Which Retirement System Applies to You

To decide which system applies to you, you must determine the date that you FIRST entered the military. This date is called the DIEMS (Date of Initial Entry to Military Service) or DIEUS (Date of Initial Entry to Uniformed Services). The date you first entered the military is the first time you enlisted or joined the active or reserves. This date is fixed---it does not change. Departing the military and rejoining does not affect your DIEMS.

Some individuals have circumstances that complicate determining DIEMS. Some examples are:

- The DIEMS for Academy graduates who entered the Academy with no prior service is the date they reported to the Academy, not the date they graduated.
- Beginning an ROTC scholarship program or enlisting as a Reserve in the Senior ROTC program sets the DIEMS, not the graduation or commissioning date.
- Members who entered the military, separated, and then rejoined the military have a DIEMS based on entering the first period of military service.
- The DIEMS for members who enlisted under the delayed entry program is when they entered the delayed entry program, not when they initially reported for duty.
- For those who joined the Reserves and later joined the active component, their DIEMS is the date they joined the Reserves.

Be aware that your pay date may be different than your DIEMS. Also, your DIEMS does not determine when you have enough time in the service to retire---it only determines which retirement system applies to you.

Not all Services have their DIEMS dates properly defined in their personnel records. If you have unusual circumstances and are unsure of when your DIEMS date is or believe your records show an incorrect DIEMS date, contact your personnel office to discuss your particular situation.

Based on your DIEMS date, you can determine which system applies to you.

<table>
<thead>
<tr>
<th>Retirement System</th>
<th>Criteria to Receive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Final Pay</td>
<td>Entry before September 8, 1980</td>
</tr>
<tr>
<td>High-3</td>
<td>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</td>
</tr>
<tr>
<td>CSB/REDUX</td>
<td>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)</td>
</tr>
</tbody>
</table>
CSB/REDUX Retirement System

The Military Reform Act of 1986 created the REDUX retirement system and it applied to all members who joined on or after August 1, 1986. The National Defense Authorization Act (NDAA) for FY2000 amended this system. The NDAA made two major changes: 1) it allows those in this group to choose between the High-3 retirement system and the REDUX retirement system and 2) it added a $30,000 Career Status Bonus as part of the REDUX retirement system.

The CSB/REDUX retirement system applies to those who entered Service on or after August 1, 1986, AND who elected to receive the $30,000 Career Status Bonus at their 15th year of service.

The REDUX retirement system and Career Status Bonus is a "package deal." It is the combination of these two items that can be advantageous to many individuals. The REDUX portion determines retirement income (the longer one's career, the higher that income) and the $30,000 Career Status Bonus provides current cash---available for investing, major purchases, or setting up a business after retirement.

**REDUX System Details**

The REDUX multiplier calculation and annual cost of living adjustments differ from the other systems. Also, REDUX has a catch-up increase at age 62 that brings the REDUX retired pay back to the same amount paid under the High-3 System. REDUX is the only military retirement system with a readjustment feature.

Each of the first 20 years of service is worth 2.0% toward the retirement multiplier. But each year after the 20th is worth 3.5%. Hence, 2.0% x 20 years = 40%. But a 30-year career is computed by 2.0% times the first 20 years plus 3.5% for the 10 years beyond 20, resulting in the maximum of 75%. The table below summarizes the initial multiplier at various years of service under REDUX.

<table>
<thead>
<tr>
<th>Years of service</th>
<th>20</th>
<th>21</th>
<th>22</th>
<th>23</th>
<th>24</th>
<th>25</th>
<th>26</th>
<th>27</th>
<th>28</th>
<th>29</th>
<th>30</th>
</tr>
</thead>
<tbody>
<tr>
<td>REDUX</td>
<td>40%</td>
<td>43.5%</td>
<td>47%</td>
<td>50.5%</td>
<td>54%</td>
<td>57.5%</td>
<td>61%</td>
<td>64.5%</td>
<td>68%</td>
<td>71.5%</td>
<td>75%</td>
</tr>
</tbody>
</table>

Under REDUX, the longer an individual stays on active duty the closer the multiplier is to what it would have been under High-3 up to the 30-year point where the multipliers are equal.

In precisely the same way as High-3, this multiplier is applied against the average basic pay for the highest 36 months of the individual's basic pay. This typically, though not always, equals the average basic pay for the final three years of service. Also, remember this is basic pay; allowances and special pays do not affect retired pay.

