clauses (A) and (B),
19 respectively;

20 (3) in clause (B) (as redesignated) by striking out "on or after September
21 8, 1980," and inserting in lieu thereof "after September 7, 1980, but before
22 the date of the enactment of the Uniformed Services Retirement Cost
23 Reduction Act of 1985,"; and

1 (4) by adding at the end thereof the following new paragraph (2):

2 "(2) Each commissioned officer who first became a member of a uniformed
3 service (as defined in section 1407(a)(2) of title 10, United States Code) on
4 or after the date of the enactment of the Uniformed Services Retirement Cost
5 Reduction Act of 1985, who is on the retired list shall receive retired pay at
6 the rate determined by taking the monthly retired pay base computed under
7 section 1407(g) of title 10, United States Code, and multiplying that amount by
8 the percentage factor prescribed under section 1407a of title 10, United States
9 Code, for the number of years of service that may be credited to him under
10 section 1405 of title 10, United States Code, as if his service were service as
11 a member of the Armed Forces. Retired pay, if not a multiple of \$1, shall be
12 rounded to the next lower multiple of \$1."

13 **AMENDMENTS AFFECTING COMPUTATION OF RETIRED PAY OF COMMISSIONED OFFICERS OF THE**
14 **PUBLIC HEALTH SERVICE**

15 Sec. 9. (a) Paragraph (3) of section 210(g) of the Public Health Service Act
16 (42 U.S.C. 211(g)(3)) is amended —

17 (1) by striking out "or" at the end of subparagraph (A);

18 (2) in subparagraph (B) —

19 (A) by striking out "on or after September 8, 1980," and inserting in
20 lieu thereof "after September 7, 1980, but before the date of the
21 enactment of the Uniformed Services Retirement Cost Reduction Act of
22 1985,"; and

1 (B) by striking out the period at the end thereof and inserting in
2 lieu thereof "; or"; and

3 (3) by adding at the end of subparagraph (B) a new subparagraph (C) as
4 follows:

5 "(C) in the case of an officer who first became a member of a
6 uniformed service on or after the date of the enactment of the
7 Uniformed Services Retirement Cost Reduction Act of 1985, at the rate
8 determined by taking the monthly retired pay base computed under
9 section 1407(h) of title 10, United States Code, and multiplying that
10 amount by the percentage factor prescribed under section 1407a of
11 title 10, United States Code, for the number of years, not in excess
12 of thirty, of his active commissioned service in the Service."

13 (b) Section 211(a) of such Act (42 U.S.C. 212(a)) is amended --

14 (1) in paragraph (4) by inserting "or (7)" after "paragraph (6)";

15 (2) by redesignating paragraph (7) as paragraph (8); and

16 (3) by adding after paragraph (6) the following new paragraph (7):

17 "(7) The retired pay under paragraph (4) in the case of a commissioned
18 officer who first became a member of a uniformed service on or after the date
19 of the enactment of the Uniformed Services Retirement Cost Reduction Act of
20 1985, is determined by taking the monthly retired pay base computed under
21 section 1407(h) of title 10, United States Code, and multiplying that amount by
22 the percentage factor prescribed under section 1407a of title 10, United States
23 Code, for the number of years of service credited to him under paragraph (4)."

SECTIONAL ANALYSIS

Section 1 of the bill provides as the title for the proposed act the "Uniformed Services Retirement Cost Reduction Act of 1985".

Section 2 of the bill amends subtitle A of title 10, United States Code, by amending sections 1331 (relating to retirement for non-regular service), 1401 (relating to computation of retired pay), 1402a (relating to recomputation of retired pay or retainer pay to reflect later active duty), 1403 (relating to tax treatment of disability retired pay), 1405 (relating to computing years of service), and 1407 (relating to the retired pay base), and adding a new section 1407a (relating to the retired pay multiplier) to reflect the adoption of a new method of computing non-disability retired pay for members of the armed forces who first became members of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985.

Subsection (a) of section 2 of the bill amends section 1331(a) (relating to age and service requirements for retired pay for non-regular service) to provide that a person who first became a member of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985, is entitled to retired pay for non-regular service only if he is a member of a reserve component at the time he otherwise becomes entitled to such retired pay.

Under current section 1331(a), there is no requirement that a person who is otherwise qualified for retired pay for non-regular service must have a military status as a precondition to receipt of such pay. The proposed change brings the

rules for receipt of retired pay for non-regular service into conformity with
Declassified in Part - Sanitized Copy Approved for Release 2013/08/08 : CIA-RDP89-00066R000700060002-0
the rules for receipt of other types of military retired pay by requiring the
recipient of that pay to hold a military status.

Subsection (b) of section 2 of the bill amends section 1401 (relating to
computation of retired pay).

Clause (A) of section 2(b)(1) of the bill redesignates the existing text of
section 1401 as subsection (a) of section 1401.

Clause (B) of section 2(b)(1) of the bill amends the redesignated
subsection (a) by inserting "who first became a member of a uniformed service
(as defined in section 1407(a)(2) of this title) before the date of the
enactment of the Uniformed Services Retirement Cost Reduction Act of 1985, or
who is retired for disability under chapter 61 of this title" after "subtitle".
This change would limit the computation of retired or retainer pay under section
1401(a) and its table to a person who first became a member of a uniformed
service before the date of the enactment of the Uniformed Services Retirement
Cost Reduction Act of 1985. The existing formula that authorizes 2 1/2 percent
for each year of service as a multiplier is preserved for such persons.
Similarly, no change is made to the formula for computing the retired pay of a
member retired for disability under chapter 61 of title 10 regardless of the
date such member became a member of a uniformed service.

Paragraph (2) of section 2(b) of the bill adds a new subsection 1401(b)
with a table to reflect a new formula for computing the non-disability retired
pay or retainer pay of a person who first became a member of a uniformed service
on or after the date of the enactment of the Uniformed Services Retirement Cost
Reduction Act of 1985. Under the new formula the percentage factor as

became members on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985), added by subsection (g) of section 2 of the bill, would be used to compute retired pay or retainer pay.

Subsection (c) of section 2 of the bill amends section 1402a (relating to recomputation of retired or retainer pay to reflect later active duty).

Paragraph (1) of section 2(c) of the bill redesignates the text of existing section 1402a(a) as section 1402a(a)(1).

Paragraph (2) of section 2(c) of the bill amends the redesignated section 1402a(a)(1) to preserve the formula for the recomputation of retired or retainer pay for members who first became members of a uniformed service (as defined in section 1407(a)(2)) after September 7, 1980, but before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985. That formula provides that in calculating retired or retainer pay to reflect later active duty, the member's monthly retired or retainer pay base would be multiplied by 2 1/2 percent of the sum of the years of service credited to him in computing retired or retainer pay plus his years of active service performed after becoming entitled to retired or retainer pay.

Paragraph (3) of section 2(c) of the bill adds a new paragraph (2) to section 1402a(a) to provide a new formula for the recomputation of retired or retainer pay of persons who first became members of a uniformed service (as defined in section 1407(a)(2)) on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985. Under the new formula the percentage factor (multiplier) prescribed by new section 1407a, as added by

in lieu of the existing system of multiplying 2 1/2 percent times the years of service the member has to his credit in recomputing such pay.

