



## IS THE \$30,000 REDUX RETIREMENT BONUS A GOOD DEAL?

The following is a *Navy Times* article.

### **"Report: Redux retirees pay high price for 'loan'**

Bonus could cost \$150,000 to \$300,000 in lost income.

**By Vince Crawley**

Times Staff Writer

**Troops who take the \$30,000 "Redux" retirement bonus will, in effect, be borrowing against their retirement benefits at a lifetime interest rate of up to 16 percent,** independent defense analysts said in a new report. Because the "loan" can never be paid in full, those who live a typical 79-year life span will forfeit "tremendous amounts of retirement income," as much as \$150,000 to \$300,000, according to the report released in April by the Center for Naval Analyses.

**The so-called Career Status Bonus offers a one-time \$30,000 payment in exchange for a lifetime or reduced retirement benefits.** Eligible troops - those who first committed to military service on or after Aug. 1, 1986 - must make the irrevocable decision on their 15<sup>th</sup> active-duty anniversary. Those who accept the bonus agree to serve at least 20 years, at which time they could retire at 40 percent of basic pay instead of the traditional 50 percent. Those who serve a full 30 years would still retire with 75 percent of basic pay under either plan. In addition, bonus-takers get lower annual cost-of-living raises set 1 percentage point below inflation. Retirees who pass up the bonus get full annual inflation adjustments. **Congress devised the bonus option in 1999 to cut long-term military retirement spending.** The Pentagon did not request the bonus option and has no official position on whether service members should take it.

**In some cases, it may be possible to invest the bonus in ways that would exceed the value of traditional military retirement.** But the authors of the new report, economist Aline Quester and retiree Lewis Gary Lee, a former sergeant major of the Marine Corps,

are skeptical of giving up traditional retirement benefits. “Military pensions are risk-free, tax-sheltered, inflation-adjusted annuities with options for spousal benefits,” they said in the report. “Such pension provisions are currently offered by only a few private-sector companies.”

**They calculated retirement benefits for all ranks and most common ages at retirement. In all cases, service members - even those who stay for 30 years - would lose out under Redux.** They also found the higher the grade and the lower the years of service at retirement, the more retirement income is lost. The authors suggest thinking of Redux as a “cash-out of part of one’s retirement pension.” A service member gets the “loan” at 15 years of active duty and pays it back over his or her “entire retired lifetime,” they wrote. This lifelong payback differs from car loans, which typically carry a 9 percent interest rate over five years, or traditional home mortgages that carry a typical interest rate of 7 percent to 8 percent over 30 years.

In contrast, a Redux bonus-taker “pays nothing until retirement, pays quite a bit from the Beginning of retirement until age 62, and then continues to pay back smaller amounts over the rest of his or her lifetime,” Quester and Lee wrote.

At age 62, the Redux bonus retirement adjusts to the same level as the traditional military retirement plan. But the parity lasts only for that one year, after which the value of Redux begins to lag again because of its lower annual inflation adjustments.

**“The value of inflation protection for retirement pay cannot be overemphasized,”** Quester and Lee said.

They assumed enlisted troops are in the 15 percent tax bracket and officers are in the 30 percent bracket, then used the official Pentagon bonus calculator to add up the costs for typical Redux retirement scenarios in terms of the “interest rate” and after-tax “interest charges” bonus -takers would pay in an average lifetime:

§ An E-6 who retires at age 38 after 20 years: 10.7 percent, a total of \$194,572.

§ An E-7 who retires at age 38 after 20 years: 11.6 percent, a total of \$222,729.

§ An E-8 who retires at age 38 after 20 years: 12.3 percent, a total of \$249,445.

§ An E-9 who retires at age 48 after 30 years: 6.2 percent, a total of \$204,748.

### **Officers lose much more**

Officers who take the bonus would pay even higher “implied” interest rates and lifetime interest charges because they would lose more retirement pay in exchange for the same \$30,000 bonus, Quester and Lee said. The cost:

§ An O-4 who retires at age 42 after 20 years: 15.8 percent, a total of \$267,581.

§ An O-5 who retires at age 42 after 20 years: 16.8 percent, a total of \$303,344.

§ An O-6 who retires at age 52 after 30 years: 7.5 percent, a total of \$240,584.

By comparison, troops would pay hundreds of thousands less in interest if they just borrowed \$30,000 as a conventional 30 year mortgage. At 7.5 percent, total interest payments would be \$45,515, the report said. Even borrowing \$30,000 at 10.5 percent over 30 years would cost just \$68,792 in interest charges - less than half the cost of the best case scenario for an E-6 who took the bonus, it said.

The report is available online at <http://www.cna.org/newsevents/>

Other notes:

**Taking the bonus and the lower stream of retirement benefits will also be more impacted by the Survivor Benefit Plan (SBP) payments.** For a given level of SBP payment selected (up to 55% payments to surviving spouse), both the traditional (50%) and Redux (40%) retirement options will require the **same dollar premium** per month. Hence **the percent reduction will effectively be greater for the Redux taker as they receive less money each month.**

This choice is available to most of our members. Please make your choice wisely!

Regards, FL Ames



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