Cost of Living Adjustments (COLAs) are given annually based on the increase in the Consumer Price Index (CPI), a measure of inflation. Under the Final Pay and High-3 Systems, the annual COLA is equal to CPI. Under REDUX, the COLA is equal to CPI minus 1%. (For example: The COLA for those who have been retired for more than one full year will be 5.8%, effective
December 1, 2008 and payable on January 2, 2009. Under REDUX, the COLA is equal to CPI minus 1% or 4.8%.

The CPI is a different index than the one used for active duty annual pay raises. The index used for active duty pay raises are based upon average civilian wage increases. Thus, retirement pay COLAs and annual active duty pay raises will differ.

A feature unique to REDUX is a re-computation of retirement pay at age 62. Two adjustments are made. The first adjusts the multiplier to what it would have been under High-3. For example, a 20-year retiree's new multiplier would become 50%, a 24-year retiree's multiplier would become 60% but a 30-year retiree's would remain 75%. This new multiplier is applied against the individual's original average basic pay for his or her highest 36 months. Then the second adjustment is done. Full CPI for every retirement year is applied to this amount to compute a new base retirement salary. At age 62, the REDUX and High-3 retirement salaries are equal. But, REDUX COLAs for later years will again be set at CPI minus 1%.

**The $30,000 Career Status Bonus**

Those members who elect the CSB/REDUX retirement system at their 15th year of service receive a $30,000 Career Status Bonus. To receive this bonus, the member must agree to complete a twenty-year active duty career with length-of-service retired pay under the 1986 Military Retirement Reform Act -- 1986 MRRA or REDUX. Continuation beyond twenty years is possible, subject to Service personnel management actions. However, the member's commitment with the CSB is only to the 20-year point. The entire $30,000 bonus, or first installment payment for those electing a multi-year payment option, is paid shortly after the member makes the CSB/REDUX election and commits to the 20-years-of-service obligation. (Exact mechanics should be provided by your Service near the point you have 14 and 1/2 years of service. **If the member doesn't complete the obligation of the twenty-year career, the member must repay a pro-rated share of the bonus.**

**The Choice**

**High-3 Option**

There is more to know about High-3 than "50% at 20 years." Several factors combine to determine each member's retirement amount and how it increases during retirement.

Each year of service is worth 2.5% toward the retirement multiplier. Hence, 2.5% x 20 years = 50% and 2.5% x 30 years = 75%. The longer an individual stays on active duty the higher the multiplier and the higher the retirement pay, up to the maximum of 75 percent.

This multiplier is applied against the average basic pay for the highest 36 months of the individual's career. This typically, though not always, equals the average basic pay for the final three years of service. Also, remember only basic pay is used in retirement calculations in all retirement system options. Allowances and special pays do not affect retired pay.
Cost of Living Adjustments (COLA) are given annually based on the increase in the Consumer Price Index (CPI), a measure of inflation. Under the High-3 System, the annual COLA is equal to CPI. This is a different index than the one used for active duty annual pay raises which is based upon average civilian wage increases. Thus, retirement pay COLAs and annual active duty pay raises will differ.

**CSB/REDUX Option**

The CSB/REDUX option is a "package deal." Even though it results in reduced retired pay, it may be preferable to the High-3 retirement because it includes a $30,000 Career Status Bonus (CSB) at the 15th year of active duty service. The CSB provides current cash for investing, major purchases, or setting up a business after retirement and the REDUX portion determines retirement income (the longer one's career, the higher that income).

**REDUX System Details**

Both the multiplier calculation and annual cost of living adjustments differ from the High-3 system. Also, REDUX has a catch-up increase at age 62 that brings the REDUX retired pay back to the same amount paid under the High-3 System. REDUX is the only military retirement system with this feature.

Each of the first 20 years of service is worth 2.0% toward the retirement multiplier. But each year after the 20th is worth 3.5%. Hence, 2.0% x 20 years = 40%. But a 30 year career is computed by 2.0% times the first 20 years plus 3.5% for the 10 years beyond 20, resulting in 75%. This means that the retirement multiplier for a 30-year career is the same for both REDUX and High-3. The table below summarizes the initial multiplier at various years of service under High-3 and REDUX.

<table>
<thead>
<tr>
<th>Years of Service</th>
<th>20</th>
<th>21</th>
<th>22</th>
<th>23</th>
<th>24</th>
<th>25</th>
<th>26</th>
<th>27</th>
<th>28</th>
<th>29</th>
<th>30</th>
</tr>
</thead>
<tbody>
<tr>
<td>REDUX</td>
<td>40%</td>
<td>43.5%</td>
<td>47%</td>
<td>50.5%</td>
<td>54%</td>
<td>57.5%</td>
<td>61%</td>
<td>64.5%</td>
<td>68%</td>
<td>71.5%</td>
<td>75%</td>
</tr>
<tr>
<td>High-3</td>
<td>50%</td>
<td>52.5%</td>
<td>55%</td>
<td>57.5%</td>
<td>60%</td>
<td>62.5%</td>
<td>65%</td>
<td>67.5%</td>
<td>70%</td>
<td>72.5%</td>
<td>75%</td>
</tr>
</tbody>
</table>

Under REDUX, the longer an individual stays on active duty the closer the multiplier is to what it would have been under High-3 up to the 30-year point where the multipliers are equal.