Subsection (d) of section 2 of the bill amends section 1403 (relating to tax treatment of disability retired pay) by inserting "(a)" after "1401" to reflect the redesignation of the existing text of section 1401 as subsection (a).

Subsection (e) of section 2 of the bill contains several amendments to section 1405 (relating to years of service) which add new section references made necessary by the redesignation of the existing text of sections 1401, 3991, 3992, 8991 and 8992 as, in each case, subsection (a), and the addition to each of these sections of a new subsection (b).

Subsection (f) of section 2 of the bill amends various provisions of section 1407 of title 10. A new definition is added to specify when a member of a uniformed service first becomes a member; amendments are made dealing with the retired pay entitlements of members who became entitled to retired pay for non-regular service; and amendments are made to those provisions of section 1407 that affect the computation of the monthly retired pay base of members retired for other than physical disability to change it from a "high 3 year" to a "high 5 year" average.

Subsection (f)(1) of section 2 of the bill adds a new definition to existing section 1407(a)(2) of title 10. The existing text of section 1407(a)(2) is designated as section 1407(a)(2)(A), and a new clause (B) is added to incorporate the new definition. The new definition makes clear when a member

the retirement rules under which the member is eligible to receive retired pay. The definition provides that a person first becomes a member of a uniformed service on the date he is first enlisted or was appointed in a uniformed service as an officer, an enlisted member, a cadet, or a midshipman, as the case may be. Although the taking of the oath at the time of initial enlistment or appointment often is not coincident with active duty service, entitlement to pay or other indicia of military service, for the purposes of section 1407 the date of initial enlistment or appointment is the date to be used.

Included among those who have become members of a uniformed service for purposes of section 1407 are cadets at the U.S. Military Academy, the U.S. Air Force Academy, the Coast Guard Academy, or midshipmen at the U.S. Naval Academy, students enrolled in the Senior ROTC of an armed force, students in the Uniformed Services University of the Health Science, officer candidates attending Officer Training School and persons in the Delayed Entry Program.

Subsection (f)(2) of section 2 of the bill amends paragraph (3) of section 1407(b) (relating to determining the monthly retired pay base of reservists retired under section 1331) to provide a new method for computing the monthly retired pay base of a reservist who first became a member of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985.

Under the existing provisions of section 1407(b)(3), the monthly retired pay base of a person who first became a member of a uniformed service after September 7, 1980, who is retired under section 1331 of title 10, is one thirty-sixth of the highest total amount of monthly basic pay to which he would

Declassified in Part - Sanitized Copy Approved for Release 2013/08/08 : CIA-RDP89-00066R000700060002-0
have been entitled during any thirty-six month period (whether or not
consecutive) during the period he was a member of a uniformed service, had he
served on active duty during those months.

Paragraph (2)(A) of subsection (f) redesignates paragraph (3) of section
1407(b) as subparagraph (3)(A).

Paragraph (2)(B) of subsection (f) amends the redesignated subparagraph
3(A) by inserting "who first became a member of a uniformed service after
September 7, 1980, but before the date of the enactment of the Uniformed
Services Retirement Cost Reduction Act of 1985". This change preserves the
existing formula for computing the retired pay under subparagraph 3(A) for
persons who become members of a uniformed service during that period.

Paragraph (2)(C) of subsection (f) adds a new subparagraph (3)(B) to
section 1407(b) which prescribes a new rule for computing the monthly retired
pay base for a person retired under section 1331 who first became a member of a
uniformed service on or after the date of the enactment of the Uniformed
Services Retirement Cost Reduction Act of 1985.

Under that new rule the monthly retired pay base is computed on a "high
five" average and provides that if a reservist who, having been notified
under section 1331(d) of title 10 that he has completed the years of service
required to qualify for retired pay, is thereafter transferred to an inactive
status list or the Retired Reserve, months of membership in a uniformed
service thereafter may not be included in the 60 months used for computation of
the monthly retired pay base. However, the monthly retired pay base will be

increased by the percentage by which the Consumer Price Index increases from the last of the 60 months used in the computation of that base to the month preceding the date on which the member is entitled to retired pay.

In addition, paragraph (2)(C) provides that the retired pay of such non-regular members who first became members on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985, is to be computed by using a monthly retired pay base equal to one sixtieth of the total amount of monthly basic pay the member would have been entitled to for any 60 months of service (whether or not consecutive) in the active service or as a Reserve in an active status, had he served on active duty during such months. In essence, this changes the monthly retired pay base from a "high three" to a "high five" average. Persons who first became members of a uniformed service before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985 are "grandfathered" from the effects of this change.

Paragraphs (3) and (4) of subsection (f) of section 2 of the bill amend paragraphs (4) and (5) of subsection (b) of section 1407 and subsections (c) through (h) of that section to provide a new method for computing the monthly retired pay base of members affected by those provisions of section 1407, who first became members of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985. Under this new method, the monthly retired pay base of a member is computed by using the average monthly basic pay the member received for any sixty months (whether or not consecutive) of active duty as a member of a uniformed service. This means that these members compute their monthly retired pay base by using a "high five" average, rather than the "high three" average used by members who first became members after September 7, 1980, but before the date of the

the final basic pay used by members who first became members before September 8, 1980. Under this bill both these groups of pre-October 1, 1985 members are "grandfathered" from this change to a "high five" averaging.

Paragraph (1) of section 2(g) of the bill amends chapter 71 of title 10 (relating to computation of retired pay for members of the armed forces) by adding a new section 1407a following section 1407 to provide a new percentage factor (multiplier) for use in the computation of retired or retainer pay of persons who first become members of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985.

Subsection (a) of new section 1407a changes the rules for the computation of the retired or retainer pay of persons who first become members of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985, and who become entitled to retired or retainer pay for any reason other than physical disability or non-regular service. Under current law such persons who have completed 20 or more years of active service are entitled to compute their retired or retainer pay by multiplying 2 1/2 percent times their years of service creditable in computing that pay by either (a) the monthly basic pay of their retired grade if they first became a member of a uniformed service before September 8, 1980, or (b) their monthly retired or retainer pay base if they first became a member of a uniformed service after September 7, 1980.

There is no change in the existing method for computing the retired pay of persons retired for physical disability. There is a change in subsection (b) of

new section 1407a for computing retired pay of persons entitled to retired pay for non-regular service (see discussion below).

The table in subsection (a) of section 1407a contains a listing of percentage factors to be used as a multiplier of the monthly retired or retainer pay base for persons who first became members of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985.

The table provides a percentage factor for each of the whole years of service from 20 through 30 which a member has to his credit for use as a multiplier in computing retired or retainer pay. The table is constructed on the basis of a 2.15 percent multiplier for the first 20 years of service and a 3.20 percent multiplier for the years over 20, with a ceiling of 75 percent (which is the same ceiling as under existing law) for persons with 30 or more years of service.

In addition, footnotes to the the table provide a formula for an increase in the percentage factors (by mathematical interpolation between the relevant percentage factors) for additional whole months of creditable service, disregarding any remaining fractional part of a month.

The effect of the proposed new method of computing retired or retainer pay would be to reduce by 14 percent the amount of retired pay for persons retiring with 20 years of service, with a gradual decrease in that reduction for those retired with 21 through 29 years of service and no reduction for those retired with 30 or more years of service. This new method for computing the percentage

amended by the bill): 1401, 1402a, 3991, 3992, 6151, 6323, 6325, 6330, 6383, 8991 and 8992.

