EARLY RETIREMENT AND INCOME MAXIMIZATION

BY ALLEN J. LENZ, CDR., SC., USN*

SOME EFFECTS OF THE ECONOMIC INCENTIVES IN THE MILITARY RETIREMENT SYSTEM AND OTHER SYSTEMS OFFERING EARLY RETIREMENT

The U.S. military retirement system is designed to serve an established need of the military organization: It functions to permit withdrawal of career personnel from the Military Establishment at relatively young ages, in order to prevent the organization from being dominated by men too old for the rigors of military life and to insure that maintenance of "youth and vitality" will provide a combat effective organization.

The removal of superannuated personnel is a commonplace objective of retirement systems. However, the military system is virtually unique with respect to the early age at which the withdrawal of career members is mandatory or encouraged.

The military retirement system does fulfill its objective of maintaining "youth and vitality" in the military personnel structure. But, in achieving its goals the system establishes a pattern of economic incentives and resultant individual behavior responses which may imperfectly serve the best interests of the military organization. The purpose of this paper is to describe some effects of the military retirement system on labor mobility and to demonstrate that these effects can stem from any retirement system which offers an "early retirement" option to employees who are capable of continued, highly productive employment.[1]

Part I briefly describes the military retirement system. The unique "income maximization" problem thrust upon members of the military profession by the necessity of a second career is examined in part II. Part III summarizes the results of a study of the effects of the length of a military career on lifetime incomes. Part IV examines the career length behavior patterns which may be expected in some nonmilitary organizations offering an early retirement option and part V offers comments concerning the effect of early retirement programs on efficient resource allocation. Conclusions are summarized in the final portion of the paper.

---

* The author is an active duty naval officer. However, the views and conclusions expressed in this paper do not necessarily represent the position of the Department of Defense, the Department of the Navy, or any agency or staff thereof.

[1] In this paper "early retirement" refers to retirement without actuarial reduction of benefits prior to the "normal" retirement age in our society. The normal retirement age is popularly considered to be about age 65—the age at which unreduced social security benefits become available.