

# Military Pensions vs. Local Safety Pensions 101

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The topic of local safety pension benefits as a comparison to U.S. military pension benefits has been raised but has not been thoroughly explored to-date. Although the jobs of our U.S. military and those of our local fire, police, and lifeguards are quite different in terms of scope and pay, evaluation of their comparative pension benefits can prove to be insightful.

For both military and local safety, the following formula can be used to calculate retirement benefits:

<p><b>Annual Pension Benefits</b></p> <p>=</p> <p><b>years of service</b></p> <p>(the number of years a member has put in at an agency or in the military)</p> <p>x</p> <p><b>final compensation</b></p> <p>(the highest consecutive 12 or average 36 months of salary for cities, the final 12 months of salary or highest average 36 months of salary for military)</p> <p>x</p> <p><b>benefit factor</b></p> <p>(A multiplier received for each year of service, usually between 2% and 3% of the final compensation)</p>
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## Military

The United States military bases its retirement benefit system off of the employee's date of initial entry to military services (DIEMS). This date does not change regardless of reentry, leave, etc. In order to qualify for retirement benefits, one has to serve in the military for 20 years. The U.S. military has three types of retirement systems: Final Pay, High-3, and CSB/REDUX.<sup>1</sup> Table 1 outlines the types of retirement system offered by the U.S. military and the criteria needed to enter. Table 2 reviews the retirement benefits awarded to those who have 20+ years of service in the military.

**Table 1: U.S. Military Retirement System Entry Criteria**

Date of Entry/Other Criteria	Retirement System
Before September 8, 1980	Final Pay
Entry on or after September 8, 1980, but before August 1, 1986 OR Entered on or after August 1, 1986, AND did not choose the Career Status Bonus and REDUX retirement system	High-3
Entered on or after August 1, 1986, AND elected to receive the Career Status Bonus (if you do not elect to receive the Career Status Bonus, you will be under the High-3 retirement system)	CSB/REDUX

<sup>1</sup> The Military Reform Act of 1986 created the current REDUX retirement system. The National Defense Authorization ACT amended the REDUX system.

Source: Office of the Secretary of Defense. “Which System Applies to you?” Available from [http://militarypay.defense.gov/retirement/ad/01\\_whichsystem.html](http://militarypay.defense.gov/retirement/ad/01_whichsystem.html).

**Table 2: U.S. Military Retirement System Benefit Overview**

Retirement System	Benefit Factor and Final Compensation	Maximum Payout	2009 COLA
Final Pay	2.5% of final base pay.	75% (reached after 30 years)	5.8% (if retired more than 1 full year)
High-3	2.5% of highest average 36 months of base pay.	75% (reached after 30 years)	5.8% (if retired more than 1 full year)
REDUX	2% for the first 20 years of service; 3.5% thereafter. The highest average 36 months of base pay is used.	75% (reached after 30 years)	4.8%

Source: Office of the Secretary of Defense. “Final Pay Retirement System.” “High 3-Year Average Retirement System.” “CSB/REDUX Retirement System.” Available from <http://militarypay.defense.gov/retirement/ad/index.html>.

Those eligible for the REDUX retirement system are able to choose between REDUX or the High-3 system. A \$30,000 Career Status Bonus is added to those who enroll in REDUX. This bonus is received at their 15<sup>th</sup> year of service in anticipation for at least a 20 year service career.

In REDUX, for the first 20 years of service, retirees receive a 2% retirement factor; for any service after 20 years, retirees receive a 3.5% retirement factor. This amount is still capped at 75% of the average highest 36 months of base pay. REDUX also has a provision that allows retirees to catch up to the amount that would be paid under the High-3 system once they reach age 62. This is considered the REDUX readjustment feature.

Military employees do not monetarily contribute to their pensions. They also are enrolled in Social Security whereas most public agency safety plans are not.<sup>2</sup>

**Local Safety**

The California Public Employees Retirement System (CalPERS) is the pension system that governs most cities in the San Diego region, while the City of San Diego and the County of San Diego have their own retirement systems, San Diego City Employees’ Retirement System (SDCERS) and San Diego County Employees Retirement Association (SDCERA), respectively.

