

CHAPTER 16**MILITARY PERSONNEL ENTITLEMENT PROGRAMS**1601 GENERAL

160101. Purpose. This chapter prescribes the accounting principles, policy and related requirements to record transactions for entitlement programs established for DoD military personnel.

160102. Overview. Entitlements are legally established benefits available to any person or unit of government meeting eligibility requirements established by law. Authorizations for entitlements constitute a binding obligation on the part of the Federal Government, and eligible recipients may have legal recourse if the obligation is not fulfilled. Legislation authorizing entitlements does not necessarily include a corresponding appropriation of funds, and thus the subsequent enactment of appropriations may be necessary.

1602 GENERAL ACCOUNTING POLICY FOR ENTITLEMENT PROGRAMS

160201. Categories. Entitlement programs are divided into three categories according to the events that give rise to benefit payments. The accounting for these categories, identified as payments based on individual eligibility, payments required by law, and reimbursable events, are discussed in subparagraphs 160201.A through 160201.C, below.

A. When the program is administered by a Federal agency, entitlement benefits based on individuals meeting eligibility requirements of a program shall be recorded as a liability and as an expense when the eligibility requirements are met (as determined by program officials). The liability and expense shall cover all payments expected to be made during the current period of eligibility. Payments made to recipients shall reduce the recorded liability.

B. When payments are authorized (through appropriation and allotment of funds) for disbursement pursuant to legal requirements with no specific action required of the recipients, a liability and expense shall be recorded when the funds are appropriated and allotted to the applicable program managed. The liability and expense shall cover the amount to be disbursed. As payments are made, the liability shall be reduced.

C. When payments are based on the occurrence of a specific event for which costs are reimbursable under an entitlement program, a liability shall be recorded when the event occurs. If the reimbursement is based on end-of-period reports from program administrators, an estimated amount shall be accrued at the end of a reporting period.

160202. When the expense for payments made under an entitlement program exceeds the appropriation (which is permissible for certain programs under special statutory authority), the source of the related funds shall be clearly identified. If the funds were borrowed, the appropriate liability account shall be established.

160203. When there exists substantiated doubt on the continued entitlement of a military retiree or annuitant to benefit payments, and payments on an account are suspended, the Defense Finance and Accounting Service (DFAS) shall cease obligating on the subject account for retired pay, retainer pay, or annuitant benefits. Previously obligated amounts shall be deobligated to the extent of recoveries on previous payments or amounts held in a suspense account. Although this procedure is directed primarily at suspected death status accounts, it applies equally to other situations that may terminate entitlement. Examples of other situations include (but are not limited to) employment by a foreign government, renounced U.S. citizenship, remarriage of a surviving spouse, and certain student annuitants who drop out of school.

1603 ACCOUNTING POLICY FOR THE ACCRUAL AND INVESTMENT OF RETIRED MILITARY PAY

160301. Retired military pay is a pension program established for the payment of annuities or pensions to retired military personnel. As such, it fits under the broad category of entitlement programs as defined by the General Accounting Office (GAO).

160302. The FY 1984 Defense Authorization Act, Public Law 98-94, changed the method of financing military retired pay effective October 1, 1984. Under the former method, the Department estimated retired pay requirements for the forthcoming fiscal year, obtained an appropriation from the Congress, and made periodic payments of retired pay, retainer pay, and survivor benefits. Under Public Law 98-94, such payments are made to the DoD Military Retirement Fund (Retirement Fund), which contains the following assets:

A. Amounts paid into the Retirement Fund from the Military Personnel, Reserve Personnel and National Guard Personnel appropriations representing future retirement and survivor benefits being accrued by members performing current service.

B. Amounts paid into the Retirement Fund from a permanent, indefinite general fund appropriation representing a portion of retirement and survivor benefits already accrued by members due to past service.

C. Interest earned as a result of the investment of available Retirement Fund cash balances in U.S. securities.

160303. Determinations of the current portion of retired military benefits and amounts required to liquidate the unfunded portion of the Retirement Fund are discussed in the remainder of this section.

A. Amounts payable to the Retirement Fund shall be based on determinations by the board of actuaries as to the amounts necessary to fund present and future benefits payable to military retirees and their survivors. DoD Components shall include in their Military Personnel Appropriation budgets the funds to be transferred to the Retirement Fund to meet the amounts determined necessary by the DoD Board of Actuaries.

1. Accumulated benefits for a given program shall be comprised of benefits expected to be paid to the following:

a. Persons who have met the conditions of the program and will receive benefits in the future.

b. Persons who have met enough of the conditions of the program to be considered probable recipients of future benefits.

c. The survivors of both groups, as applicable.