In precisely the same way as High-3, this multiplier is applied against the average basic pay for the highest 36 months of the individual's basic pay. This typically, though not always, equals the average basic pay for the final three years of service.

Cost of Living Adjustments (COLAs) for retired pay are given annually based on the increase in the Consumer Price Index (CPI), a measure of inflation. Under REDUX, the COLA is equal to CPI minus 1%.
A feature unique to REDUX is a re-computation of retirement pay at age 62. Two adjustments are made. The first adjusts the multiplier to what it would have been under High-3. For example, a 20-year retiree's new multiplier would become 50%, a 24-year retiree's multiplier would become 60% but a 30-year retiree's would remain 75%. This new multiplier is applied against the individual's original average basic pay for his or her highest 36 months. Then the second adjustment is done. Full CPI for every retirement year is applied to this amount to compute a new base retirement salary. At age 62, the REDUX and High-3 retirement salaries are equal. But, REDUX COLAs for later years will again be set at CPI minus 1%.

**The $30,000 Career Status Bonus**

Those members who elect the CSB/REDUX retirement system at their 15th year receive a $30,000 Career Status Bonus. To receive this bonus, the member must agree to complete a twenty-year active duty career with length-of-service retired pay under the 1986 Military Retirement Reform Act -- 1986 MRRA or REDUX. Continuation beyond twenty years is possible, subject to Service personnel management actions. However, the member's commitment with the CSB is only to the 20-year point. The entire $30,000 bonus, or first installment payment for those electing a multi-year payment option, is paid shortly after the member makes the CSB/REDUX election and commits to the 20-years-of-obligation.

If the member doesn't complete the obligation of the twenty-year career, the member must repay a pro-rated share of the bonus.

**Comparing Options**

The following fictitious story, about twin brothers Harry and Richard, shows the differences between the High-3 and CSB/REDUX retirement systems, the potential worth of the Career Status Bonus and insight of the lifetime value of the two retirement options. How this story plays out for you depends upon your personal situation and assumptions about your career and the economy. A planning calculator is available on the DoD website for you to make some comparisons of your own.

In August 1994, Harry and Richard, twenty-year old twins, enlisted in the military. As Harry and Richard had always done everything together, they continued to do so by being promoted with identical dates for their entire career. But, one event is about to make their careers and futures different.

In 2009, Harry and Richard face a choice. They are nearing their 15th year of service and may retain the High-3 retirement plan or they may take a $30,000 Career Status Bonus and the REDUX retirement system.

Harry chose High-3 and Richard chose the single lump sum CSB/REDUX option. Immediately, their finances changed. Richard now had $30,000 more in cash. This money was his to spend as he wished -- a down payment on a house, college tuition for the kids, a new car, or invest for use later.
This $30,000 is taxable unless placed into the Thrift Savings Plan (TSP) or other qualified investment. Under current rules, Richard may place a maximum of $16,500 in a TSP account. Taxes would not be paid on this $16,500 or its earnings until withdrawal. This is a very positive feature that Richard would be well-advised to consider. To simplify this story, however, Richard decided not to invest in the TSP, but instead to pay tax on the entire amount now and invest the entire after-tax balance in a mutual fund earning 8% annually. In this example, the $30,000 is taxable income and places Richard in the 28% tax bracket. He will pay $8,400 in taxes on this bonus leaving $21,600 to invest.

In 2014, Harry and Richard retire with 20 years of service. Since they both had an average (highest three years) base pay of $3,000 per month, Harry, under High-3, gets 50% or $1,500 per month, and Richard, under REDUX, gets 40% or $1,200. Although Harry has a larger retirement check than Richard, Richard has been building up the savings on his $21,600 of Career Status Bonus for the past five years -- it is now worth $28,600 (after paying taxes on its earnings).

(Note: Retirement income is generally taxable. Tax implications on the retirement income are not reflected in this story.)

Each year during their retirement, Harry and Richard will receive cost of living adjustments (COLA) based upon the consumer price index (CPI) which measures inflation. Harry's High-3 COLA is the full CPI (3.5% each year in our story) so Harry gets a 3.5% raise. Richard, however, gets a 2.5% raise because COLAs under the REDUX system are equal to CPI minus 1%. But, Richard's Career Status Bonus is still growing in his mutual fund.

