THE ECONOMICS OF MILITARY RETIREMENT

BY BETTE S. MAHONEY and ALAN E. FECHTER*

The military retirement system, like most other retirement systems, is a complex structure. The benefit formulas and eligibility requirements are incorporated into numerous laws enacted by Congress, and regulations promulgated by the Department of Defense.[1] This paper addresses two aspects of the military retirement system: (1) the importance of the nonvested retirement program upon job mobility; and, (2) the affect of the retirement income upon labor force behavior during what are usually considered prime working years. The nonvested retirement program provides active duty military personnel with an important incentive to remain in the Armed Forces until becoming eligible for the retirement benefits. The retirement income is substantially higher than the non-wage-and-salary income of the civilian contemporaries of military personnel. As such, it is expected that this higher "independent" income will have an effect upon the subsequent labor force behavior of retired military personnel. The next section examines the job mobility pattern of active duty military personnel. The labor force behavior of military retirees is analyzed in the third section. The final section draws tentative conclusions based upon the evidence of the earlier sections.

JOB MOBILITY OF ACTIVE DUTY MILITARY PERSONNEL

After completing 20 or more years of active service, military personnel may request retirement. Retirement pay after 20 years of service is 50 percent of the monthly basic pay of the retiree at the time of his

* The authors are staff members of the Economic and Political Studies Division of the Institute for Defense Analyses, Arlington, Va. The time and resources to prepare this paper were made available through the generosity of the Institute for Defense Analyses. The data about military retirees was supplied by the Office of the Assistant Secretary of Defense for Manpower. We wish to express our gratitude to Dr. William A. Niskanen, Director, Economic and Political Studies Division, Institute for Defense Analyses, and Rear Adm. Lester E. Hubbell, Director, Compensation and Career Development Directorate, OASD (M). Thanks are also due to Lt. Col. Gorman C. Smith and Mr. Paul C. Bender for their cooperation. Particular thanks goes to Capt. Michael J. O'Connell, research analyst in Retirement Study Group; Sp5c Thomas Kerwin, who supervised and prepared the tabulations of military retirees used in this paper; to Miss Susan McIntosh, our research assistant, who performed most of the computations; and to W. Michael Mahoney for his constructive comments on early drafts of this paper. The opinions and conclusions found in this paper are the authors' and do not reflect those of the Institute for Defense Analyses or the Department of Defense.

[1] A detailed description of the military retirement system may be found in U.S. Senate Committee on Armed Forces, *A Study of the Military Retired Pay System and Certain Related Subjects*, prepared by the study committee of the University of Michigan, July 6, 1961.