2. Accumulated benefits shall be based on participants' history of earnings, work or service, and other appropriate factors as of the benefit information date. The benefit information date is the date when benefit information is presented. Projected years of work or service shall be a factor only in determining a person's expected eligibility for particular program benefits.

3. Automatic benefit increases, specified by the provisions of the program that are expected to occur after the benefit information date, shall be recognized when computing program benefits. The long-term inflation rate assumed shall be the future average long-term inflation rate determined by the Office of Management and Budget (OMB) to be most appropriate for Federal pension plans that report under 31 U.S.C. 9503. Other economic actuarial assumptions regarding future rates of interest and salaries shall be consistent with the assumed inflation rate.

B. Calculation of the annual amount required to liquidate the unfunded liability of the Retirement Fund shall be performed by the DoD Board of Actuaries.

C. Amounts to be transferred to the Retirement Fund for retired pay accrual shall be obligated by the DoD Components at the same time military pay is obligated as required in Volume 3 of this Regulation and further explained in paragraphs 160307 and 160308, below, of this chapter.

D. Entitlements for military retired pay and surviving annuities are described in Volume 7B, of this Regulation. Payments of authorized and accrued benefits shall be made from the Retirement Fund, a trust fund established under Public Law 98-94.

E. Calculations of the amount of the current portion of retired military benefits shall be performed centrally by the Military Departments for active, Reserve, and National Guard military personnel. The calculations shall employ a retired military pay accrual percentage published annually by the Office of the Secretary of Defense and shall be applied to the total base pay amount calculated. The term "base pay" means outlays for basic pay. The Military Departments also shall obligate and disburse amounts calculated for the retired pay accrual in the applicable military pay active duty, reserve, and national guard accounts and deposit the funds to the Retirement Fund receipt account 97X8097.1 - Employing Agency Contribution, DoD Military Retirement Fund.

160304. The Director of Investment Office, DFAS-HQ, shall be responsible for investing cash balances of the Retirement Fund not actually needed to cover payment of current retirement payments. Investments are limited to U.S. Government securities issued by the Department of the Treasury.

160305. Retired pay benefits shall be calculated and paid by the Defense Finance and Accounting Service.

160306. All reimbursements made to DoD Components in accordance with the guidance contained in Volume 11A of this Regulation for retired military pay shall be credited to the applicable military personnel appropriation account.

160307. Accounting for military pay active duty accounts shall be as follows:

A. Amounts equating to an actuarially determined percentage of basic pay shall be obligated each month for subsequent payment to the Retirement Fund.

B. Accounting for the direct program shall be at the budget subactivity level presently prescribed in Volume 2, Chapter 2, of this Regulation. Accounting for the reimbursable program may use a simplified structure to include basic pay, retired pay accrual, and other.

C. The amount accrued for retired pay shall be obligated each month. At the end of the month, amounts obligated for retired pay accrual shall be disbursed. If information on the total entitlement and total expenditures is not available at the end of the month, estimates (see subparagraph 160307.E, below) may be used and appropriate adjustments made when the actual amounts become known.

D. Release of funds shall be consistent with budgetary authority. An undelivered order entry shall be made at the beginning of each month in the amount of the estimated obligation accrual to the member for the Retirement Fund. Before the end of each month, the actual obligations shall be recorded and an accrued expenditure (paid or unpaid, as

applicable) established. The corresponding disbursement of funds shall agree with the reported outlay and amount obligated.

E. All military pay accounting systems shall provide for the recording of obligations for basic pay separate from other kinds of pay and allowances. However, the liquidation of obligations for pay and allowances may be on a gross basis. If the actual amount of basic pay paid is not known at the end of the month, the following formula, or an equivalent, can be used to calculate the amount of the retired pay obligation to be liquidated and disbursed to the Retirement Fund:

$$A * \text{Retired Pay Accrual} = \text{Payment}$$

* "A" is a percentage determined by dividing the total reported expenditures for pay and allowances (other than retired pay accrual) by the total entitlement (other than retired pay accrual).

F. Disbursements for retired pay benefits shall be deposited at the end of each month to trust fund receipt account 97X8097.1 - Employing Agency Contribution, Department of Defense Military Retirement Fund. Disbursement and collection transactions shall be accomplished by use of an SF 1081, "Voucher and Schedule of Withdrawals and Credits." The disbursing officer making the payment also shall process the collection, forward a copy of the completed SF 1081 to DFAS, and report both the disbursement and collection transactions on the monthly Statement of Transactions. The DFAS copy of the SF 1081 shall be transmitted by electronic means immediately upon completion of the transactions so that the deposit may be recorded in the Retirement Fund as soon as possible and the funds invested.

