

Committed To Defence And Security Worldwide

www.dsalert.org | info@dsalert.org

# DEFENCE & SECURITY ALERT

SAARC COUNTRIES: US \$25

Rest of the World: US \$30 | INDIA ₹150

The First and Only ISO 9001:2015 Certified Defence and Security Magazine in India

The Only Magazine Available On The Intranet Of Indian Air Force

FEBRUARY 2023

VOLUME 14 | ISSUE 05

## DEFENCE BUDGET

## PRIORITIES AND POLICIES

**General Manoj Pande**  
Chief of Army Staff (COAS)  
PVSM, AVSM, VSM, ADC

मनोज पाण्डे  
MANOJ PANDE

**DSA**<sup>®</sup>

THE FIRST CHOICE IN THE DOMAINS OF  
DEFENCE, SECURITY AND WORLD AFFAIRS

WORLDWIDE

**13** YEARS OF  
EXCELLENCE





**INDIAN ARMY:  
A TRANSITIONAL PHASE**

TEAM DSA

04

**BRITISH SUBTERFUGES  
ON INDIAN SOLDIERS**

MAJ. GEN (DR) MRINAL SUMAN

10

**DEFENCE BUDGET:  
PRIORITIES AND POLICIES**

AMIT COWSHISH

16

**DEFENCE BUDGET –  
COST-EFFECTIVE UTILISATION**

BRIG DR ANIL SHARMA (RETD)

22

**DEFENDING THE  
DIGITAL BORDERS – BUDGETING**

V. RAJENDRAN

30

**DEFENCE PENSION: INDIA VS USA**

RAKSHITH SHETTY

36

**DEFENCE BUDGET AND  
INDIGENISATION PRIORITIES**

DEBALINA GHOSHAL

40

**INDIA'S DEFENCE BUDGET  
2022-23 - AN OVERVIEW**

VAIBHAV TOMAR

44

**UKRAINE'S SECURITY IN 2023**

JOANA PATRÍCIA LOPES

50

# DEFENCE PENSION: INDIA VS USA

Pensions are an essential component of the armed force's terms of engagement. It is usually regarded as an old-age income supplement for military personnel's services to the nation's security.

**P**ensions are an essential component of the armed force's terms of engagement. It is usually regarded as an old-age income supplement for military personnel's services to the nation's security. Defence pensions are typically defined benefit schemes, however, several countries use other systems as well. Given that armed services

people retire at a younger age, the pension responsibility lasts for a relatively long time, putting strain on the government's budget. To strike a delicate balance between the need for retirement benefits for military personnel and the feasibility of pension expenditure, governments frequently design their own system to determine who is eligible for a pension, how much pension one receives, and for how long. In this article, I seek to

compare and analyse the defence pension systems in India and the United States.

## India

India has the world's second-largest standing defence force behind China, with around 1.4 million personnel on active service. Personnel contracts are written in such a way that no one is fired or retires from service without receiving a pension. It's no surprise that there are currently 3,235,370 defence pensioners, with an additional 55,000 added each year.

Pension for members of the Indian armed forces is governed by several laws, regulations, and notifications that are published from time-to-time to increase pensionary entitlements. Apart from the improvements brought about by the recommendations of the central pay commissions appointed by the government every ten years, two significant developments since 1980 have had a significant impact on pension entitlements not only of defence pensioners but also of civilians, adding to the government's overall pension bill.

First, it is against the law to exempt former pensioners from the scope of any modifications the



government makes to the pension structure of its present employees, according to a Supreme Court decision from December 1980 in DS Nakra & others vs. Union of India. As a result, the government had to apply the so-called “liberalised pension formula,” which it had previously implemented for those retiring on or after 31 March 1979, to the pensions of all former retirees.

Second, in response to a long-standing demand of armed forces pensioners, the government implemented the one-rank-one-pension (OROP) scheme in November 2015, which calls for the equalisation of all past pensioners’ pensions with those of those retiring later from the same rank and with the same length of service every five years.