This story continues the same way until 2036 as they near their 62nd birthday. Up to this point, Harry has received nearly $582,000 in retirement income and his current monthly amount is now about $3,100. Richard has collected $415,000 total and now gets a bit more than $2,000 each month. But, Richard is still saving that Career Status Bonus -- it's now worth $98,000. Counting both the mutual fund value and what he's collected in retirement, selecting the CSB/REDUX plan netted him $513,600 -- close, but $68,300 less than Harry's received.

Their 62nd birthday also brings retirement adjustment for Richard. Richard's retirement pay is recomputed as if he had been under High-3 all these years. This means that he will now get 50% of his original base pay plus full 3.5% COLAs added to it for his past retirement years. So, for one year, Harry and Richard receive the exact same retirement pay -- about $3,200 per month. This is for only one year because the following year, Harry gets his 3.5% COLA and Richard gets his 2.5% COLA, but it's added to his newly adjusted retirement salary of $3,200. This "catch-up" adjustment impacts Richard's total accumulation and by the end of the year, his total is within $63,000 of Harry's total accumulation. The following year Richard's total retirement accumulation and the balance of his mutual fund begin to surpass Harry's total accumulation.

By now some people would have spent some or all of the money that Richard put in the mutual fund on vacations, cars, or to augment their retirement income, but Richard wants to pass the money to his heirs and keeps saving. When they are seventy-five, Harry has received over $1,260,000 in retirement income; his current monthly amount is $5,000. Richard has collected...
over $1,049,000 in retirement income and now earns $4,400 each month. But, Richard is still saving that Career Status Bonus -- it's worth over $214,600. Counting both the mutual fund value and what he's collected in retirement, selecting the CSB/REDUX retirement option is worth $1,264,000, surpassing Harry's total amount by $4,000. From this point forward, Richard will continue to outpace Harry's total accumulation.

The following chart summarizes Harry and Richard's story. Remember that this is an example that shows what the differences between the CSB/REDUX and High-3 options. These results are dependent upon the assumptions built into the story and the choices that Richard made.

<table>
<thead>
<tr>
<th>Point of Comparison</th>
<th>Harry (High-3)</th>
<th>Richard (CSB/REDUX)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>15th Year of Service</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonus</td>
<td>$0</td>
<td>$30,000</td>
</tr>
<tr>
<td>Taxes</td>
<td>$0</td>
<td>$-8,400</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$0</td>
<td>$21,600</td>
</tr>
<tr>
<td><strong>Time of Retirement</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Savings</td>
<td>$0</td>
<td>$28,600</td>
</tr>
<tr>
<td>Cumulative retired pay</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$0</td>
<td>$28,600</td>
</tr>
<tr>
<td><strong>End of First Retirement Year</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Savings</td>
<td>$0</td>
<td>$30,200</td>
</tr>
<tr>
<td>Cumulative retired pay</td>
<td>$18,000</td>
<td>$14,400</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$18,000</td>
<td>$44,600</td>
</tr>
<tr>
<td>Retirement pay for the year</td>
<td>$18,800</td>
<td>$14,400</td>
</tr>
<tr>
<td><strong>Age 61</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Savings</td>
<td>$0</td>
<td>$98,000</td>
</tr>
<tr>
<td>Cumulative retired pay</td>
<td>$581,000</td>
<td>$415,600</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$581,000</td>
<td>$513,600</td>
</tr>
<tr>
<td>Retirement pay for the year</td>
<td>$37,100</td>
<td>$24,200</td>
</tr>
<tr>
<td><strong>Age 62 -- REDUX Readjustment</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Savings</td>
<td>$0</td>
<td>$103,600</td>
</tr>
<tr>
<td>Cumulative retired pay</td>
<td>$620,300</td>
<td>$454,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$620,300</td>
<td>$557,600</td>
</tr>
<tr>
<td>Retirement pay for the year</td>
<td>$38,400</td>
<td>$38,400</td>
</tr>
<tr>
<td><strong>Age 75</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Now, on the other hand, if Richard had bought that new car in 2009..???

Many individual differences --- age, salary, and years of service at retirement, spending and saving habits --- will and should influence your decision and will make your story with a fictitious twin different than Harry and Richard's. A calculator that allows you to enter your personal situation into it is available at the DoD website so you may do some comparison of options for yourself.

