

num total of 20 years. Although the bonus is taxable, a portion of the payment may be sheltered through contributions to both IRA and Thrift Savings Accounts.

**Phase Two.** At the date of retirement, the service member's retirement benefit is calculated using the average monthly basic pay received during the highest three years (36 months) of active duty. However, the percentage multiplier that is initially used is lower than those used in the other formulas. The table to the right compares the retirement percentage factors under all three formulas. This table shows that for 20 years of service, members retiring under the CSB/REDUX Plan receive a 40% retirement factor versus a 50% retirement factor for comparable service under the Final Pay and High-3 retirement plans. For each additional year of service beyond twenty, the CSB/REDUX retirement factor increases by 3.5%, reaching a maximum factor of 75% after thirty years of service. While the annual percentage increase under the CSB/REDUX Plan is higher, the plan's lower percentage for twenty years of service results in members initially receiving less retirement income for each year before thirty years of service.

**Phase Three.** At age 62 the retirement percentage factor that would have applied under the High-3 Formula is now applied to the CSB/REDUX retiree. This recomputation is com-

monly referred to as the Catch-Up aspect of the CSB/REDUX system. If the member retires with less than thirty years of service, the Catch-Up computation will increase the member's retired pay. However the new retirement factor is not retroactively applied to previous retirement payments.

In summary, the computation of retired pay under the CSB/REDUX system is a four step process:

RETIREMENT FACTOR TABLE			
Final Pay & High-3 Plans		CSB/REDUX Plan	
Years of Service	Factor	Years of Service	Factor
20	50.0%	20	40.0%
21	52.5%	21	43.5%
22	55.0%	22	47.0%
23	57.5%	23	50.5%
24	60.0%	24	54.0%
25	62.5%	25	57.5%
26	65.0%	26	61.0%
27	67.5%	27	64.5%
28	70.0%	28	68.0%
29	72.5%	29	71.5%
30	75.0%	30	75.0%

Monthly Non-Disability Retired Pay — Effective January 1, 2005												
Years >	Over 20	Over 21	Over 22	Over 23	Over 24	Over 25	Over 26	Over 27	Over 28	Over 29	Over 30	< Years
Rank	Commissioned Officers											Rank
O-10	5,594	5,874	6,154	6,434	6,713	7,770	8,081	8,392	8,703	9,014	9,324	O-10
O-9	5,102	5,357	5,693	5,952	6,338	7,336	7,897	8,201	8,504	8,808	9,112	O-9
O-8	4,834	5,076	5,449	5,697	5,944	6,880	7,155	7,430	7,706	7,981	8,256	O-8
O-7	4,372	4,590	4,809	5,028	5,246	6,072	6,347	6,591	6,835	7,079	7,323	O-7
O-6	3,493	3,668	3,944	4,123	4,414	5,109	5,574	5,788	6,003	6,217	6,431	O-6
O-5	3,057	3,209	3,464	3,621	3,778	4,373	4,548	4,723	4,898	5,073	5,248	O-5
O-4	2,670	2,803	2,937	3,071	3,204	3,709	3,857	4,005	4,154	4,302	4,451	O-4
O-3	2,287	2,402	2,516	2,630	2,744	3,177	3,304	3,431	3,558	3,685	3,812	O-3
O-2	1,681	1,765	1,849	1,933	2,017	2,335	2,428	2,522	2,615	2,709	2,802	O-2
O-1	1,327	1,392	1,459	1,526	1,592	1,843	1,916	1,990	2,064	2,137	2,211	O-1
Commissioned Officers With Over Four Years of Enlisted or Warrant Officer Service												
O-3E	2,441	2,563	2,685	2,807	2,930	3,391	3,526	3,662	3,798	3,933	4,069	O-3E
O-2E	1,947	2,044	2,142	2,239	2,337	2,704	2,813	2,921	3,029	3,137	3,245	O-2E
O-1E	1,647	1,730	1,812	1,895	1,977	2,288	2,380	2,471	2,563	2,654	2,746	O-1E
Warrant Officers												
W-5	2,497	2,621	2,840	2,969	3,202	3,706	3,978	4,132	4,284	4,438	4,591	W-5
W-4	2,303	2,418	2,619	2,738	2,949	3,414	3,664	3,805	3,946	4,087	4,228	W-4
W-3	2,029	2,131	2,266	2,370	2,554	2,956	3,173	3,295	3,417	3,539	3,661	W-3
W-2	1,790	1,880	2,035	2,128	2,293	2,654	2,761	2,867	2,973	3,079	3,185	W-2
W-1	1,647	1,729	1,812	1,894	1,976	2,288	2,379	2,471	2,562	2,654	2,745	W-1
Enlisted Members												
E-9	2,059	2,162	2,354	2,460	2,670	3,090	3,401	3,532	3,662	3,793	3,924	E-9
E-8	1,777	1,866	2,042	2,135	2,281	2,640	2,902	3,014	3,126	3,237	3,349	E-8
E-7	1,557	1,634	1,792	1,873	2,011	2,328	2,594	2,694	2,793	2,893	2,993	E-7
E-6	1,309	1,374	1,439	1,505	1,570	1,818	1,890	1,963	2,036	2,108	2,181	E-6
E-5	1,103	1,158	1,213	1,268	1,324	1,532	1,593	1,654	1,716	1,777	1,838	E-5
E-4	881	925	969	1,013	1,057	1,224	1,273	1,322	1,371	1,420	1,469	E-4
E-3	738	775	812	849	886	1,026	1,067	1,108	1,149	1,190	1,231	E-3
E-2	623	654	685	717	748	865	900	935	970	1,004	1,039	E-2
E-1	556	583	611	639	667	772	802	834	865	895	926	E-1

