

Proposed Military Retention Program Could Turn Costly

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The issue of declining personnel retention rates within the military has captured the attention of the Joint Chiefs of Staff, making it a key topic in this year's supplemental budget debate.

Corrective measures do not appear expensive: \$1.8 billion out of a \$15 billion emergency funding bill to pay for increased pay raises and more generous retirement benefits in Fiscal Year 2000. But upon closer examination it is clear that the long-term costs of replacing existing regulations could be enormous.

The basic problem is that all the services have not been able to maintain adequate recruitment and retention rates. In 1998, for example, the Navy fell 12 percent short of its recruitment goal, while the Army fell 2 percent short. The Air Force and Marine Corps, on the other hand, met their 1998 goals.

To reverse these negative trends, both administration officials and members of Congress have argued that it is necessary both to increase pay and repeal the Military Retirement Reform Act of 1986 (REDUX). Under REDUX, people who joined the military after July 1986 could retire with no more than 40 percent of base pay after 20 years as opposed to men and women who had joined before that date who would continue to receive 50 percent. Repeal of REDUX would give everyone 50 percent. It is also proposed to raise base pay. As well as repealing REDUX, the president's budget request would raise base pay by 4.4 percent. Both the House and Senate defense authorization bills would repeal REDUX and raise base pay by 4.8 percent. Either bill would apply initially to FY 2000, and would also set up an index for future pay raises that would be legally binding with regard to future years.

Because the budget caps for discretionary spending under the 1997 Balanced Budget Agreement are extremely tight in FY 2000, absent the FY 1999 emergency supplemental, Congress would have to cut other defense programs or domestic programs to pay for the repeal of REDUX and the higher pay raise. This would be difficult, because there are many other competing priorities in the defense budget, and some non-defense programs already are projected to decline to stay under the caps.

Unfortunately, funding the first year of the REDUX repeal and the higher pay raise as an emergency—without having to make offsetting cuts in other programs—makes it seductively easy for Congress to change this policy without having to consider the long-term implications. This is exactly the type of policy-making that has no place in an emergency funding bill.

While an extra high pay raise is probably appropriate for FY 2000, the wisdom of repealing REDUX or setting higher future pay raises in law is, at best, questionable. The available evidence does not support the notion that the existence of REDUX has hurt retention. For example, the Congressional Budget Office (CBO) recently found that "being under REDUX had no discernible effect on ... mid-career retention decisions." The General Accounting Office came to a similar conclusion: There is "no clear indication that the proposed change to the retirement system ... will address the retention issue. Moreover, there is the possibility that repealing REDUX will have the serious negative effect of discouraging service members from staying for more than 20 years." Similarly, CBO found that military personnel generally get paid roughly the same as civilian workers with comparable private sector jobs .

In reality, the long-term costs of repealing REDUX, instituting higher pay raises, and providing other benefits

could be much greater than initially envisioned. If the most costly of the current proposals being considered by Congress is enacted (Senate Bill 4), the cost of the changes would be about \$2 billion in FY 2000 and balloon to some \$10 billion by FY 2009.

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