Typical Situations

Other sections of this web page have described the differences between the High-3 and REDUX/Bonus retirement options. There are three main differences: 1) $30,000 bonus at 15th Years of Service if you elect REDUX, 2) a reduced multiplier before age 62, and 3) reduced cost of living adjustments that are one percent below the CPI (readjusted at age 62).

Your preferred retirement option may depend on whether you consider that the bonus offsets the reduced multipliers and COLAs. How you determine this will depend upon many factors: the projected years of service and grade at retirement, how the bonus will be used, economic factors, and more. Comparisons between the two retirement options follow for some "typical" retirement situations. These comparisons are sensitive to the assumptions made for each situation. Please view the section entitled Common Assumptions (below) in conjunction with the results. Afterwards, review the section entitled Considerations (below) for a discussion on points that may not have been highlighted by the typical case illustrations. All examples assume you invest the bonus or a portion of your retired pay. If you spend the money, there will be no investment accumulations. All of these examples are based on electing CSB as a single lump sum payment.

Common Assumptions

These cases were built with a common set of assumptions. The future will no doubt unfold differently and actual results will differ correspondingly. Remember these comparisons are not guaranteed. They are merely estimates based on a set of assumptions that appear as valid as any other.

Scenario assumptions:

- All individuals in the various cases are currently in their 15th Year of Service.
- The members predict their likely retirement grade and Years of Service for the determining the retirement income streams.

<table>
<thead>
<tr>
<th>Savings</th>
<th>$0</th>
<th>$214,600</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cumulative retired pay</td>
<td>$1,260,000</td>
<td>1,049,000</td>
</tr>
<tr>
<td>Total</td>
<td>$1,260,000</td>
<td>$1,264,000</td>
</tr>
<tr>
<td>Retirement pay for the year</td>
<td>$60,000</td>
<td>$52,900</td>
</tr>
</tbody>
</table>
The "starting" retirement pay is based on projecting the pay table an appropriate number of years into the future. For example, cases in which the individual retires at 20 Years of Service have a retirement pay based on a projected active duty pay table for 5 years. The active duty pay is increased by 3.5% annually, a mildly conservative assumption.

Pay scales used may not reflect current levels and are used for illustration purposes only.

Service Member Assumptions:

- Officers joined at age 22.
- Enlisted members joined at age 18.
- Warrant officers joined at age 20.
- Individuals retire with exact Years of Service. For example, a person who retires at 20 years of service is assumed to have 20 years and 0 months.
- To determine the final three-year average pay, the pay rates during the member's 17th, 18th and 19th years are used assuming the member is in the retirement grade for all three years.

Economic Assumptions:

- Consumer Price Index (CPI) is 3.5% during the member's entire retirement.
- Members will invest the entire $30,000 bonus less projected taxes.
- The Thrift Savings Plan (TSP) is implemented with a maximum contribution limit of $10,500 and the member chooses to place $10,500 of the career bonus into this account less a percent of basic pay for the year. Officer examples place 3% of basic pay into the TSP; warrant officers place 2%; and enlisted members place 1%.
- Money placed into the TSP and all accumulated earnings are tax-deferred until withdrawn.
- The member chooses to invest the remainder in a Mutual Fund. Both this portion of the bonus and its earnings are taxable.
- Earnings from the TSP are 8% and earnings from the mutual fund are 8%.
- Tax rate is 28% for all cases.
- State taxes are not considered.

Typical Case Illustrations:

O-5 Retiring at 20 Years of Service

This first chart depicts the estimated gross monthly retired payments under both retirement options. Taxes and participation in the SBP are not considered. The REDUX jump reflects the cost-of-living catch up adjustment and multiplier re-adjustment at age 62. In comparing your options, focus on the differences on the level of retired pay. You need to determine whether your $30,000 CSB at the 15th year will make up for these reductions.

In the following chart, the amounts shown are the accumulation of after-tax savings from electing the $30,000 CSB at year 15 compared to the accumulation from saving the after-tax
difference in the High-3 retired pay over the REDUX retired pay. In this case, the savings of extra retired pay in the High-3 option surpasses the accumulated savings from the CSB when the member is 48. This cross-over would be delayed or eliminated if the after tax earnings from the mutual fund/savings were much higher than 8 percent.

These results will vary depending on your choices and the assumptions. The above example is only a simple comparison of the essential differences between electing CSB/REDUX or accepting High-3. See the Considerations section (below) for a more in-depth discussion on factors that will affect the results depicted.
O-5 Retiring at 24 Years of Service

This first chart depicts the estimated gross monthly retired payments under both retirement options. Taxes and participation in the SBP are not considered. The REDUX jump reflects the cost-of-living catch up adjustment and multiplier re-adjustment at age 62. In comparing your options, focus on the differences on the level of retired pay. You need to determine whether your $30,000 CSB at the 15th year will make up for these reductions.