In addition, this new method of computing the percentage factor (multiplier) is referred to in new subsection (c) of section 423 of title 14 (as added by section 6(b)(4) of the bill), relating to computation of retired pay of members of the Coast Guard; in new paragraph (2) of subsection (a) of section 16 of the Coast and Geodetic Survey Commissioned Officer's Act of 1948 (33 U.S.C. 853c) (as added by section 7(4) of the bill), relating to computing the retired pay of commissioned officers of the National Oceanic and Atmospheric Administration; and in new subparagraph (C) of paragraph (3) of section 210(g) of the Public Health Service Act (42 U.S.C. 211(g)(3) and in new clause (7) of Section 211(a) of such Act (42 U.S.C. 212(a)) (as added by sections 8(a)(3) and 8(b)(4) of the bill, respectively) relating to computing the retired pay of commissioned officers of the Public Health Service.

Subsection (b) of new section 1407a establishes a new rule for computing the retired pay for non-regular service (as authorized under section 1331 of title 10) for a person who first became a member of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985.

Under present law (section 1401 of title 10) a person who has completed 20 or more years of "satisfactory Federal service" as defined in section 1332 of title 10 is, at age 60, entitled to retired pay. That retired pay is computed by multiplying the "years" of service, including fractions thereof (as computed under section 1333 of title 10) by 2 1/2 percent of either (1) the monthly basic

pay of the highest grade held satisfactorily at any time, in the case of a person who first became a member of a uniformed service before September 8, 1980, or (2) the monthly retired pay base as computed under section 1407(b), in the case of a person who first became a member of a uniformed service after September 7, 1980.

Subsection (b) of new section 1407a would modify the computation of retired pay for non-regular service for such persons by applying a percentage factor (multiplier) provided in the table in that subsection to the amount of retired pay as computed under current law. These percentage factors have the effect of preserving the current method of computing the retired pay for non-regular service for reservists with 20 or more years of satisfactory Federal service, but reducing the amount of retired pay for such service at the same rate by which retired pay for persons retired with 20 or more years of active service is reduced under the bill. As with active service retirees, there is no reduction in the retired pay of reservists retired with 30 or more years of satisfactory Federal service.

Paragraph (2) of section 2(g) of the bill adds an item relating to new section 1407a in the table of sections at the beginning of chapter 71 of title 10.

Section 3 of the bill amends subsection (a) of section 1401a of title 10 (relating to adjustments in retired pay or retainer pay to reflect changes in the Consumer Price Index (CPI)) by adding two new definitions of terms, and amends the existing provisions of the subsection to provide that the Secretary of Defense is to be responsible for making adjustments to retired and retainer pay to reflect changes in the CPI.

second sentence to mean the Consumer Price Index (all items, United States city average) published by the Bureau of Labor Statistics. As currently understood and applied the phrase, "Consumer Price Index (all items, United States city average)", refers to the Consumer Price Index for urban wage earners and clerical workers. For purposes of clarity, the term "Index" is changed to "price index", with no change in the meaning. Because of changes made in subsection (b) of section 1401a, the terms "base quarter" and "price index for a base quarter" are also defined in the second sentence of subsection (a), conforming them to their usage and definition in section 8340 of title 5, the current basis for cost of living adjustments in retired and retainer pay. "Base quarter" is defined as the calendar quarter ending on September 30 of each year, and "price index for a base quarter" is defined as the arithmetical mean of the price index for the three months comprising the base quarter.

Subsection (b) of section 1401a currently provides that each time the annuities authorized for civil service annuitants under subchapter III of chapter 83 of title 5 are increased to reflect increases in the cost of living, the Secretary of Defense shall at the same time increase the retired or retainer pay of members of the armed forces by the same percent as the percentage by which those annuities are increased. Subsection (b) of amended section 1401a provides for the Secretary of Defense to issue regulations which will provide for CPI increases in a manner similar to that currently authorized, except that instead of the increases being linked to the determination of increases for civil service annuitants they will be determined directly by the Secretary of Defense based on changes in the Consumer Price Index for urban wage earners and clerical workers.

3991 and 3992 as they relate to the computation of retired pay of members of the Army who first became members of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985. The amendments require the use of the percentage factor (multiplier) prescribed in new section 1407a, as added by subsection (g) of section 2 of the bill, rather than the formula prescribed in existing law.

Subsection (a) of section 4 of the bill amends section 3991 (relating to computation of retired pay of members of the Army) as follows:

Clause (A) of section 4(a)(1) of the bill redesignates the text of existing section 3991 as subsection 3991(a).

Clause (B) of section 4(a)(1) of the bill amends the redesignated subsection 3991(a) by inserting "who first became a member of a uniformed service (as defined in section 1407(a)(2) of this title) before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985," after "subtitle". This change limits the computation of retired pay under new subsection 3991(a) to a member who first became a member of a uniformed service before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985. Thus, it preserves for such members the entitlement to use the current formula that authorizes 2 1/2 percent for each year of creditable service as a multiplier in computing their retired pay.

Paragraph (2) of section 4(a) of the bill adds "(a)" after "1401" in the fourth sentence of subsection 3991(a), as redesignated, to reflect the redesignation of the existing text of section 1401 as section 1401(a).

Paragraph (3) of section 4(a) of the bill adds a new subsection (b) to section 3991 to provide a new formula for computing the retired pay of a member who first became a member of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985. Under the new formula the percentage factor (multiplier) prescribed by new section 1407a, as added by section 2(g) of the bill, would be used to compute retired pay. These changes correspond to the changes made to section 1401 by section 2(b) of the bill.

Subsection (b) of section 4 of the bill amends section 3992 (relating to recomputation of retired pay to reflect advancement on the retired list of members of the Army).

Paragraph (1) of section 4(b) of the bill incorporates the substance of the existing section 3992 in subsection 3992(a) and limits the recomputation of retired pay for an enlisted member and a warrant officer advanced to a higher grade under the provisions of redesignated subsection (a) to a member who first became a member of a uniformed service before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985. This change preserves for such members the entitlement to use the existing formula that authorizes 2 1/2 percent for each year of service as a multiplier in computing their retired pay.

section 3992 to provide a new formula for recomputing retired pay of enlisted members and warrant officers upon advancement on the retired list to a higher grade. Under the new formula, the percentage factor (multiplier) prescribed by new section 1407a, as added by section 2(g) of the bill, would be used to recompute retired pay.

Section 5 of the bill amends subtitle C of title 10 by amending sections 6151, 6323, 6325, 6330 and 6383 as they relate to the computation of retired or retainer pay of members of the Navy and Marine Corps who first became members of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985, to require the use of the percentage factor (multiplier) prescribed in new section 1407a, as added by section 2(g) of the bill, rather than the formula prescribed in current law. Under existing law members of the Navy and Marine Corps are entitled to compute their retired or retainer pay by multiplying 2 1/2 percent times the years of service creditable in computing their retired or retainer pay by either (a) the monthly basic pay of the grade in which retired, if they first became a member of a uniformed service before September 8, 1980, or (b) their monthly retired or retainer pay base, if they first became a member of a uniformed service after September 7, 1980.