Each City in the San Diego region has a retirement formula for public safety workers. These retirement formulas are based upon a multiplier and a method of final compensation—either the highest 12 months of salary or the average highest consecutive 36 months of salary. Employees of these agencies are able to receive benefits after five or ten years of service.<sup>3</sup>

<sup>2</sup> In the San Diego region, only the City of Imperial Beach has Social Security for its safety plans.

<sup>3</sup> The City and County of San Diego are the only entities listed in the table above that require 10 years of service for retirement benefits. It is important to mention here that there is a minimum age of retirement for local safety workers while military employees have a 20-year length of service requirement only—thus not prohibiting them from retiring at an earlier age than local safety members.

**Table 3: San Diego Region Pension Formulas**

Public Agency	Safety Workers	
	Retirement Formula	Final Compensation
Carlsbad Tier 1 <sup>4</sup>	3% @ 50	12-month
Carlsbad Tier 2	2% @ 50 (fire)	36-months
Chula Vista	3% @ 50	12-month
Coronado	3% @ 50	12-month
Del Mar	3% @ 50 (fire)	36-months
	2% @ 50 (lifeguard)	36-months
El Cajon Tier 1	3% @ 50	12-month
El Cajon Tier 2	3% @ 55 (police management)	36-months
Encinitas	3% @ 55 (fire)	12-month
	3% @ 55 (lifeguard)	12-month
Escondido	3% @ 50	12-month
Imperial Beach	3% @ 50 (fire)	12-month
	2% @ 50 (lifeguard)	12-month
La Mesa	3% @ 50	12-month
Lemon Grove	3% @ 55	12-month
National City Tier 1	3% @ 50	12-month
National City Tier 2	3% @ 55 (police)	12-month
Oceanside	3% @ 50	12-month
Poway	3% @ 50	36-months
City of San Diego	3% @ 50	12-month
City of San Diego Tier 2	3% @ 55 (police)	12-month
County of San Diego	3% @ 50	12-month
County of San Diego Tier 2	3% @ 55	12-month
San Marcos	3% @ 50	12-month
Santee	3% @ 50	12-month
Solana Beach	3% @ 50 (fire)	12-month
	3% @ 50 (lifeguard)	12-month
Vista	3% @ 50	12-month

Most public agencies in the region pick-up some percent of the employee contribution for pensions. Cities that contract with CalPERS sometimes report this contribution as additional compensation, which increases the overall annual pension payment. Most cities in the region do not offer Social Security benefits for employees.

<sup>4</sup> Tiers are a method public agencies use to separate out retirement benefits for newer hires and current employees. Because of pension vested rights, agencies are unable to negotiate away or reduce pension benefit formulas on behalf of employees. For this reason, some agencies develop a second tier that reduces benefits for newer hires.

**Comparison**

Given the pension benefit information presented above for military and local safety, the following table is meant to be an overview of the pension payouts for these groups.

The following assumptions were used in regard to compensation:

- 30 years of service
- Last three years of service had reported salaries of: \$97,000, \$98,500, and \$100,000 (average is equal to \$98,500)

The most commonly used local public safety formula in the San Diego region is 3% @ 50 (see Table 3). While military personnel pension payments as a percent of their highest year's salary is capped at 75% for the most generous formula, local public safety can earn as much as 98.1%.

