

Ten-Year Budgetary Effects of Changes to the Military Retirement System (H.R. 1735, Sections 631-635, As Cleared by the Congress on October 7, 2015)^{a,b}

(by fiscal year, in millions of dollars)

	10/14/2015											
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016-2020	2016-2025
CHANGES IN MANDATORY OUTLAYS												
Total Changes in Mandatory Outlays^c	0	0	5	8	6	5	4	3	2	2	19	35
CHANGES IN REVENUES												
Total Changes in Revenues^d	0	0	-46	-109	-127	-136	-149	-161	-174	-187	-282	-1,089
Net Effect on the Deficit	0	0	51	117	133	141	153	164	176	189	301	1,124
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Memorandum: Estimated Changes to Discretionary Authorization Levels												
Government TSP Contributions	0	0	450	1,340	1,490	1,630	1,790	1,950	2,130	2,320	3,280	13,100
Continuation Payments	0	0	240	910	1,110	1,280	1,370	1,450	1,530	1,660	2,260	9,550
Accrual Payments to the Military Retirement Trust Fund ^e	<u>0</u>	<u>90</u>	<u>-3,330</u>	<u>-3,640</u>	<u>-3,960</u>	<u>-4,300</u>	<u>-4,670</u>	<u>-5,050</u>	<u>-5,460</u>	<u>-5,920</u>	<u>-10,840</u>	<u>-36,240</u>
Total Estimated Changes to Discretionary Authorization Levels	0	90	-2,640	-1,390	-1,360	-1,390	-1,510	-1,650	-1,800	-1,940	-5,300	-13,590

Sources: Congressional Budget Office and the staff of the Joint Committee on Taxation

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Notes: Numbers may not add up to totals because of rounding.

TSP = Federal Thrift Savings Plan

For revenues, a negative number indicates a loss of revenue. For direct spending or discretionary authorization levels, a negative number indicates a reduction in cost.

Pursuant to section 3101 of the Concurrent Resolution on the Budget for Fiscal Year 2016 (S. Con. Res. 11), CBO estimates H.R. 1735 would increase direct spending and net deficits by more than \$5 billion in at least one of the four consecutive 10-year periods starting in 2026. In the ten years after 2025 mandatory outlays associated with retirement reform would accelerate as an increasing number of military members would be bound by the rules of the new retirement system and would thus be eligible for a lump-sum payment when they retire. In subsequent decades, however, the savings from the reduced or forgone annuities would exceed the annual spending on lump-sum payments.

- a. For CBO's estimate of all of the direct spending and revenue effects associated with H.R. 1735, including sections not related to military retirement, see <https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/costestimate/hr1735.pdf>.
- b. H.R. 1735 would change the military retirement system in the following ways:
 - The multiplier for military retirement annuities would decrease from 2.5 to 2.0 (a 20 percent reduction in the overall annuity).
 - Retiring members could choose to forgo part of their annuity in exchange for a lump sum payment, to be calculated in a manner determined by DoD. The lump-sum would be limited to either half or quarter of the members retired pay for the years between the retirement date and age 67.
 - The government would make contributions on behalf of members to the Federal Thrift Savings Plan. The contributions would range from 1 to 5 percent of a members basic pay depending on their personal contribution levels.
 - Members of the Uniformed Services would be eligible for an automatic bonus once they achieved 12 years of service. The bonus would be equal to at least 2.5 times a member's monthly pay (0.5 for reservists) and would be contingent on serving an additional four years of service.
 - The changes would apply to those who first enter the uniformed services after January 1, 2018, although current members would be given a one-time opportunity to opt-in to the new system. The opt-in would be limited to those with less than 12 years of service as of January 1, 2018.
 - The changes made by the Bipartisan Budget Act of 2013 (PL 113-67), which reduced the annual cost-of-living adjustment for retirees under the age of 62 by as much as 1 percent, would be repealed.
- c. CBO estimates that direct spending would increase over the 2018-2025 period because some reservists, who are nearing the eligibility age for the receipt of retired pay, would be eligible to opt-in to the new system and receive a lump-sum payment from the retirement fund. In exchange for receiving a lump-sum, those retired members would have to accept a lower annuity, which would lower direct spending over time.
- d. The ability to receive government matching to the TSP would increase overall participation in that program. Because TSP contributions are made on a pre-tax basis, this would result in a decrease in taxable income and cause a reduction in federal revenue.
- e. The changes made to the military retirement system by H.R. 1735 would result in a net reduction in DoD's accrual contributions to the Military Retirement Trust Fund, CBO estimates. Because those changes would affect DoD's discretionary appropriations, they are displayed here. However, those payments are intra-governmental transactions. Changes in accrual payments by DoD are offset one-for-one by changes elsewhere in the budget. Because most of the changes would become effective with the cohort that first enters military service in 2018, we estimate that most of the changes to the accrual payments would not begin until that year. There would be some accrual costs in 2017 related to the repeal of the annual cost-of-living reductions specified by the Bipartisan Budget Act of 2013.