Subsection (a) of section 5 of the bill amends subsections (b) and (c) of section 6151 of title 10 (relating to determination of higher retired grade and pay in the case of persons advanced on the retired list). Under existing section 6151(b)(1)(A), a person (other than a former member of the Fleet Reserve or Fleet Marine Corps Reserve) who first became a member of a uniformed service before September 8, 1980, and who is advanced on the retired list to a higher

Declassified in Part - Sanitized Copy Approved for Release 2013/08/08 : CIA-RDP89-00066R000700060002-0
grade, is entitled to compute his retired pay by multiplying the monthly basic pay for that higher grade by 2 1/2 percent of the years of service credited to him under section 1405 of title 10. That provision is not changed.

Clause (A) of section 5(a)(1) of the bill amends section 6151(b)(1)(B) by striking out the words "on or after September 8, 1980" and inserting in lieu thereof the words "after September 7, 1980, but before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985,". The effect of this change is to limit the applicability of the retired pay formula in clause (B) of section 6151(b)(1) to members of the Navy and Marine Corps (other than former members of the Fleet Reserve or Fleet Marine Corps Reserve who are covered by section 6151(c)(2) (see discussion below of section 5(a)(2)(A) of the bill)) advanced on the retired list who first became members of a uniformed service after September 7, 1980 but before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985. This change is required in view of the new method prescribed in new paragraph (2) of section 6151(b), as added by section 5(a)(1)(C) of the bill (see discussion below), for computing the retired pay for persons advanced on the retired list who first became members of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985.

Clause (B) of section 5(a)(1) of the bill redesignates existing paragraph (2) of section 6151(b) as paragraph (3).

Clause (C) of section 5(a)(1) of the bill amends section 6151(b) by adding a new paragraph (2) which provides that a member of the Navy and Marine Corps (other than a former member of the Fleet Reserve or Fleet Marine Corps Reserve) who first became a member of a uniformed service on or after the date of the

who is advanced on the retired list shall, in the computation of his retired pay, use the percentage factor (multiplier) prescribed by new section 1407a, as added by section 2(g) of the bill, rather than the formula prescribed in current law.

Clause (A) section 5(a)(2) of the bill amends section 6151(c) by striking out the words "on or after September 8, 1980" in paragraph (2) and inserting "after September 7, 1980, but before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985," in lieu thereof. The effect of that change is to limit the applicability of the existing retired pay formula in section 6151(c)(2) (relating to advancement on the retired list of former members of the Fleet Reserve or Fleet Marine Corps Reserve) to those members who first became members of a uniformed service after September 7, 1980, but before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985.

Clause (B) of section 5(a)(2) of the bill amends section 6151(c) by adding a new paragraph (3) which provides that each former member of the Fleet Reserve or Fleet Marine Corps Reserve who first became a member of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985, and who is advanced on the retired list, shall, in the computation of his retired pay, use the percentage factor (multiplier) prescribed in new section 1407a, as added by section 2(g) of the bill, rather than the formula prescribed in current law.

Subsection (b) of section 5 of the bill amends subsection (e) of section 6323 (relating to retirement of officers after 20 years of service).

Paragraph (1) of section 5(b) of the bill amends section 6323(e) by inserting "(1)" after "(e)" to reflect the redesignation of the existing text (as amended) as paragraph (1).

Paragraph (2) of section 5(b) of the bill amends section 6323(e) by redesignating existing paragraphs (1) and (2) as clauses (A) and (B), and by amending clause (B), as redesignated, by striking out the words "on or after September 8, 1980" and inserting "after September 7, 1980, but before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985," in lieu thereof. The effect of this change is to limit the applicability of the retired pay formula in the redesignated clause (B) of section 6323(e)(1) to those officers who first became members of a uniformed service after September 7, 1980, but before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985.

Paragraph (3) of section 5(b) of the bill amends section 6323(e) by adding a new paragraph (2) which provides that an officer retired under section 6323(e) who first became a member of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985, shall, in the computation of his retired pay, use the percentage factor (multiplier) prescribed in new section 1407a, as added by section 2(g) of the bill, rather than the formula prescribed in current law.

Subsection (c)(1) of section 5 amends section 6325(a)(2) (relating to retired grade and pay of certain officers of the Navy and Marine Corps).

clause (A) of section 6325(a)(2) and adds language providing that the monthly basic pay would be multiplied by the years of service credited under section 1405, but that the amount of retired pay so computed could not exceed 75 percent of the monthly basic pay of the member's retired grade. The added language merely relocates in clause (A) the existing text currently contained in the last sentence of section 6325(a)(2), which is deleted by clause (D) of section 5(c)(1) of the bill (see discussion below).

Clause (B) of section 5(c)(1) of the bill amends clause (B) of section 6325(a)(2) by limiting the applicability of the retired pay formula to those officers who first became members of a uniformed service after September 8, 1980, but before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985. This change is necessary in view of the new rule for such officers set out in new clause (C) added to section 6325(a)(2) by clause (E) of section 5(c)(1) of the bill (see discussion below).

Clause (C) of section 5(c)(1) of the bill further amends clause (B) of section 6325(a)(2) by striking out the semicolon at the end and adding language providing that the monthly retired pay base would be multiplied by the years of service credited under section 1405, but that the amount of retired pay computed under that clause could not exceed 75 percent of the monthly retired pay base. The added language merely relocates in clause (B) the existing text currently contained in the last sentence of section 6325(a)(2), which is deleted by clause (D) of section 5(c)(1) of the bill (see discussion below).

Clause (D) of section 5(c)(1) of the bill deletes from paragraph (2) of section 6325(a) the existing language which has been inserted in clause (A) and

the bill (see discussion above).

Clause (E) of section 5(c)(1) of the bill adds a new clause (C) to section 6325(a)(2). New clause (C) provides that in the case of an officer who first became a member of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985, his retired pay would be computed by using the percentage factor (multiplier) prescribed in new section 1407a, as added by section 2(g) of the bill.

Subsection (c)(2) of section 5 of the bill amends section 6325(b)(2) (relating to retired grade and pay of certain officers of the Navy and Marine Corps).

Clause (A) of subsection 5(c)(2) of the bill strikes out "; or" at the end of clause (A) of section 6325(b)(2) and adds language providing that the monthly basic pay would be multiplied by the years of service credited under section 1405, but that the amount of retired pay so computed could not exceed 75 percent of the monthly basic pay of the member's retired grade. The added language merely relocates in clause (A) the existing text of the language currently contained in the last sentence of section 6325(b)(2), which is deleted by clause (D) of section 5(c)(2) of the bill (see discussion below).

Clause (B) of section 5(c)(2) of the bill amends clause (B) of section 6325(b)(2) by limiting the applicability of the retired pay formula to those officers who first became members of a uniformed service after September 8, 1980, but before the date of the enactment of the Uniformed Services Retirement

for such officers set out in new clause (C) as added by clause (E) of section 5(c)(2) of the bill (see discussion below).

Clause (C) of section 5(c)(2) of the bill further amends clause (B) of section 6325(b)(2) by striking the semicolon at the end and adding language providing that the monthly retired pay base would be multiplied by the years of service credited under section 1405, but that the amount of retired pay so computed could not exceed 75 percent of the monthly retired pay base. The added language merely relocates in clause (B) the existing text currently contained in the last sentence of paragraph (2), which is deleted by clause (D) of section 5(c)(2) of the bill (see discussion below).

