

Document Information

Unintended effects of the new military retirement system



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In June 1986, the Military Retirement Reform Act was signed into law with the intention of saving \$2.9 billion in the 1986 accrual funding of the military retirement budget. This Note analyzes the potential effects of the new policy on personnel retention. Previous analyses conducted by the government to assess the effects of this new retirement policy have been based on the annualized cost of leaving (ACOL) model. Here, a new methodology, the dynamic retention model, is used to demonstrate that the ACOL methodology suffers considerable biases and that the potential effects of the new policy on retention are likely to be much greater than the ACOL model predicts. For instance, personnel losses may be larger than expected and the retention of higher quality personnel is likely to be reduced more than the retention of other personnel. The negative retention effects will probably be observed sooner than the intended cost savings.

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