**Table 4: Comparison of Military and Local Safety Pension Payouts**

Formula	Annual Pension Payment upon retirement (plus cost of living increases)	Payout as a % of final salary
<b>Military</b>		
2.5% of final highest salary	\$75,000	75%
2.5% of highest average 36 months of salary	\$73,875	73.9%
2% for first 20 years; 3.5% after; both with highest average 36 months of salary	\$73,875	73.9%
<b>Local Safety</b>		
3% of final highest salary with no pick-up reported	\$90,000	90%
3% of final highest salary with full pick-up reported	\$98,100	98.1%
3% of highest average 36 months of salary with no pick-up reported	\$88,650	88.7%
3% of highest average 36 months of salary with full pick-up reported	\$96,628.50	96.6%
2% of final highest salary with no pick-up reported	\$60,000	60%
2% of final highest salary with full pick-up reported	\$65,400	65.4%
2% of highest average 36 months of salary with no pick-up reported	\$59,100	59.1%
2% of highest average 36 months of salary with full pick-up reported (9% used, not 7%)	\$64,419	64.4%

## Detailed Comparison

Note: the examples used in the detailed comparison below do not use the same pay rates. This is by design. After consulting various experts in military fields, we have attempted to compare positions with similar duties only. As a result, pay for these positions vary from group-to-group.

A Lieutenant Colonel (O-5) commissioned officer in the military earns \$7,959 per month in base salary after 20 years of service. This amounts to \$95,508 annually. This base pay (not including subsistence allowances, housing allowances, tax advantages, etc.) is the amount used in the final calculation of benefits.<sup>5</sup>

A Colonel (O-6) commissioned officer in the military earns \$10,247.70 per month in base salary after 30 years of service. This amounts to \$122,972.40 annually.<sup>6</sup>

### *Retirement After 20 Years of Service*

**Military:** John, a hypothetical Lieutenant Colonel in the military, is considering retirement after 20 years of service. John enrolled in the military September 7, 1980. He receives the “final pay” retirement benefits. Upon retirement, John would receive \$47,754 per year in retirement benefits (plus cost of living increases). This amounts to 50% of his final salary—not including benefits.

Calculation:  $\$95,508 * 2.5\% * 20$  (years of service) = \$47,754 or 50% of final base salary

**Local Safety:** Robert, a hypothetical Fire Battalion Chief in the City of Happiness, is retiring after 20 years of service. He earns \$120,000 annually in base pay—in his final highest year. The City offers a 3% @ 50 retirement benefit with full pick-up of the employee contribution. The City also includes this contribution into the final retirement pay. Upon retirement, Robert will earn \$78,480 per year in retirement benefits (plus cost of living increases). This amounts to 65.4% of his final salary.

Calculation:  $(\$120,000 + 9\%$  (picked up and reported))  $* 3.0\% * 20$  (years of service) = \$78,480 or 65.4% of final salary

### *Retirement After 30 Years of Service*

**Military:** John was promoted to Colonel and, after 30 years of service, chose to retire. He receives the “final pay” retirement benefits. Upon retirement, John receives \$92,229.30 per year in retirement benefits (plus cost of living increases). This amounts to 75% of his final salary—not including benefits.

Calculation:  $\$122,972.40 * 2.5\% * 30$  (years of service) = \$92,229.30 or 75% of final base salary

**Local Safety:** Jane, a hypothetical Fire Battalion Chief for the City of Jonesville, plans to retire after 30 years of service. She earns \$124,000 annually in base pay—in her final highest year. The City offers a 3% @ 50 retirement benefit with only half (4.5%) pick-up of the employee contribution. The City also includes this contribution into the final retirement pay. Upon retirement, Jane will earn \$116,622 per year in retirement benefits (plus cost of living increases). This amounts to 94.05% of her final salary.

Calculation:  $(\$124,000 + 4.5\%$  (picked up and reported))  $* 3.0\% * 30$  (years of service) = \$116,622 or 94.05% of final salary

<sup>5</sup> U.S. Secretary of Defense. Monthly Basic Pay Table. Available from

[http://militarypay.defense.gov/pay/bp/paytables/Paytable\\_2010.pdf](http://militarypay.defense.gov/pay/bp/paytables/Paytable_2010.pdf). Last updated January 2010. Accessed on March 11, 2010. Ranks obtained from <http://www.us-army-info.com/pages/ranks.html>. Accessed on March 11, 2010.