Note: (1) Table provides an approximation of the High-3 Formula for members with 20-24 years of service.  
(2) Table uses the Final Pay Formula for members with 25 or more years of service.

**Step 1:** Determine the retirement factor for years of service by referring to the “CSB/REDUX” column of the Retirement Factor Table.

**Step 2:** Determine the average monthly base pay received during the highest paying three years (36 months) of active duty.

**Step 3:** Multiply the appropriate retirement factor (Step 1) by the average monthly base pay (Step 2) and round the amount down to the nearest whole dollar.

**Step 4:** At age 62, recompute the entitlement using the retirement factor that would have applied under the High-3 system.

Since both options have their advantages, the choice between the HIGH-3 and CSB/REDUX formula is not easy. Ultimately each member must make their own decision based upon their personal preference and individual circumstances. To assist with the decision process, a retirement calculator is available at <http://dod.mil/militarypay>.

The table on page 23 provides an approximation of the retired pay that will be received by members retiring in 2005.

**3-4. RETIRED PAY INCREASES.** To prevent an erosion of military retired pay, Congress authorized a system of annual Cost of Living Adjustments (COLAs) which are tied to inflation changes measured by the Consumer Price Index (CPI).

Retiree COLA Increases			
1996	2.6%	2001	2.5%
1997	2.9%	2002	2.6%
1998	2.1%	2003	1.4%
1999	1.3%	2004	2.1%
2000	2.4%	2005	2.7%

Members whose retired pay is computed by the Final Pay and High-3 methods receive COLAs that equal the percentage increase in the CPI. The chart above provides the retired pay COLAs that have been authorized over the last ten years.

Under the CSB/REDUX formula, the COLA increase until age 62 is the CPI rate of inflation minus one percentage. At age 62 there is a one-time COLA adjustment designed to provide full CPI coverage for every year past retirement. This recomputation together with the adjustment of the retirement percentage factor previously discussed results in the same retirement benefit for both High-3 and CSB/REDUX retirees at age 62. However, CSB/REDUX COLAs after age 62 are again set at the CPI index minus one percentage.

