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# Making the Retirement Choice: Continuation Bonus + REDUX OR High 3?

Sept 2000

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# Overview: 3 Retirement Dates

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- **DIEMS** (What plan you are in)
  - Date never changes
- **ADBBD** (Counting the years you have that count for retirement)
  - Broken service changes date
- **PEBD** (Where you are on the pay table)
  - Broken service changes date

# Overview: 3 Retirement Plans

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- High 1
  - DIEMS before 8 September 1980
- High 3
  - DIEMS from 8 September 1980 through 31 July 1986
- Choice (DIEMS 1 August 1986 or later)
  - Continuation bonus at 15 YOS + REDUX retirement
  - or
  - High 3

# The “Who” of the Choice

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Marines who first “held up their hand” 1 August 1986 or later and who meet all reenlistment requirements/standards for additional 5 years of service

- For enlisted Marines, date first “held up hand” is
  - Date entered delayed entry program (DEP)
  - Active duty base date (ADBBD) if direct ship
  - Date should NEVER be changed. Not like ADBBD or PEBBD.
- This date is called
  - DEAF (date entered Armed Forces) in Marine Corps personnel files
  - DIEMS (date initial entry into military service) by DoD
- This date field was not always entered accurately
  - Worth checking records – MARADMIN
  - Incorrectly changed for some broken-service Marines
  - Incorrectly entered for many officers, particularly NROTC accessions

# The “**What**” of the Choice

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At 15 years of service, eligible Marines under this retirement scheme must choose between

- Taking a continuation bonus of \$30,000 at 15 YOS and smaller retirement payments later
- Forgoing the continuation bonus and ensuring the High 3 retirement income

# The “When” of the Choice\*

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- For continuous-service Marines who entered the DEP 1 August 1986
  - Eligible when they have 15 YOS by the ADBD. For example, if entered 12-month DEP on 1 August 1986, they will have 15 years of service by 1 August 2002
- For continuous-service Marines who direct shipped on 1 August 1986
  - 15 YOS by 1 August 2001
- For broken-service Marines
  - Eligible when they have 15 YOS by ADBD

\*\*\*\*\*Note:

Sign up for the choice at 14.5 years

# More on the “What” of the Choice

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- Decision is VERY complicated
- If you take the \$30,000 continuation bonus at 15 YOS, how much your High 3 retirement is reduced depends on
  - Your final grade at retirement
  - Your years of service at retirement
  - Your age at retirement

# High 3 Retirement Plan

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- 50% average base pay for highest 3 years if retire at 20 YOS
- 2.5% extra for each YOS up to 30 YOS
- Means 75% average base pay for highest 3 years if retire at 30 YOS
  - But, very few Marines make it to 30 years of service
- Benefits fully indexed to CPI

# How Much Is High 3 Retirement Pay Reduced If You Take the Bonus?

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- *Starting pay* at retirement
  - 40% average base pay for highest 3 years if retire at 20 YOS (vice 50% for High 3)
    - 3.5% extra for each YOS up to 30 YOS (vice 2.5% for High 3)
    - All get 75% if they retire at 30 YOS, but few make it to 30 YOS
- *Retirement pay raises until age 62*
  - Consumer Price Index (CPI) for High 3
  - CPI minus 1% for those who took bonus
- *Retirement pay raises age 62 plus*
  - At age 62, retired pay for bonus takers is “jacked up” to level for High 3 (means it goes to 50% if they retire at 20 YOS). From that point on, retired pay is
    - CPI for High 3
    - CPI minus 1% for those who took bonus

# More on What Happens to Bonus-Takers at Age 62

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- Retirement pay “jacked up” for bonus-takers at age 62
- Example: E-6 who retires at 20 YOS at age 40
  - At age 40, retirement pay is \$9,004 for bonus-takers and \$11,255 for non-bonus-takers
  - By age 61, bonus-takers get \$15,123 and non-bonus-takers get \$23,179
  - At age 62, retirement pay for both groups is \$23,990
  - From age 62 onward, retirement pay goes up
    - CPI for High 3
    - CPI minus 1% for those who took bonus
  - By age 70, retirement pay is \$29,230 for bonus-takers and \$31,591 for non-bonus-takers

# If You Take the \$30,000 Bonus

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- Lose **more** retirement pay the higher the grade at retirement
  - 40% vice 50% is a larger \$ amount for an E-9 than an E-6
- Lose **less** retirement pay the greater your years of service at retirement
  - At 20 YOS, it's 40% vice 50%
  - At 22 YOS, it's 47% vice 55%
- Lose **less** retirement pay the older you are at retirement
  - Fewer years until age 62 when you get the “bump-up”

# Taking the Bonus is Like Taking Out a Loan Against Your Retirement Income

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- Mortgages, car loans, credit card debt
  - Get money now; pay it back later
  - Use an interest rate to describe the transaction
- \$30,000 Continuation Bonus is a loan
  - It's paid off by lower, future retirement checks
  - Peculiar payback scheme
    - Nothing paid back until you retire
    - Pay quite a bit from retirement to age 62
    - Smaller payments from age 62 on
    - Rate of interest you're "charged" for this loan varies, depending upon grade at retirement, YOS, and age at retirement

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We thank our colleagues - Gerald Cox, Ann Parcell, and Michael Hansen - for their insight and help in this analysis.

# The \$30k Bonus:

## What Is the Interest Rate for This Loan?

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- Retiring at 20 YOS at age 40
  - 7.9% for E-6s
  - 8.7% for E-7s
  - 9.5% for E-8s
  - 10.4% for E-9s
  - 12.7% for O-4s (retirement age 42)
- If you stay more than 20 years, rate falls
  - For example, for E-9s at 26 YOS, it's 6.5%

# TAKE THE E-O RETIRING WITH 20 YOS

## Who Takes the \$30,000 Bonus at 15 YOS

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- He's taken a loan against his military pension
  - Gets the money now. Begins to pay back only at retirement.
- Loan rate is 7.9%
- He's paying it back over the years of his retirement by getting smaller pension checks
- Life expectancy is 79 years. When he is 79, the total reduction in his retirement pay because he took the bonus will be \$155,388
  - \$30,000 is the principal
  - \$125,388 is the interest

# TAKE THE E-0 RETIRING WITH 20 YOS

## Who Takes the \$30,000 Bonus at 15 YOS

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- He's taken a loan against his military pension
  - Gets the money now. Begins to pay back only at retirement.
- Loan rate is 9.5%
- He's paying it back over the years of his retirement by getting smaller pension checks
- Life expectancy is 79 years. When he is 79, the total reduction in his retirement pay because he took the bonus will be \$198,614!
  - \$30,000 is the principal
  - \$168,614 is the interest

# Take the Bonus or Take the Larger Retirement?

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- How good a “deal” this bonus is varies systematically with retirement grade, YOS, and age at retirement. HOWEVER,
- Individual circumstances will probably dominate the decision
  - Attitudes toward spending and saving
  - Amount and type of debt
  - Availability of sound financial advice

# Additional Help in Making Decision

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- DoD website: <http://pay2000.dtic.mil>
  - Illustrates how Bonus money will grow if invested in Thrift Savings plan/Other investment
  - Illustrates how the difference between High 3 and reduced retirement will grow if this difference is invested
  - Can change assumptions. Difficult to figure out what are reasonable assumptions for growth rate of investment, inflation, etc. Many numbers.
- Hope to get the loan/interest rate interpretation on this website
  - Provides another way to look at choice
- Marine Corps' financial counselors
  - If one takes \$30,000 continuation bonus to pay off some debt, it is a very good time for a fresh start on budgeting



This is pretty hard stuff!