<sup>6</sup> Ibid.

A Sergeant First Class (E-7) enlisted officer in the military earns \$4,131.30 per month in base salary or \$49,575.60 annually after 20 years of service.<sup>7</sup>

A Master Sergeant (E-8) enlisted in the military earns \$5,336.40 per month in base salary or \$64,036.80 annually after 30 years of service.<sup>8</sup>

*Retirement After 20 Years of Service*

**Military:** Juan, a hypothetical Sergeant First Class in the military, is considering retirement after 20 years of service. Juan enrolled in the military on January 1, 1990. He receives the “high-3” retirement benefit as he did not elect to receive the Career Status Bonus. Upon retirement, Juan will receive approximately \$24,051.60 per year in retirement benefits (plus cost of living increases). This amounts to 45% of his highest average 36 months of base pay.

Highest average 36 months of base pay:  $(\$49,575.60 + \$48,088.33 + \$46,645.68)/3 = \$48,103.20^9$

Final Calculation:  $\$48,103.20 * 2.5% * 20$  (years of service) = \$24,051.60 or 48.51% of final base salary

**Local Safety:** Mike, a hypothetical Police Sergeant in the City of Happiness, is retiring after 20 years of service. He earns \$91,200 in base pay in his final highest year. The City offers a 3% @ 50 retirement benefit with full pick-up of the employee contribution. The City also includes this contribution into the final retirement pay. Upon retirement, Mike will earn \$59,644.80 per year in retirement benefits (plus cost of living increases). This amounts to 65.4% of his final salary.

Calculation:  $(\$91,200 + 9%$  (picked up and reported))  $* 3.0% * 20$  (years of service) = \$59,644.80 or 65.4% of his final salary

*Retirement After 30 Years of Service*

**Military:** Jim was promoted to Master Sergeant and, after 30 years of service, chose to retire. He receives the “high-3” retirement benefit. Upon retirement, John receives \$46,601.18 per year in retirement benefits (plus cost of living increases). This amounts to 75% of his final salary—not including benefits.

Highest average 36 months of base pay:  $(\$64,036.80 + \$62,115.70 + \$60,252.23)/3 = \$62,134.91^{10}$

Final Calculation:  $\$62,134.91 * 2.5% * 30$  (years of service) = \$46,601.18 or 72.77% of final base salary

**Local Safety:** Steve, a hypothetical Police Sergeant for the City of Jonesville, plans to retire after 30 years of service. He earns \$93,600 annually in base pay—in his final highest year. The City offers a 3% @ 50 retirement benefit with no pick-up of the employee contribution. Upon retirement, Steve will earn \$84,240 per year in retirement benefits (plus cost of living increases). This amounts to 90% of his final salary.

Calculation:  $\$93,600 * 3.0% * 30$  (years of service) = \$84,240 or 90% of final salary

<sup>7</sup> Ibid.

<sup>8</sup> Ibid.

<sup>9</sup> Assumes a 3% pay increase each year.

<sup>10</sup> Assumes a 3% pay increase each year.

## Conclusion

Through this review, we have found the following significant differences in pension benefits among local safety and U.S. military employees:

- Military employees do not monetarily contribute to their pensions, while many public sector local safety employees do.
- Military employees are enrolled in Social Security whereas most local public agency safety plans are not.<sup>11</sup>
- Military employees cannot receive more than 75% of their highest year's base salary, while local safety employees are able to receive up to 98.1% of their highest year's salary (when a city reports and includes the pick-up of the employee contribution as additional compensation).
- The pay for scope of duties varies widely between military and local safety employees. In many cases, military employees are paid far less than local safety employees—when considering base salary only.

For more information about public pensions, please review SDCTA's Phase I Pension Report issued in October 2009, available at [www.sdcta.org](http://www.sdcta.org).

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<sup>11</sup> In the San Diego region, only the City of Imperial Beach has Social Security for its safety plans.