As of now, there are approximately 40 types of pension, which are mostly sanctioned by the Defence Accounts Department field offices

in Allahabad, Mumbai, and New Delhi for the army, navy, and air force, respectively. Pensions are primarily disbursed by the Defence Pension Disbursement Offices (DPDOs), which are administratively controlled by the MoD, as well as commercial banks.

Between 2012-13 and 2022-23, defence pension spending increased at an annual average rate of 10.7 per cent. This is greater than the average yearly growth rate of the defence budget, which is 8.6 per cent. Pension contributions to the defence budget climbed from 19 per cent in 2012-13 to 26 per cent in 2019-20. Since then, it has dropped to 23 per cent in 2021-22 and 2022-23.

**United States**

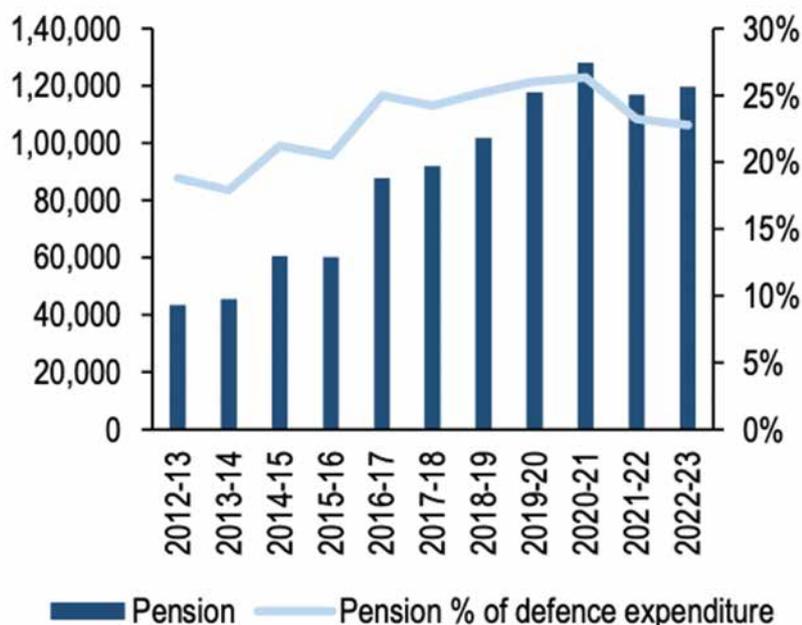
The US spends significantly more than any other country in the world on military pensions. It spent \$59 billion on military pensions in the fiscal year (FY) 2018, which is 10 per cent of the



**RAKSHITH SHETTY**

The writer is an Indian Foreign Service aspirant, who is currently pursuing Master in Diplomacy, Law and Business at Jindal School of International Affairs (O.P Jindal Global University). The focus areas of his studies include Peace and Conflict Studies, Economics and Foreign Policy, Defence and National Security Studies, Global South Studies and Human Rights and International Development.

**Figure 4: Expenditure on pensions (2012-13 to 2022-23) (in Rs crore)**



Department of Defense’s overall spending (DOD). Nearly 2.32 million pensioners received the pension. In contrast to a 7 per cent growth in the number of retirees between 2008 and 2018, the cost of pensions climbed by 29 per cent.

The DOD manages three pension administration programmes; one for active duty retirees, one for reservist retirees, and one for disabled pensioners. Each programme has its eligibility requirements and pension calculation formula. Other retirees must have at least 20 years of considerable service before they are eligible for a pension, with the exception of disabled retirees who may be eligible regardless of the number of years they have worked. The minimum service requirement



## The United States **military pension budget** was converted from **cash-based** to accrual accounting in **1986**

for new military members is eight years of service, hence the minimum pensionable service requirement of 20 years is very high. The pension is determined by taking into account both the date of retirement and the pay base at the time of joining the service. The monthly payment is increased to account for inflation.