Clause (D) of section 5(c)(2) of the bill deletes from paragraph (2) of section 6325(b) the existing language which has been inserted in clause (A) and clause (B) of section 6325(b)(2) by clauses (A) and (C) of section 5(c)(2) of the bill (see discussion above).

Clause (E) of section 5(c)(2) of the bill adds a new clause (C) to section 6325(b)(2), which provides that in the case of an officer who first became a member of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985, his retired pay would be computed by using the percentage factor (multiplier) prescribed in new section 1407a, as added by section 2(g) of the bill.

Subsection (d) of section 5 of the bill amends paragraph (1) of section 6330(c) (relating to transfer of enlisted members of the Navy and Marine Corps to the Fleet Reserve or the Fleet Marine Corps Reserve and the computation of

the Navy and Marine Corps who are transferred to the Fleet Reserve or the Fleet Marine Corps Reserve are entitled to compute their retainer pay by multiplying 2 1/2 percent times the years of service creditable in computing their retainer pay by either (a) the monthly basic pay of the grade in which so transferred, if they first became a member of a uniformed service before September 8, 1980, or (b) their monthly retainer pay base if they first became a member of a uniformed service after September 7, 1980.

Paragraph (1) of subsection 5(d) amends clause (A) of section 6330(c)(1) by deleting the word "or" at the end and incorporating in clause (A) the existing text at the end of paragraph (1), which has the effect of preserving the current method of computing retainer pay for those enlisted members of the Navy and Marine Corps who first became members of a uniformed service before September 8, 1980.

Paragraphs (2) and (3) of section 5(d) of the bill amend clause (B) of section 6330(c)(1) by deleting the words "on or after September 8, 1980," and inserting the words "after September 7, 1980, but before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985," in lieu thereof, and by deleting the semicolon at the end and adding "multiplied by the number of years of active service in the armed forces; or". These changes preserve the formula contained in that clause for those persons who first became members of a uniformed service after September 7, 1980, but before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985.

of section 6330(c)(1) made surplus by the amendments to paragraphs (1)(A) and (1)(B) of section 6330(c).

Paragraph (5) of section 5(d) of the bill adds new clause (C) to section 6330(c)(1) to provide that an enlisted member of the Fleet Reserve or Fleet Marine Corps Reserve who first became a member of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985, shall, in the computation of his retainer pay, use the new percentage factor (multiplier) prescribed in new section 1407a, as added by section 2(g) of the bill, rather than the formula prescribed in existing law.

Subsection (e) of section 5 of the bill amends paragraph (2) of section 6383(c) (relating to the retirement and computation of retired pay of certain officers of the regular Navy and Marine Corps) by restructuring existing clauses (A) and (B) and by adding a new clause (C).

Clause (A) of section 6383(c)(2) is amended by incorporating within the clause the language at the end of paragraph (2). This preserves the formula prescribed in existing law for computing the retired pay of those officers who first became members of a uniformed service before September 8, 1980.

Clause (B) of section 6383(c)(2) is amended by incorporating within the clause the language at the end of paragraph (2). This preserves the formula prescribed in existing law for computing the retired pay of those officers who first became members of a uniformed service after September 7, 1980, but before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985.

A new clause (C) of section 6383(c)(2) is added. This clause provides that those officers retired under section 6383 who first became members of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985, shall, in the computation of their retired pay, use the percentage factor (multiplier) prescribed in new section 1407a, as added by section 2(g) of the bill, rather than the formula prescribed in current law.

Section 6 of the bill amends subtitle D of title 10 by amending sections 8991 and 8992 as they relate to the computation of retired pay of members of the Air Force who first became members of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985. The amendments require the use of the percentage factor (multiplier) prescribed in new section 1407a, as added by section 2(g) of the bill, rather than the formula prescribed in existing law.

Subsection (a) of section 6 of the bill amends section 8991 (relating to computation of retired pay of members of the Air Force) as follows:

Clause (A) of section 6(a)(1) of the bill redesignates the text of existing section 8991 as subsection 8991(a).

Clause (B) of section 6(a)(1) of the bill amends the redesignated subsection 8991(a) by inserting "who first became a member of a uniformed service (as defined in section 1407(a)(2) of this title) before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985," after "subtitle". This change limits the computation of retired pay under new

before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985. Thus, it preserves for such members the entitlement to use the current formula that authorizes 2 1/2 percent for each year of creditable service as a multiplier in computing their retired pay.

Paragraph (2) of section 6(a) of the bill adds "(a)" after "1401" in the fourth sentence of subsection 8991(a), as redesignated, to reflect the redesignation of section 1401 as section 1401(a).

Paragraph (3) of section 6(a) of the bill adds a new subsection (b) to section 8991 to provide a new formula for computing the retired pay of a member who first became a member of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985. Under the new formula the percentage factor (multiplier) prescribed by new section 1407a, as added by section 2(g) of the bill, would be used to compute retired pay. These changes correspond to the changes made to section 1401 by section 2(b) of the bill.

Subsection (b) of section 6 of the bill amends section 8992 (relating to recomputation of retired pay to reflect advancement on the retired list of members of the Air Force).

Paragraph (1) of section 6(b) of the bill incorporates the substance of the existing section 8992 in subsection 8992(a) and limits the recomputation of retired pay for an enlisted member and a warrant officer advanced to a higher grade under the provisions of redesignated subsection (a) to a member who first became a member of a uniformed service before the date of the enactment of the

Uniformed Services Retirement Cost Reduction Act of 1985. This change preserves for such members the entitlement to use the existing formula that authorizes 2 1/2 percent for each year of service as a multiplier in computing their retired pay.

Paragraph (2) of section 6(b) of the bill adds a new subsection (b) to section 8992 to provide a new formula for recomputing retired pay of enlisted members and warrant officers upon advancement on the retired list to a higher grade. Under the new formula, the percentage factor (multiplier) prescribed by new section 1407a, as added by section 2(g) of the bill, would be used to recompute retired pay.

Section 7 of the bill amends title 14 in section 288 (relating to the retirement of captains), section 423 (relating to computation of retired pay), and section 424 (relating to limitations on retirement and retired pay) to reflect the adoption of the new method of computing non-disability retired pay for members of the Coast Guard who first became members of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985.

Subsection (a) of section 7 of the bill amends section 288(b) (relating to retirement of regular captains) by inserting "and (c)" after "section 423(b)" to reflect the amendment of section 423 by section 7(b) of the bill.

Subsection (b) of section 7 of the bill amends section 423 (relating to computation of retired pay).

subsection 423(a) by inserting "and (c)" after "subsection (b)" to include new subsection (c) in the opening "Except as provided" clause.

Paragraph (2) of section 7(b) of the bill amends the fourth sentence of subsection 423(a) by inserting "or by which the percentage factor is determined under subsection (c)" after "multiplied" to reflect the new method of computing retired pay under new subsection (c).

Paragraph (3) of section 7(b) of the bill amends section 423(b) by inserting "but before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985" after "September 7, 1980,". This change preserves the existing entitlement that authorizes 2 1/2 percent for each year of service as a multiplier in computing the retired pay of a member of the Coast Guard who first became a member of a uniformed service after September 7, 1980, but before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985.

Paragraph (4) of section 7(b) of the bill adds a new subsection (c) to section 423 to provide a new formula for computing the retired pay of a member who first became a member of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985. Under the new formula the percentage factor (multiplier) prescribed by new section 1407a of title 10, as added by section 2(g) of the bill, would be used to compute retired pay. This new formula does not apply to the computation of disability retired pay.

