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**Retention Incentives in Action:
Potential Impacts of the Blended Retirement
System (BRS) on Mid-Career Retention**

Jared M. Huff

Opportunities and Implications of the BRS Symposium
The Elliott School of International Affairs
George Washington University, Washington, DC.
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Executive summary

The current U.S. military personnel system is largely a “closed labor system” that relies on recruiting entry-level servicemembers and training and retaining them at adequate rates to fill the military’s senior-most positions. As such, retention (especially mid-career retention) is of notable policy interest, and the military offers a variety of incentives, both monetary and non-monetary, to retain junior and mid-career servicemembers at sufficient rates to meet the eventual requirements for senior servicemembers. One recent policy change that has substantially affected several of the traditional monetary policy levers is the change to the Blended Retirement System (BRS). In this Institute for Defense Analyses presentation, we discuss the changes that have occurred under BRS, identify how those changes interact with traditional retention incentives, and discuss potential barriers to evaluating the impacts of BRS on retention.

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Background

- Monetary and non-monetary incentives are frequently used to manage retention throughout servicemembers' careers
 - Enlisted reenlistment bonuses are especially flexible
 - Generally offered at the end of the typical first, second, and third contracts
 - Flexibility in how much is paid and what behavior is incentivized
 - Basic pay generally viewed as too broad to address emergent retention problems
 - Offers predictable income source across the career
 - Non-monetary incentives getting increasing attention from the services
- Monetary incentives offer a helpful lens through which to view Blended Retirement System (BRS) changes

Summary

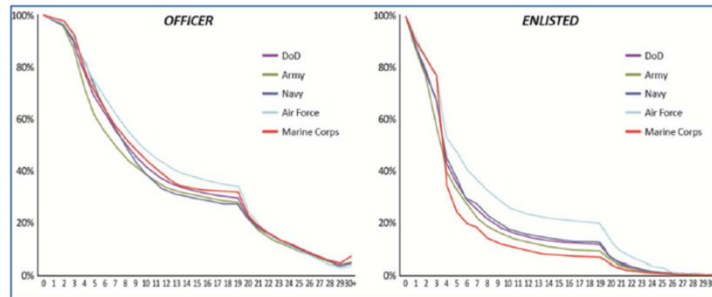
- Existing incentives should be sufficient to counteract mid-career retention effects of decline in retirement annuity
- Continuation pay can help accomplish this, but it is unclear whether it is the best tool
- Opportunities for formal experimentation before BRS auto-enrollees reach mid-career

Summary of relevant BRS changes

- Compensation changes
 - Introduction of Department of Defense-provided Thrift Savings Plan (TSP) contributions (up to 5% annual match)
 - Lower retirement annuity (20 percent reduction)
 - Continuation pay (up to 13 times basic pay)
- Expected retention changes
 - TSP → higher retention from higher base compensation (?)
 - Lower retirement → lower incentive to remain until 20 years of service (YOS)
 - Continuation pay → partially (?) fills the gap between 1 and 2
- Early/mid-career servicemembers under the old retirement system had to [opt-in](#) to BRS

Retention profile baselines

From Military Compensation and Retirement Modernization Commission report
FY13 cumulative continuation:



- Retention roughly stabilizes for 8-10 years before retirement
- Retention falls again after retirement eligibility

Projecting BRS impact on retention

- BRS represented a fundamental shift in compensation policy
 - Typical analytical approach: find similar historical policies and use those for analysis
 - BRS: no historical parallel
- Response: develop models that avoid need for direct historical parallel
 - Focus on lifetime military and civilian income
 - Use all retention decisions to model the relationship between compensation, retention, and obligation throughout the career
- Key assumption: servicemembers value money differently across time, but not differently by income type

Continuation pay can sustain mid-career retention

- Findings from the literature:
 - Retention impacts negligible for enlisted personnel ^[1,2]
 - May result in more junior force ^[2]
 - Substantive starting at ~10 YOS for officers ^[1]
 - o Can be offset with moderate continuation pay ^[1]
- There is room for experimentation around continuation pay
 - Flexibility vs. stability
 - Observed impact on retention

- Beth J. Asch, Michael G. Mattock, and James Hosek, "The Blended Retirement System: Retention Effects and Continuation Pay Cost Estimates for the Armed Services," RAND (Santa Monica, CA: RAND Corporation, 2017).
- Jared Huff, Mikhail Smirnov, Gregory Schell, and James Grefer, "Estimating the Retention Effects of Continuation Pay," CNA (Arlington, VA: CNA Corporation, 2018).

Is continuation pay the best lever?

- Flexible across three dimensions: value, timing, and required obligation
 - Can also be tailored to skillsets
- Less flexible than retention bonuses
 - Should continuation pay change year to year?
 - Is 8-12 YOS the point at which the military wants to keep people?
 - o Later: danger of paying people to make the decisions they were already going to make
 - o Earlier: need to offer enough bonus money to overcome associated obligation
 - Higher retention is not always desirable
- Can continuation pay serve a unique role?

What about non-monetary incentives?

- There is concern that monetary incentives are at the point of diminishing returns
- Services are increasingly interested in using non-monetary incentives to improve retention
 - Influence over next position
 - Influence over next location
 - Longer time between rotations
- Too early to fully analyze, but offer different options to increase retention
 - Cost effectiveness is TBD

What lead time can we expect on estimating the realized impacts of BRS?

- Estimating BRS impact as it happens is straightforward, but advanced notice of retention struggles is important
 - Especially true if main lever is continuation pay
- Projecting retention problems ahead of time may require
 - Relying on behavior of BRS opt-ins OR
 - Trying to forecast mid/late career retention changes from early career retention changes

Major analytical problem I: BRS opt-ins

- We would expect BRS opt-ins to be different than those who chose the traditional system (and those who joined under BRS)
 - The traditional retirement system makes less economic sense for servicemembers who intend to leave
 - This is more true the more senior the servicemember (who has given up more of the government-provided TSP contribution)
 - We would expect BRS opt-ins to be more likely to leave, regardless of whether BRS then affects their retention decisions
- Can we analyze auto-enrollee behavior based on actions of opt-ins?
 - Opt-ins may offer insight into upper/lower bounds for behavior of auto-enrollees at particular points
 - Example: Continuation pay acceptance rates

Major analytical problem II: COVID and the recruiting crisis

- Ideally, analysis of BRS would rely on differences in [aggregate](#) retention behaviors of pre/post implementation cohorts
- In practice, BRS was shortly followed by COVID and a recruiting crisis, limiting comparable cohorts
 - Limits our comparison groups to relatively short window
 - Previous research suggests different *retention* propensities for those enlisting in poor recruiting environments

Concluding remarks

- Mid-career retention worth monitoring, but predicted to be manageable using existing tools
- Limited ability to detect **realized** mid-career retention problems driven by BRS ahead of time
 - Limited applicability of behavior of opt-ins to auto-enrollees
 - COVID + recruiting resulted in odd recruiting and retention behavior shortly after implementation, limiting cohorts
- Potential to use experimental approach to continuation pay once first cohorts approach mid-career

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