### Four Methods For Pension Calculation

Since the 1980s, there have been numerous modifications that have affected how the US calculates defence pensions. For active duty retirees, there are now four ways to calculate their pension: Final Basic Pay (FBP), "High-Three," Redux, and Blended Retirement System (BRS).

The FBP applies to people who entered the military before 08 September 1980. The pension is computed by multiplying three factors: years of service, a 2.5

per cent multiplier, and the most recent monthly pay. For 20 years of service, this technique offers a pension equal to 50 per cent of the last basic pay.

Those who joined the military between 08 September 1980, and 01 January 2018, are eligible for the 'High-Three' procedure. The formula is the same as in the FBP method, except that the pay base in 'High-Three' is the average of the top 36 months of basic pay rather than the most recent monthly pay.

The Redux method was introduced in the late 1980s as part of pension changes. However, due to unpopularity, its mandatory applicability for new participants was removed, with members already covered given the option of either embracing the "High-Three" or remaining within the Redux with an instant cash payment of \$30,000.

In 2016, the BRS was introduced. It is mandatory for all military members who entered service on or after 01 January 2018. The method includes defined benefits and defined contribution schemes, as well as certain additional incentives. The defined contribution element was established to give financial support to more than 80 per cent of troops who do not receive a pension because they leave the armed forces before completing the required 20 years of service.

The calculation for the defined benefit part is the same as in 'High-Three,' except that the multiplier is reduced from 2.5 per cent to 2 per cent, resulting in a minimum pension of 40 per cent of the last pay average, as opposed to 50 per cent in the FBP. Concerning the defined contribution component, every BRS service member is immediately enrolled in an interest-bearing Thrift Savings Plan (TSP), which is similar to India's National Pension Scheme (NPS). The enrolment requires the member to contribute a portion of his basic pay, with the government matching contributions ranging from one to five per cent. Aside from the aforementioned benefits, the BRS provides a lump sum withdrawal of a portion of the pension and a continuation pay as a mid-career retention incentive. The latter is given to people in their eighth to the twelfth year of service who are willing to sign on for three more years.

### Disability Pension

Military personnel discharged from service owing to a disability with a disability rating of 30 per cent or above are eligible for the pension, regardless of years of service. A member can choose between two choices for disability pension. One is the longevity formula, which calculates the pension by multiplying the years



*One Rank One Pension scheme for the armed forces.*

of service by a multiplier (2.5 or 2 per cent depending on the date of admission into the military) and pay base (basic pay or High-Three, as applicable). Second, the disability formula calculates the pension by multiplying the pay base by the DoD-determined disability percentage.

The disability pension is limited to a maximum of 75 per cent of the basic pay, and members are not eligible for the lump sum payout available under the BRS. With a few exceptions for combat-related injury and certain other legacy considerations, disability pensions are also taxable.

### **Accrual Budgeting**

The United States military pension budget was converted from cash-based to accrual accounting in 1986. The new accounting method compels the US Department of

Defense to fund an amount each year for a current lot of serving military people when they retire. The specified amount is saved in an interest-bearing fund from which all retirees receive their pension. An accrual system is an important tool for policymakers to understand not only a current soldier's pension liabilities, but also the anticipated cost of any policy change relating to military end-strength, basic pay, and pension formula.

To summarise, the US Government has a good notion of its overall financial commitment to all current and prospective retirees because of accrual accounting.

### **Conclusion**

Considering the rapidly rising pension liability in India and the concern expressed by the late

CDS General Bipin Rawat, the experiences of the USA would be useful in carrying out pension reforms in India in at least four areas. One is the adoption of accrual accounting and transfer of funds to an entity which could manage them and pay regular pension. Two, evolving a system under which not everyone retires with a pension, without compromising the morale of the service personnel. Three, for those leaving before a specified age, paying a lump sum early departure payment with the regular pension being preserved till the rank-related retirement age. And, four, investigating the prospect of accommodating service people for longer periods inside the armed services and other departments (as well as the public/private sector), with pension liability deferred until their final retirement. 