

An Historical Synopsis of Non-Disability Retired Pay

1. Military retired pay has a long history that is often misunderstood. It is not a pension; pensions are primarily the result of financial need. Military retired pay is not based on financial need, but is regarded as delayed compensation for completing 20 or more years of active military service. The authority for nondisability retired pay, commonly known as "length-of-service" retired pay, is contained in Title 10, United States Code.
2. The military retirement system has a four-fold purpose:
 - a. To provide citizens of this nation a choice of career service in the armed services that is competitive with reasonably available alternatives.
 - b. To provide promotion opportunities for young and able bodied members.
 - c. To provide some measure of economic security to retired members.
 - d. To provide a backup pool of experienced personnel in case of national emergency.
3. Prior to 1861, there was no voluntary military retirement system. In 1861, Congress authorized a voluntary retirement system for officers. In 1885, Congress authorized voluntary retirement for enlisted personnel. In 1948, Congress authorized a voluntary retirement system for career members of the Reserve and National Guard. Since they were established, all systems have undergone changes in years of service required before becoming retirement eligible.
4. In 1916, the formula for computing retired pay, now called the Final Pay Plan, was based on final active duty base pay, times 2.5 percent, times years of service. This formula remained unchanged until 1980. For those who first entered the service after 7 September 1980 and before 31 July 1986, the formula, called the High 3 Pay Plan, is based on the average of the three highest years of base pay times 2.5 percent times years of service. These Soldiers are given a choice of retired pay plans at the 15th year of service. They may choose to receive a \$30,000 Career Status Bonus at the 15-year mark and the REDUX retired pay plan or they may forgo the bonus and receive the High 3 retired pay plan. The REDUX Pay Plan formula is based on the average of the three highest years, times 2.0 percent for the first 20 years of service and 3.5 percent for each year from 20 to 30 and 2.5 percent for each year after 30. There is no longer a limit to the percentage of base pay a Retired Soldier may receive; a Soldier with 41 years of service will receive 102.5% of his/her base pay (or average of the three highest years, depending on the retired pay plan.)
5. Methods for calculating adjustments to retired pay have also changed over the years. Prior to 1958, adjustments to retired pay were based on adjustments to active duty base pay. In 1958, Congress terminated this system. Concurrent with this change was a 6 percent increase in retired pay. In 1963, Congress established the Cost-of-Living Adjustment (COLA) system based on changes in the Consumer Price Index (CPI). Since 1963, there have been several changes to the COLA system. Presently, COLAs are the difference between the third quarter CPI of the current year and the previous year. For those who entered service after 31 July 1986, the COLA is the same minus one percent. At age 62, they receive a one-time restoration of the one percent reduction, but thereafter receive the one percent reduction without any future restoration.
6. Increases in active duty base pay require congressional action. COLAs to retired pay do not. They are based on established law and the CPI. Therefore, differences in the two amounts in any given year are not uncommon.
7. This short synopsis of military retirement and retired pay does not cover all the legislative changes that have occurred since the birth of the Army. It is intended to cover only the high points and to respond to general retiree questions on the system.

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