In the following chart, the amounts shown are the accumulation of after-tax savings from electing the $30,000 CSB at year 15 compared to the accumulation from saving the after-tax difference in the High-3 retired pay over the REDUX retired pay. In this case, the savings of extra retired pay in the High-3 option surpasses the accumulated savings from the CSB when the member is 56. This cross-over would be delayed or eliminated if the after tax earnings from the mutual fund/savings were much higher than 8 percent.
These results will vary depending on your choices and the assumptions. The above example is only a simple comparison of the essential differences between electing CSB/REDUX or accepting High-3. See the Considerations section (below) for a more in-depth discussion on factors that will affect the results depicted.
O-6 Retiring at 30 Years of Service

This first chart depicts the estimated gross monthly retired payments under both retirement options. Taxes and participation in the SBP are not considered. The REDUX jump reflects the cost-of-living catch up adjustment and multiplier re-adjustment at age 62. In comparing your options, focus on the differences on the level of retired pay. You need to determine whether your $30,000 CSB at the 15th year will make up for these reductions.

In the following chart, the amounts shown are the accumulation of after-tax savings from electing the $30,000 CSB at year 15 compared to the accumulation from saving the after-tax difference in the High-3 retired pay over the REDUX retired pay. In this case, the savings of extra retired pay in the High-3 option surpasses the accumulated savings from the CSB when the member is 78. This cross-over would be delayed or eliminated if the after tax earnings from the mutual fund/savings were much higher than 8 percent.
These results will vary depending on your choices and the assumptions. The above example is only a simple comparison of the essential differences between electing CSB/REDUX or accepting High-3. See the Considerations section (below) for a more in-depth discussion on factors that will affect the results depicted.
E-7 Retiring at 20 Years of Service

This first chart depicts the estimated gross monthly retired payments under both retirement options. Taxes and participation in the SBP are not considered. The REDUX jump reflects the cost-of-living catch up adjustment and multiplier re-adjustment at age 62. In comparing your options, focus on the differences on the level of retired pay. You need to determine whether your $30,000 CSB at the 15th year will make up for these reductions.

In the following chart, the amounts shown are the accumulation of after-tax savings from electing the $30,000 CSB at year 15 compared to the accumulation from saving the after-tax difference in the High-3 retired pay over the REDUX retired pay. In this case, the savings of extra retired pay in the High-3 option surpasses the accumulated savings from the CSB when the member is 52. This cross-over would be delayed or eliminated if the after tax earnings from the mutual fund/savings were much higher than 8 percent.
These results will vary depending on your choices and the assumptions. The above example is only a simple comparison of the essential differences between electing CSB/REDUX or accepting High-3. See the Considerations section (below) for a more in-depth discussion on factors that will affect the results depicted.
E-8 Retiring at 24 Years of Service

This first chart depicts the estimated gross monthly retired payments under both retirement options. Taxes and participation in the SBP are not considered. The REDUX jump reflects the cost-of-living catch up adjustment and multiplier re-adjustment at age 62. In comparing your options, focus on the differences on the level of retired pay. You need to determine whether your $30,000 bonus at the 15th year will make up for these reductions.

In the following chart, the amounts shown are the accumulation of after-tax savings from electing the $30,000 bonus at year 15 compared to the accumulation from saving the after-tax difference in the High-3 retired pay over the REDUX retired pay. In this case, the savings of extra retired pay in the High-3 option surpasses the accumulated savings from the bonus when the member is 60. This cross-over would be delayed or eliminated if the after tax earnings from the mutual fund/savings were much higher than 8 percent.
These results will vary depending on your choices and the assumptions. The above example is only a simple comparison of the essential differences between electing CSB/REDUX or accepting High-3. See the Considerations section (below) for a more in-depth discussion on factors that will affect the results depicted.
E-9 Retiring at 30 Years of Service

This first chart depicts the estimated gross monthly retired payments under both retirement options. Taxes and participation in the SBP are not considered. The REDUX jump reflects the cost-of-living catch up adjustment and multiplier re-adjustment at age 62. In comparing your options, focus on the differences on the level of retired pay. You need to determine whether your $30,000 CSB at the 15th year will make up for these reductions.