**3-5. ENLISTED PERSONNEL RETIREMENTS.** In order to qualify for voluntary retirement, enlisted members must generally have completed at least 20 years of active military service. They are normally retired in the active duty grade held at the time of retirement. However, if a member’s active service plus service on the retired list totals 30 years, he or she may be advanced on the retired list to the highest grade

RETIREMENT PAY WORKSHEET	
FINAL BASIC PAY SYSTEM	
FOR MEMBERS WHO FIRST ENTERED ACTIVE DUTY BEFORE SEPTEMBER 8, 1980	
Step 1 — Projected Retirement Percentage Multiply years of service for retired pay by 2.5%.	
Step 2 — Projected Active Duty Base Pay Estimate your monthly base pay at time of retirement.	
Step 3 — Projected Retirement Pay Multiply Step 1 by Step 2.	
HIGH-3 RETIREMENT PLAN	
FOR MEMBERS WHO FIRST ENTERED ACTIVE DUTY BETWEEN SEPTEMBER 8, 1980 AND JULY 31, 1986	
Step 1 — Projected Retirement Percentage Multiply years of service for retired pay by 2.5%.	
Step 2 — Average Monthly Base Pay Estimate your average monthly base pay for the highest paying 36 months of active service.	
Step 3 — Projected Retirement Pay Multiply Step 1 by Step 2.	
CSB/REDUX PLAN	
FOR MEMBERS WHO ENTERED ACTIVE DUTY AFTER AUGUST 1, 1986	
Step 1 — Projected Retirement Percentage Determine your retirement % from the CSB/REDUX column of the Retirement Factor Table.	
Step 2 — Average Monthly Base Pay Estimate your average monthly base pay for the highest paying 36 months of active service.	
Step 3 — Projected Retirement Pay Before Age 62 Multiply Step 1 by Step 2.	
Step 4 — Projected Retirement at Age 62 Multiply Step 2 by your retirement factor from the High-3 column of the Retirement Factor Table.	

satisfactorily held on active duty and receive retired pay based on that higher rank.

If an enlisted member held a commission as a reserve officer and at least ten of the member's qualifying years for retirement were served as a commissioned officer, he or she may retire and receive retired pay based upon the commissioned rank held.

**3-6. OFFICER RETIREMENTS.** Military officers are normally eligible for voluntary retirement upon completing twenty years of Total Active Federal Military Service (TAFMS), at least ten years of which were active commissioned service. Unless the officer is entitled to retire at a higher grade under some other law, retirement is usually at the highest grade satisfactorily held on active duty provided certain time-in-grade requirements are met. Officers having twenty years of active service who desire to retire before completing ten years of active commissioned service, must normally retire in an enlisted status. If their DIEMS date places them in the High-3 category, only their enlisted basic pay will be used to calculate the average of their highest three years of basic pay. Officers who do not complete the time-in-grade requirement will normally be retired at their previous grade. However, those who are eligible for the High-3

formula may count their service at their highest grade for purposes of determining the highest 36 months of basic pay.

**Mandatory Retirements.** The mandatory retirement of military officers is based on a variety of factors and circumstances including grade, age, type of commission (Reserve or Regular) and promotion status. Except for a few special cases, regular officers holding the rank of Major General and below (O-8 and below) are required to retire upon reaching age 62. Officers in the grades above Major General (O-9 and O-10) usually have a mandatory retirement age of 62, but this can be extended to age 64.

**3-7. THE VALUE OF MILITARY RETIREMENT PAY.** The Defense Department periodically publishes a table indicating the amount of money that an individual would need to have "on hand" when they retire to pay their projected retired pay. The table below is based upon a nondisability retirement occurring in 2005. The computations are based on the final pay formula and assume an annual inflation rate of 3.0%. While the data contained in the table is predicated upon several assumptions, it nonetheless provides dramatic evidence of the monetary value of military retired pay.