Subsection (c) of section 7 of the bill amends section 424 by striking the word "The" in the first sentence and inserting "Except as provided in section 423 (b) and (c) of this title, the" in lieu thereof. This amendment makes clear that the limitations in section 424 do not affect the computation of retired pay in section 423 (b) or (c).

Section 8 of the bill amends section 16(a) of the Coast and Geodetic Survey Commissioned Officers' Act of 1948 (section 853o of title 33) (relating to computation of retired pay of commissioned officers of the National Oceanic and Atmospheric Administration) to reflect the new method of computing non-disability retired pay for commissioned officers of the National Oceanic and Atmospheric Administration who first become members of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985.

Paragraphs 1 and 2 of section 8 of the bill insert "(1)" after "(a)", thereby redesignating section 16(a) as 16(a)(1), and redesignate existing paragraphs (1) and (2) of section 16(a) as clauses (A) and (B), respectively.

Paragraph (3) of section 8 amends redesignated clause (B) by striking out "on or after September 8, 1980," and inserting in lieu thereof "after September 7, 1980, but before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985,". This change preserves the existing entitlement that authorizes 2 1/2 percent for each year of service as a multiplier in computing retired pay of a commissioned officer of the National Oceanic and Atmospheric Administration who first became a member of a uniformed service before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985.

Paragraph (4) of section 8 adds a new paragraph (2) to section 16(a) to reflect the new formula for computing the retired pay of a commissioned officer who first became a member of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985. Under the new formula the percentage factor (multiplier) prescribed by new section 1407a of title 10, as added by section 2(g) of the bill, would be used to compute retired pay. This new formula does not apply to the computation of disability retired pay.

Section 9 of the bill amends section 210(g)(3) of the Public Health Service Act (section 211(g)(3) of title 42) (relating to separation and retirement of officers upon failure of section for promotion) and section 211 of that Act (section 212 of title 42) (relating to retirement of commissioned officers) to reflect the adoption of the new method of computing non-disability retired pay for commissioned officers of the Public Health Service who first became members of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985.

Section 9(a) of the bill amends section 210(g)(3) of the Public Health Service Act (section 211(g)(3) of title 42) (relating to computation of retired pay of commissioned officers).

Paragraph (1) of section 9(a) of the bill strikes out "or" at the end of subparagraph (A) of section 210(g)(3).

Paragraph (2) of section 9(a) of the bill amends subparagraph (B) of section 210(g)(3) by striking out "on or after September 8, 1980," and inserting

of the Uniformed Services Retirement Cost Reduction Act of 1985," and by striking out the period at the end thereof and inserting "; or" in lieu thereof. This amendment reflects that subparagraph (B) applies only to officers who first became members of a uniformed service after September 7, 1980, but before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985, and preserves the existing method of computing their retired pay.

Paragraph (3) of section 9(a) of the bill adds to section 210(g)(3) a new subparagraph (C) that contains a new formula for computing the retired pay of an officer who first became a member of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985. Under the new formula the percentage factor (multiplier) prescribed by new section 1407a of title 10, as added by section 2(g) of the bill, would be used to compute retired pay. This new formula does not apply to the computation of disability retired pay.

Paragraph (b) of section 9 of the bill contains three amendments to section 211(a) of the Public Health Service Act (section 212(a) of title 42).

Paragraph (1) of section 9(b) of the bill amends the first sentence of paragraph 4 of section 211(a) by inserting "or (7)" after "paragraph (6)" to include reference to new paragraph (7).

Paragraph (2) of section 9(b) of the bill redesignates existing paragraph (7) of section 211(a) as paragraph (8).

These first two amendments to section 211(a) preserve the existing entitlement that authorizes 2 1/2 percent for each year of service as a multiplier in computing the retired pay of a commissioned officer who first became a member of a uniformed service before the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985.

Paragraph (3) of section 9 of the bill adds a new paragraph (7) to section 211(a) that contains a new formula for computing the retired pay of a commissioned officer of the Public Health Service who first became a member of a uniformed service on or after the date of the enactment of the Uniformed Services Retirement Cost Reduction Act of 1985. Under the new formula the percentage factor (multiplier) prescribed by new section 1407a of title 10, as added by section 2(g) of the bill, would be used to compute retired pay. This new formula does not apply to the computation of disability retired pay.

October 2, 1985

CONGRESSIONAL RECORD — Extensions of Remarks

E 4315

EXTENSIONS OF REMARKS

FEDERAL PENSIONS

HON. LEE H. HAMILTON

OF INDIANA

IN THE HOUSE OF REPRESENTATIVES

Wednesday, October 2, 1985

Mr. HAMILTON. Mr. Speaker, I would like to insert my Washington Report for Wednesday, October 2, 1985, into the CONGRESSIONAL RECORD:

FEDERAL PENSIONS

Like other employers, the U.S. government has a duty to offer its employees pension programs that provide for security after retirement or disability. Military and civilian pensions have been valuable in attracting and retaining quality personnel in public service. However, their price has grown to over \$40 billion, 5% of the federal budget. Pensions have become the feature of federal employment mentioned most often to me by Hoosiers, and an area of federal spending in which they are increasingly interested.

FEDERAL RETIREMENT SYSTEM

The Civil Service Retirement System (CSRS) allows retirement without benefit penalty at age 55 for employees with 30 years of service. CSRS provides automatic annual cost-of-living-adjustments (COLA) equal to changes in the Consumer Price Index (CPI). The system is funded by employees, who pay 7% of their gross annual pay, by matching contributions from employing agencies, by interest from CSRS trust fund assets, and by direct revenues from the U.S. Treasury. Revenues in 1984 totaled \$36 billion, including \$4.4 billion paid by employees, and about \$22 billion was paid in benefits.

Ballooning costs have led to criticism of the CSRS. The main charge is that the system is overly generous. A study commissioned by Congress and conducted by the Hay Group, a respected private consulting firm, recently found that, in the long term, average federal retirement benefits exceed those in the private sector. Also, private sector employees wait until ages 62 or 65 before retiring with full benefits, and receive COLAs averaging only one-third of the CPI. A second criticism is that the system is too costly: CSRS payments are 25% of payroll, but private sector pension plans take only 18%. Critics also predict future insolvency of the system. The pension's unfunded liability—the amount the government is obligated to pay present and eligible retirees—is \$528 billion and grows by \$1 billion a month.

Supporters of CSRS point out that when total compensation—both pay and benefits—is compared, federal employees trail private sector workers by 7.2%, lower pay and other benefits more than cancelling the advantage in pensions. Further, few federal employees take advantage of early retirement, retiring on average at age 61, just below the private sector average age of 62. Defenders also note that the plan continues to meet its obligations. The funding gap cited by critics is merely an "accounting fiction" that assumes all current workers will draw pensions, when only a third will actually do so.

MILITARY RETIREMENT SYSTEMS

Members of the armed services can retire at any age after 20 years of service and draw half their final salaries. Pension payments begin right after retirement and are adjusted annually for increases in the cost-of-living. Servicemen do not contribute to their retirement plan, although they do contribute to social security. The projected cost of the system in 1986 is \$18.2 billion.