In the following chart, the amounts shown are the accumulation of after-tax savings from electing the $30,000 CSB at year 15 compared to the accumulation from saving the after-tax difference in the High-3 retired pay over the REDUX retired pay. In this case, the accumulated savings from the CSB exceeds the savings of extra retired pay in the High-3 option. This effect occurs because 1) this member has 15 years of earnings accumulated from the CSB before beginning to save the difference between the High-3 and REDUX retirement pay, and 2) as the member served a 30-year career, the retirement multiplier is equal for REDUX and High-3 (and, therefore, the retired pay only differs by the Cost of Living Adjustment). This result could vary depending on the rates of return for the CSB savings.

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These results will vary depending on your choices and the assumptions. The above example is only a simple comparison of the essential differences between electing CSB/REDUX or accepting High-3. See the Considerations section (below) for a more in-depth discussion on factors that will affect the results depicted.
Considerations

The typical situations shown here depend on our fixed set of assumptions, each of which influences the result. This web page has an interactive calculator that allows you to change any of these assumptions to see what happens. For now we will just discuss the impact of these assumptions in general terms.

Choice on Use of the Bonus: In these typical situations, we show the member investing in a combination of a Thrift Savings Plan and a mutual fund. But, that is not the only option.

- **Expenses:** You could elect to spend all or part of it. Some items, such as a car, would be used up after a period of time and have little to show for the long term. Used as a down payment on a home, the bonus money would have a much longer utility. Only you can "value" the worth of such options --- and the long-term benefit or value to you and your family.

- **Education:** You could use the bonus for education, either for yourself (to help you qualify for a better second career, with a higher income) or for your children and thus prepare them for a more successful future or avoid large college loans.

- **Business Investment:** Using the bonus as seed money for a second-career business may be critical in order to start that business. However, the risk is not insignificant, but this may be an important venture that you have been waiting for.

**Inflation:** Inflation affects the COLAs that increase retired pay. It is hard to say what impact a higher than assumed rate of inflation would do in terms of which option is better. Because the COLAs for the REDUX option are reduced by one percent (although the age 62 re-adjustment will create equality in retirement pay for that year) whether inflation is high or low, the net impact will not vary dramatically. The REDUX option will provide a reduced level of retire pay in every case.

**Return on Investment:** This assumption is much more volatile in terms of impact on which option will provide you a more secure financial picture in the years ahead. The typical situations assume that the bonus money invested in a mutual fund will receive an 8 percent return annually. Mutual fund returns may vary widely from one year to the next. The return on investment assumption is critical to how fast and how much earnings accumulate on the bonus. If this assumption is incorrect, the estimate of the future value of the bonus could be significantly under or over-stated. Investment options come with a variety of risk versus benefit. Savings accounts may be less risky, but the return on investment will likely be lower. Investing in high tech stocks may be potentially enriching, but at a much higher risk.

**Length of Military Career:** Comparing the typical situations may show you the value of a longer versus shorter career. The more years of service a member has the less difference there is between the initial REDUX retirement pay and the High-3 retirement pay. This is because the REDUX retirement multiplier becomes progressively closer to the High-3 multiplier each year until they are both 75% at thirty years. Therefore, the longer you stay in, the more your use of the bonus (only available under the CSB/REDUX option) will determine the best option.
Choice on Bonus Payments: If you choose to take the bonus you may elect to receive it in 1 lump sum payment of $30,000 or in equal annual installments as follows: two payments of $15,000; three payments of $10,000; four payments of $7,500; or five payments of $6,000.

Summary

The following chart summarizes the differences between the three current retirement systems.

<table>
<thead>
<tr>
<th>Retirement System</th>
<th>Basis</th>
<th>Multiplier</th>
<th>COLA</th>
<th>Readjustment</th>
<th>Bonus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Final Pay</td>
<td>Final basic pay</td>
<td>2.5% per year up to 75%</td>
<td>CPI</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>High-3</td>
<td>Average of highest 36 months of basic pay</td>
<td>2.5% per year up to 75%</td>
<td>CPI</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>CSB/Redux</td>
<td>Average of highest 36 months of basic pay</td>
<td>2.0% per year for the first 20 years; 3.5% for each year beyond 20, up to 75%</td>
<td>CPI - 1%</td>
<td>At age 62, 1) changes multiplier to 2.5% per year up to 75% 2) adjusts COLA to full CPI for past retired years</td>
<td>$30,000 at 15th year of service with commitment to complete 20 year career</td>
</tr>
</tbody>
</table>

Frequently Asked Questions

Q.1: How do I know if I'm under High-3 or the pre-1980 system?

A: In the same way the Date Initially Entered Military Service (DIEMS) determines who is in High-3 versus who may choose their retirement system, your DIEMS determines if you are under High-3 or the pre-1980 system referred to as Final Pay. Here are the common examples of circumstances that cross the September 8, 1980, date.

