30 years of Government service, earning $10,000 per year. Our example individual is eligible for immediate retirement and by doing so can draw an annuity of $5,200. In addition, he can take a job with a nongovernmental employer at an annual salary of $8,000. The sum of his civil service retirement annuity and his "second career" wage is, therefore, $13,200 or $3,200 more than he can earn by continued employment with civil service. Thus, he can maximize his own personal immediate income by retiring from the civil service work force and switching to the nongovernmental employer. But, if the $10,000 civil service wage and the $8,000 nongovernmental employer wage are both accurate valuations of the marginal product of the individual in the alternative employment situations, the change of employment represents an inefficient allocation of labor resources. The individual has maximized his income, but, at the same time, is contributing a smaller product to society. Clearly, a pension plan generated incentive to change employers is undesirable for society as a whole. Plans should not restrict labor mobility. Neither should they encourage it. It would seem that the ideal pension plan would be neutral with respect to its impact on labor mobility, leaving the task of allocation of labor to the price (wage) system.

VI. Summary and Conclusions

The military retirement system functions to encourage and permit withdrawal of career personnel from the military forces at relatively young ages, in order that the military organization may maintain a desired degree of "youth and vigor." Most military retirees enter the civilian labor force after completing their military careers. During the second career years, the retirement annuity is not an old-age pension. Rather, at least in part, it serves to compensate military retirees for reduced civilian employment income levels which stem from a late entry into civilian employment.

The existing retirement system and the 20-year retirement option have maintained "youth and vigor" in the military forces and assisted in attaining a more rapid and regular promotion flow. However, there are some indications that short (20 years) military careers may be more economically rewarding than longer careers, providing a positive economic incentive to early retirement for certain categories of personnel, including the more highly educated officers.

Most civilian employers do not permit retirement at such early ages that the employee can "retire" and transfer to another employer, thereby earning an active employment wage and simultaneously drawing a retirement annuity from the prior employer. However, a recent lowering of the minimum retirement age now permits civil servants with 30 years of service to retire from civil service and draw an unreduced annuity at age 55. There is reason to expect that this early retirement option may, in the future, imperfectly serve the best interests of the civil service organization, tending to encourage early withdrawal of the more valuable employees, but doing much less to encourage egress of the less productive workers.

A retirement system which provides a positive incentive for early retirement from the work force of one employer in order to transfer to the work force of another employer not only may be undesirable from the standpoint of the original employer, but may be undesirable for