Like the CSRS, the military pension is criticized for its price tag and generosity. Since 1975, cost increases have far outpaced inflation, tripling in just ten years. Pension payments now account for 55% of total military payroll. The automatic COLAs, the absence of any contribution by military personnel to their own retirement, and the availability of early retirement with immediate and full annuity are frequently cited as causing the increase.

Military pensions also seem to cause the military to lose experienced personnel to early retirement. The average age of retirement is 43 for officers and 40 for enlisted personnel. Military retirees can collect half their final salaries in pension benefits and also earn salaries in the private sector. At age 65 they can draw social security with no reduction in military benefits. The Defense Department says it needs big pensions to attract and retain qualified people, and that military personnel deserve extra benefits for undertaking the risk of war. But far from encouraging experienced personnel to remain in the military, current benefits are a strong incentive to leave the service after 20 years.

REFORM EFFORTS

In 1984, Congress set up an interim plan to supplement federal employee participation in social security while it studied ways to replace the current pension system. New government workers make full contributions to social security, and pay 1.3% to CSRS. The interim plan ends on December 31, 1985. Unless a new plan is developed or the temporary system continued, federal employees hired after January 1, 1984, will have to pay 7.05% of their salaries to social security and another 7% to CSRS.

One reform proposal would create a new pension plan built upon social security for workers hired after January 1, 1984. Savings in the plan would come from raising from 55 to 62 the age at which full retirement benefits could be received. Further savings would come from cutting COLAs to 2% below the CPI and basing retirement benefits on an average of the highest five years of salary, rather than on the highest three. The plan includes a capital accumulation plan (CAP), not offered in CSRS, to which employees could contribute up to 10% of pay, matched by a 5% employer contribution. With the CAP, benefits under this proposal would actually exceed those of CSRS for retirees age 62 and older.

Reforms in military pensions have also been undertaken. A bill now being considered would cut from \$18.2 billion to \$14.2 billion the sum paid into the military retirement trust fund in 1986. The proposal stipulates that savings can be made only by changing the amount of retirement benefits paid to future enlistees, forcing the Defense Department to recommend permanent changes in the military pension system and

to report to Congress how it will achieve the \$4 billion savings.

Although it is unclear what changes will be made in the pension systems, the issue cannot be avoided for long. Congress must look for reforms that restrain cost increases but retain features that attract skilled people to public service and encourage experienced workers to remain.

(Please help me update my mailing lists by notifying me of any incorrect or duplicate mailings.)

HURRICANE DAMAGE IN APALACHICOLA BAY

HON. DON FUQUA

OF FLORIDA

IN THE HOUSE OF REPRESENTATIVES

Wednesday, October 2, 1985

Mr. FUQUA. Mr. Speaker, the people of Franklin and Wakulla Counties suffered immense damage as a result of Hurricane Elena. Apalachicola Bay is famous throughout the world for its oysters and it may be 2 years or more before they can be harvested again. This is a most serious economic blow to the thousands of people who depend on the oysters for their livelihood.

I wrote to President Reagan last week to urge that steps be taken to expedite Federal relief efforts to these counties which have already been designated as major disaster areas. I have received far too many complaints of excess bureaucracy and paperwork and these people need the assistance of their Government and they need it now.

Recently, the New York Times ran an article explaining the situation facing the people on Apalachicola Bay and I insert this article into the RECORD at this point and want to call to the attention of my colleagues the situation in Franklin and Wakulla Counties.

FLORIDA OYSTERS AND A HARDY LIVELIHOOD LEFT DEVASTATED AFTER HURRICANE ELENA

(By Jon Nordheimer)

APALACHICOLA, FLA.—For more than a century the oyster was the pride of bountiful Apalachicola Bay and a handy symbol of the hardy men who harvested the mollusks from the 6,000 acres of beds lying in shallow waters protected by offshore barrier islands.

In recent years the oystermen presented a tough, doughy exterior as they went about their bone-weary work out on the bay, hand-tonging oysters from the bottom. They clung tenaciously to old ways in a world that gripped them with viselike pressure to change.

They resisted plans to speed up the development of St. George Island, one of the barrier islands, fearing that the construction of resorts would pollute the bay and damage the oyster beds.

When they talked among themselves about the future on the flyblown docks of Eastpoint and Apalachicola, where mounds of sunbleached shells piled high outside the corrugated shucking sheds, they seemed vulnerable but never yielding.

- This "bullet" symbol identifies statements or insertions which are not spoken by a Member of the Senate on the floor. Boldface type indicates words inserted or appended, rather than spoken, by a Member of the House on the floor.

25 September 1985

MEMORANDUM FOR THE RECORD

SUBJECT: Conversation with Bill Bacchus of State Department regarding status of their supplemental retirement efforts

1. In discussion with Bill Bacchus, of State Department, he advised that State was moving forward with their plans to become part of the Roth/Stevens Supplemental Retirement Bill. Procedurally he stated that their inclusion would in all likelihood be in the form of a floor amendment by either Senator Lugar of the Foreign Relation Committee or Senators Eagleton or Mathias who both sit on the Foreign Relation and the Governmental Affairs Committees. The amendment would be to the Foreign Service Act to incorporate the Roth/Stevens provisions. Bacchus stated there were two issues for them: 1) keeping a separate retirement fund for the Foreign Service, and 2) keeping the administration of the retirement processing at State Department, the latter being the more important to them.

2. Bacchus advised that they had no problem with Roth or Stevens on this amendment, but were getting some flack from OMB on having separate administration. There is also some concern that the amendment should be part of the Title 5 (the Civil Service Retirement Act) rather than an amendment to the Foreign Service Act. State apparently will not argue strongly for it to be part of the Foreign Service Act, if they can get separate administration.

3. There apparently is also an additional wrinkle in that consideration is being given by the Congress to include the whole retirement issue in this year's Reconciliation Act. This is seen as a method of speeding up the process to get the legislation enacted this year. State sees this as making it more difficult to incorporate their floor amendments.

SUBJECT: Conversation with Bill Bacchus of State Department regarding status of their supplemental retirement efforts

4. In more general terms, Bacchus stated they could live with the Roth/Stevens Bill as long as there was a supplement included in the annuity formula. However, it is apparent that State is relying heavily on voluntary participation in the Thrift Plan to achieve adequate annuity levels.

[Redacted]
Chief, Retirement Division
Employee Benefits and Services

STAT

Distribution:

D/Pers
DD/Pers
DD/Pers/EBS
ADD/Pers/EBS

[Redacted]

STAT

SEP 1985

CIA -

STAT



Washington, D.C. 20520

*copy to CIRD
D/Person
DD/EB5*

*File State
Department*

Dear Mr. Wright:

We seek expedited clearance by the Office of Management and Budget of the enclosed draft testimony on S. 1527, the Civil Service Pension Reform Act, scheduled for presentation to the Senate Governmental Affairs Committee on September 9, by the Director General of the Foreign Service and Director of Personnel, Ambassador George S. Vest.

The proposed testimony supports the general thrust of the Stevens-Roth bill, and requests the Committee to consider amending the bill to include the Foreign Service as a special category of employees. In that vein, we believe that the Foreign Service should retain its current retirement eligibility threshold of age 50 with 20 years service.

Requests for changes in the enclosed draft, or for supporting information, may be made by telephone to William I. Bacchus or Torrey S. Whitman of the Director General's Policy and Coordination Staff, on 632-5157.

Thank you for your consideration of this testimony.