- Academy graduates who entered the Academy prior to, but graduated after, September 8, 1980, are under the Final Pay System.
- ROTC graduates who began a ROTC scholarship program or enlisted as a Reserve in the Senior ROTC program prior to September 8, 1980, are also under the Final Pay System.
- Officer and enlisted members who initially entered the military prior to September 8, 1980, separated, and after a break in service, rejoined the military, are under the Final Pay System, even if their pay date was adjusted to a date of September 8, 1980, or later.
- Members who enlisted under the delayed entry program before September 8, 1980, are Final Pay even if they initially reported for duty, after September 8, 1980.
Q.2: I've always been told my Academy time doesn't count toward my retirement. You're telling me differently?

A: No. You've been told correctly. Academy time does not add to your years of service and, thereby, increase your retirement pay. But, the date you entered the Academy determines (in most cases) WHICH retirement system you receive.

Q.3: For retirement choice, when do I have to decide?

A: Typically, you must decide between 14 1/2 and 15 years of service. The date may be later if you receive your notice of eligibility late.

Q.4: When do I get the bonus?

A: Should you decide to obtain a single lump-sum payment, you will receive your bonus within 90 days you submit your election paperwork and it is accepted by your Service. Thus, you will normally be paid by the 15 year and 3 month point of your career. Alternatively, you may decide to accept your payment in installments over a period of up to five years. An advantage of accepting your bonus over a period of time is that you will be able to place more funds (potentially the entire bonus) into the TSP.

Q.5: Suppose I take the Career Status Bonus and later change my mind, can I? Even if I give the bonus back?

A: Electing your retirement system is an irrevocable decision. You cannot change your election, even if you return the Career Status Bonus. Your decision is not considered a final decision until you complete your 15th year of active duty service. Check carefully with your Service to see when your election will be considered final and thus, no longer revocable.

Q.6: What happens if I take the Career Status Bonus and am forced to separate?

A: Generally speaking, if you fail to complete a 20-year career, by law, you are required to return a pro-rated share of the retention bonus for the time you did not complete.

Q.7: When is it advantageous to take the bonus?

A: Each individual's unique circumstances will determine which retirement option is better. The CSB/REDUX option should be carefully considered for individuals who are planning longer careers. The multiplier under REDUX comes closer to the High-3 multiplier the longer the individual stays in beyond 20 years, and finally the multipliers become equal at 30 years. Also, everyone that invests the bonus would have 5 to 15 years of compounded savings accumulated at their retirement point.

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Q.8: This is a hard decision; who can help me decide?

A: In the end, only you can make the decision, but there are many sources of assistance. This webpage hosts a "calculator" that will aid you by estimating the value of the two options in relation to your personal situation. You should also seek assistance from resources on your base such as financial counselors, your chain of command, and your personnel office.

Q.9: I'm a member of the Reserves, how does this affect me?

A: If you are a post-July 1986 member who is serving on active duty with 14 and 1/2 years of retirement creditable active service, you may also choose between High-3 and CSB/REDUX. The reduced retired pay Cost-of-Living Adjustments (COLAs) of REDUX will apply only to persons who elect the CSB.

Reserve members anticipating a Reserve retirement at age 60 (called a non-regular retirement) are not eligible to elect the CSB/REDUX option because the non-regular retired pay multiplier was unaffected by the 1986 REDUX retirement changes. They were, however, affected by the reduced COLA provision which set COLA to CPI minus one. Recent legislation removed this provision so that Reservists who entered after July 1986 and who will receive a Reserve retirement at age 60 will receive full CPI COLAs.

Q.10: I'm under High-3 (entered service before August 1986), can I take the bonus and switch to REDUX?

A: No. Only service members who entered the service on August 1, 1986, or later are authorized to choose their retirement system.

Q.11: Is the $30,000 bonus taxable?

A: Yes. If you receive the bonus in a single payment, by using a TSP, you may shelter up to the IRS maximum, from taxes by placing it into a TSP account. However, if you receive the bonus in installments, you may contribute money to the TSP each year, and, thus, increase the amount you are sheltering from taxes. Other rules and limits may apply to those in receipt of non-taxable pays in a Combat Zone or Qualified Hazardous Duty Area (QHDA). Consult your Service tax authorities and TSP information sources for more specifics.

Q.12: At what rate is the bonus taxed?

A: The bonus is taxed at your Federal, and, if applicable, state, tax rate. Upon receipt, the portion not placed into the TSP will be subject to the same tax consideration as any other bonus pay. Should this exceed your tax rate, you would have the excess returned in your Federal tax refund.

Q.13: Will I be able to put the bonus in my IRA?

A: Standard IRA rules are unaffected.