MILITARY LIFETIME RETIREMENT TABLE												
Years	Over 20	Over 21	Over 22	Over 23	Over 24	Over 25	Over 26	Over 27	Over 28	Over 29	Over 30	Years
<b>Rank</b>	<b>Commissioned Officers</b>											<b>Rank</b>
<b>O-10</b>	1,648,655	1,707,419	1,763,430	1,816,043	1,865,382	1,911,584	1,954,009	1,992,795	2,027,862	2,058,789	2,085,848	<b>O-10</b>
<b>O-9</b>	1,488,573	1,541,744	1,614,914	1,663,231	1,743,654	1,786,548	1,890,329	1,928,064	1,961,723	1,991,848	2,017,993	<b>O-9</b>
<b>O-8</b>	1,410,299	1,460,783	1,545,677	1,591,901	1,635,252	1,675,629	1,712,669	1,746,768	1,777,394	1,804,600	1,828,412	<b>O-8</b>
<b>O-7</b>	1,275,493	1,320,844	1,364,128	1,404,986	1,443,050	1,478,748	1,519,152	1,549,411	1,576,589	1,600,734	1,621,867	<b>O-7</b>
<b>O-6</b>	1,019,198	1,055,442	1,118,891	1,152,208	1,214,202	1,244,307	1,334,306	1,360,815	1,384,619	1,405,762	1,424,492	<b>O-6</b>
<b>O-5</b>	891,730	923,545	982,531	1,011,892	1,039,427	1,065,072	1,088,754	1,110,407	1,129,853	1,147,123	1,162,243	<b>O-5</b>
<b>O-4</b>	778,939	806,661	833,223	858,038	881,309	903,231	923,236	941,522	958,179	972,752	985,499	<b>O-4</b>
<b>O-3</b>	627,235	691,117	713,776	734,904	754,968	773,658	790,920	806,706	820,648	833,252	844,288	<b>O-3</b>
<b>O-2</b>	490,302	508,017	524,563	540,179	554,822	568,711	581,297	592,801	603,130	612,534	620,551	<b>O-2</b>
<b>O-1</b>	687,024	400,784	413,837	426,156	437,964	448,717	458,645	467,719	475,866	483,333	489,655	<b>O-1</b>
<b>Commissioned Officers With More Than Four Years of Active Enlisted Service</b>												
<b>O-3E</b>	712,080	737,496	761,607	784,366	805,710	825,588	843,946	860,730	875,803	889,193	900,910	<b>O-3E</b>
<b>O-2E</b>	568,033	588,174	607,542	625,566	642,723	658,454	673,224	686,491	698,637	709,201	718,665	<b>O-2E</b>
<b>O-1E</b>	480,518	497,562	513,992	529,245	543,803	557,115	569,651	580,877	590,952	600,129	607,942	<b>O-1E</b>
<b>Warrant Officers</b>												
<b>W-5</b>	728,387	754,385	805,739	829,663	880,796	902,475	952,474	971,454	988,263	1,003,414	1,016,676	<b>W-5</b>
<b>W-4</b>	671,855	695,675	742,845	765,102	811,347	831,386	876,901	894,312	910,186	924,067	936,213	<b>W-4</b>
<b>W-3</b>	591,950	613,105	642,953	662,012	702,689	719,963	759,452	774,584	788,175	800,250	810,819	<b>W-3</b>
<b>W-2</b>	522,101	540,723	577,151	594,587	630,934	646,354	660,835	673,837	685,744	696,327	705,369	<b>W-2</b>
<b>W-1</b>	480,246	497,562	513,728	529,245	543,546	556,862	569,403	580,634	590,952	599,895	607,713	<b>W-1</b>
<b>Enlisted Personnel</b>												
<b>E-9</b>	591,258	612,234	656,480	675,745	721,163	738,596	798,380	813,618	827,569	839,731	850,513	<b>E-9</b>
<b>E-8</b>	510,194	528,352	569,677	586,447	616,198	630,961	681,479	694,593	706,404	716,659	725,774	<b>E-8</b>
<b>E-7</b>	446,787	462,670	499,767	514,549	543,452	556,483	608,811	620,649	631,086	640,341	648,597	<b>E-7</b>
<b>E-6</b>	375,623	389,076	401,529	413,225	424,139	434,497	443,788	452,249	459,865	466,848	472,706	<b>E-6</b>
<b>E-5</b>	316,497	327,879	338,376	348,235	357,435	365,957	374,036	381,167	387,587	393,280	398,222	<b>E-5</b>
<b>E-4</b>	252,823	261,934	270,285	278,127	285,445	292,469	298,694	304,361	309,695	314,212	318,129	<b>E-4</b>
<b>E-3</b>	211,890	219,465	226,623	233,095	239,381	244,961	250,329	255,225	259,405	263,333	266,753	<b>E-3</b>
<b>E-2</b>	178,715	185,174	191,019	196,762	201,875	206,856	211,200	215,152	218,939	222,080	225,024	<b>E-2</b>
<b>E-1</b>	159,452	165,126	170,487	175,525	180,228	184,340	188,355	192,015	195,314	198,244	200,794	<b>E-1</b>