With best wishes,

Sincerely,

William L. Ball, III
Assistant Secretary
Legislative and Intergovernmental Affairs

Enclosure:

Draft Statement on S. 1527

The Honorable
Joseph R. Wright, Jr.,
Acting Director,
Office of Management and Budget.

DRAFT

STATEMENT OF
GEORGE S. VEST, DIRECTOR GENERAL OF THE FOREIGN SERVICE
AND DIRECTOR OF PERSONNEL, DEPARTMENT OF STATE
BEFORE THE
SENATE GOVERNMENTAL AFFAIRS COMMITTEE
ON S. 1527, THE CIVIL SERVICE PENSION REFORM ACT,
SEPTEMBER 9, 1985

The Secretary of State has asked me to represent him at these hearings on the design of a retirement system for Federal employees covered by Social Security. We appreciate this opportunity very much. Retirement provisions are essential to any personnel system, and are especially so for the Department of State which has employees under two statutorily distinct retirement systems--Civil Service and Foreign Service.

We believe that S. 1527, the Stevens-Roth bill, is a constructive effort to make the new Federal retirement system both fair and equitable to participants and financially sound as well. The three-tiered structure of benefits should accommodate the retirement planning goals of a wide variety of

- 2 -

Federal employees with different career patterns. The bill's provisions for a thrift plan with employer matching of employee contributions are a particularly attractive feature. Thrift plans are, of course, an established part of many private sector retirement plans. It is our belief that offering access to a thrift plan may make Federal employees more mobile, and generally encourage more movement back and forth between private and public sector employment. Such a development would be beneficial to all concerned. Moreover, the thrift plan could give a boost to capital formation and thereby aid in maintaining and expanding the national economy.

Our overall impression of the bill is thus very positive. In fact, my principal reason for being here today is to request that this Committee consider including Foreign Service personnel under Stevens-Roth.

The basic framework of the bill will be beneficial to both Foreign Service and Civil Service employees of the Department of State. Since we have appreciable numbers of employees who convert from the Civil Service to the Foreign Service in mid-career, and vice-versa, the Department of State has a management interest in seeing a similar retirement structure for each personnel system. Employees currently can transfer either to or from the Foreign Service with no major effect on

- 3 -

their entitlement to retirement benefits; we would not be well served by a Foreign Service system structured significantly differently from the general Civil Service system.

In looking at the Stevens-Roth bill, we believe that the Foreign Service clearly should be regarded as a "special category" of employment, as are air traffic controllers, firefighters, and law enforcement officers. I would note that the Foreign Service retirement system, like those of the other special groups, allows optional retirement earlier and with fewer years of service than the existing Civil Service system. In our case, Foreign Service employees may retire at age 50 with 20 or more years of service.

There are two overriding and related reasons for these existing Foreign Service provisions. First, we need to retire mandatorily the less competitive, as determined by management, to ensure that the highest standard of performance in foreign policy analysis and overseas representation is guaranteed. Foreign Service personnel are subjected to increasingly rigorous competition with their peers in the course of their careers, with the result that some employees are retired involuntarily each year, for failure to be promoted to the next higher grade or class within a specified time period. This "time-in-class" limitation requires officers who are performing

- 4 -

competently at their current grade level, but who are not sufficiently competitive to advance to higher levels to be retired.

Second, we must provide through early retirement an exit, other than for substandard performance, for those who are no longer able to serve abroad. The Foreign Service is an arduous and dangerous life; those who, after a long and valued career, cannot continue to meet those challenges should be able to retire voluntarily, without being selected out for substandard performance.

Our workforce analyses indicate that an appreciable number of those potentially subject to retirement for "time-in-class", both now and into the future, will be between the ages of 50 and 55. These employees typically would have about 25 years of service. The Stevens-Roth special category rules would allow such employees to receive an immediate annuity, but the income replacement at time of separation would be quite small compared to the current situation: an involuntary retiree aged 50 with 25 years service would receive an annuity of about 18 percent of his salary under Stevens-Roth, as opposed to about 50 percent under the current system.

- 5 -

I do not believe that we could continue to operate involuntary retirement for time-in-class under such conditions. Frankly speaking, such a small benefit would be perceived as harsh and inequitable, and managers and supervisors would be likely to change their personnel management decisions in order to shield employees from selection out, thereby defeating the basic purpose of the selection-out mechanism.

It is necessary in our view, then, to give some special attention to employees who retire before the age of 55. We believe that the Foreign Service should retain its existing retirement threshold, allowing retirement without annuity reduction at age 50 with 20 years service. This age and service requirement conforms to that which has been proposed by OPM Director Horner for all special categories of employees.

It might also be desirable to consider allowing agencies to pay the supplemental payment in lieu of Social Security to all special category employees from the time of retirement, rather than solely from age 55 to age 62. I believe that the provision of one or more of these income supplements would allow the Foreign Service to harmonize the new retirement system with its existing selection-out system. I hope that we can work together on these special points of concern.

- 6 -

The Committee should also be aware that the Foreign Service system differs from the Civil Service system in several other respects, such as its treatment of the rights of former spouses to annuities, pay provisions for reemployed annuitants, and certain benefits for foreign national employees. Each of these existing differences would need to be addressed in development of a final bill.

I would draw your attention to one other feature of the Foreign Service Retirement System: the Department of State currently administers the system, rather than the Office of Personnel Management, and a separate retirement trust fund is maintained for the Foreign Service by the Department of the Treasury. Presumably the separate fund will continue in existence for those pre-1984 Foreign Service employees who do not elect to transfer into the new system, and the Department will continue to administer the Foreign Service system at least for those employees.

We believe that the most sensible arrangement would be to maintain a separate trust fund for Foreign Service appointees under the new system, as well. We already have an expert and efficient retirement and disability staff in place, fully capable of managing the new system as well as the current one. It has several times been viewed as a model for the rest of

- 7 -

Government, including by the Congress. This staff handles retirement and disability claims not just for the Department of State, but for all five agencies using Foreign Service appointing authorities.

Transferring retirement responsibility to the Office of Personnel Management and disability claims to private insurers for new system employees would probably require additional resources without any fully corresponding savings for the Department. Moreover, the division of responsibility between the Department and OPM as regards verifying service, financial accounting, and retirement counseling for transferees from the old to the new system would create a bureaucratic nightmare that would serve no one's interest. Similar problems would arise in trying to transfer disability responsibility, with the added problem of finding private insurers versed in assessing disabilities arising from diseases or environmentally induced illnesses arising from service worldwide. We do now have and will continue to have a medical staff that includes specialists in these areas, whose duties now include making disability determinations. All in all, we believe that it would be far superior to preserve the existing retirement management arrangements for the Foreign Service system.

- 8 -

I have dwelt at some length on special treatments needed to make the Stevens-Roth retirement structure mesh with the Foreign Service personnel structure. But let me emphasize that I believe the effort to be well worthwhile. The world has changed immeasurably since Federal retirement legislation was put in place; it is now time to bring our treatment of retirement in line with those changes in the world. We must recognize that our young employees of today, those after all who have the most to gain or lose from this legislation, have a different outlook, a different set of assumptions about career mobility and change than the employees of two generations ago for whom the existing systems were designed. The bill under consideration by this committee does recognize that important fact. We believe that the bill will benefit the government, the employees, and the taxpayers of this country and we support it.