retirement. For each year of service after 20 years the amount of retired pay is increased by 2½ percentage points, with a maximum of 75 percent of basic pay reached after 29 years and 6 months of active service.[2] There are no retirement benefits paid if separation from the Service occurs prior to the 20-year point for any reason other than disability.[3]

The implication of such a retirement program for labor mobility between the military and the civilian sector is that it makes mobility more costly for military personnel with larger numbers of years of active service until the year they become eligible to receive retirement income. There will be an economic incentive to retire at that time if the future retirement income and the salary associated with staying in the military service are not sufficient to offset the pecuniary and nonpecuniary attractions of civilian career opportunities. This type or retirement systems should give rise to a U-shaped profile of turnover rates of personnel classified by years of active service.

Loss rates were constructed by dividing the year-group losses for the fiscal year 1965 by the sum of the inventory in that year group as of June 30, 1965, plus the losses from that year group during fiscal year 1965. Military enlisted loss rates have a dramatic peak at the end of the initial tour of obligated duty and at 20 years (fig. 1). The initial peak is followed by a noticeable, if irregular, decline until the 20th year. It is difficult to attribute this decline entirely to the military retirement program. Mobility studies conducted for civilian labor markets have consistently found that older workers are less mobile and change jobs less frequently.[4]

There is little doubt that the second peak in military loss rates at the 20-year point reflects the retirement program. The decision to retire voluntarily at the 20-year point is associated with two characteristics of the retirement system: (1) the actual amount of retirement income that the serviceman is eligible to receive; and (2) the vesting of that income at the 20-year point. Unfortunately, it is impossible to separate the effects of the two characteristics upon the decision to retire.

It is clear from the examination of the loss patterns that the incentives for staying until the 20-year point after having made an early decision for a military career are far higher than the incentives for staying beyond the 20-year point. Thus, although it is not possible to separate the pure effects of the nonvested retirement, the loss pattern is dramatic enough to suggest the importance of the nonvested retirement in shaping the military career.

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[2] Basic pay is only part of the total pay package of military personnel. In addition to special pays for hazardous duty, proficiency, responsibility, nontaxable cash allowances for quarters and subsistence are paid. Basic pay is, on average for the total force, only 70 percent of tax equivalent gross cash income.

[3] If the serviceman joins the Reserves upon separation, the years of active duty spent in the Reserves are counted as part of the 20 years of satisfactory Federal service necessary for Reserve retirement. Reservists do not become eligible for retirement pay until age 60.

[4] See, for example, R. L. Bunting, L. D. Ashby, P. A. Prosper, Jr., "Labor Mobility in Three Southern States," *Industrial and Labor Relations Review*, vol. 14 (April 1961), No. 3, pp. 432–445; R. L. Bunting, "Labor Mobility: Sex, Race, and Age," *Review of Economics and Statistics*, XLII (February 1960), No. 1, pp. 229–231; L. E. Gallaway, "Interindustry Labor Mobility Among Men, 1957–60," *Social Security Bulletin*, vol. 29 (September 1966), No. 9, pp. 10–22.