160308. Accounting for Reserve and National Guard personnel accounts shall be as follows:

A. Amounts equating to an actuarially determined percentage of basic pay shall be obligated each month for subsequent payment to the Retirement Fund.

B. Accounting for the direct program shall be at the budget sub-activity level prescribed in section Volume 2, Chapter 2, of this Regulation. A simplified structure which includes basic pay, retired pay accrual, and other may be used in accounting for the reimbursable program.

C. The amount accrued for retired pay shall be obligated monthly. At the end of the month, amounts obligated for retired pay accrual shall be disbursed. If information on the total entitlement and total expenditures is not available at the end of the month, estimates (see subparagraph 160307.E, above) may be used and appropriate adjustments made when the actual amounts become known.

D. Disbursements for retired pay benefits shall be deposited at the end of each month to trust fund receipt account 97X8097.1 - Employing Agency Contribution, Department of Defense Military Retirement Fund. Disbursement and collection transactions shall be accomplished by use of an SF 1081, "Voucher and Schedule of Withdrawals and Credits." The disbursing officer making the payment also shall process the collection, forward a copy of the accomplished SF 1081 to the DFAS, and report both the disbursement and collection transactions on the monthly Statement of Transactions. The DFAS copy of the SF 1081 shall be transmitted by electronic means immediately upon accomplishment of the transactions so that the deposit may be recorded in the Retirement Fund as soon as possible and the funds invested.

160309. Accounting for the permanent indefinite appropriation, 97_0040, "Payments to Military Retirement Fund, Defense" shall be as follows:

A. At least 1 week before the end of the fiscal year, the Director of Investment Office, DFAS-HQ, shall provide the Secretary of the Treasury with a certification of the amount that should be appropriated to this account for the ensuing fiscal year. The certification shall include the amount needed to fund the amortization of the original unfunded liability for military retirement and any other unfunded liability resulting from benefit structure changes and actuarial gains or losses. A copy of the certification shall be sent directly to:

Department of the Treasury
Funds Management Division
Finance Management Branch
3700 East-West Highway
Room 6F06-PGCII
Hyattsville, MD 20782

B. Upon receipt of the certification, the Treasury Department will issue a TFS Form 6200, "Appropriation Warrant," for the amount certified and forward it to the DFAS. The TFS Form 6200 shall be dated October 1 and shall be provided to the Department of Defense on or before that date so that the funds are available for investment as soon as the new fiscal year begins.

C. On October 1, the DFAS shall record the TFS Form 6200, disburse the entire amount from 97_0040, and deposit it to trust fund receipt account 97X8097.3 - Federal Contribution, DoD Military Retirement Fund.

D. The DoD Military Retirement Fund is classified as a trust fund and makes use of both receipt and expenditure accounts since it is not designated as a trust revolving fund.

1. Deposits are made to the following trust fund receipt accounts as applicable:

a. 97X8097.1 - Employing Agency Contribution, Department of Defense Military Retirement Fund. Payments from DoD Military Departments for accrual of future retired pay benefits and transfers of deposits made by Judges of the U.S. Court of Military Appeals, including interest, from the Civil Service Retirement and Disability Fund (24X8135).

b. 97X8097.2 - Earnings on Investments, Department of Defense Military Retirement Fund. Payment of interest by Treasury on Fund investments in U.S. securities.

c. 97X8097.3 - Federal Contribution, Department of Defense Military Retirement Fund. Payments from the permanent indefinite appropriation for the unfunded liability - 97_0040.

d. (62) 97X8097 - Disbursements-Unamortized Premium and Discount, Department of Defense Military Retirement Fund. Purchase of premium, interest, and discount.

e. (72) 97X8097 - Receipts-Unamortized Premium and Discount, Department of Defense Military Retirement Fund. Write-off and amortization of premium and discount and collection of interest purchased.

f. 20X6825.01 - Unamortized Discount, Department of Defense Military Retirement and Education Benefits Funds. Purchase of discount, write-off, and amortization of discount.

g. 20X6825.02 - Unamortized Premium, Department of Defense Military Retirement and Education Benefits Funds. Purchase of premium, write-off, and amortization of premium.

h. 20X6825.03 - Accrued Interest Purchased, Department of Defense Military Retirement and Education Benefits Funds. Purchase of interest and collection of interest purchased.

2. The symbol for the trust fund expenditure account is 97X8097. Amounts deposited to the above receipt accounts are available immediately to the trust fund expenditure account for investment or payment of retired pay benefits.

a. Account 97X8097 shall incorporate the same budget activity structure as the account "Retired Pay, Defense." Accounting shall be at least at the budget activity level. Lower level accounts shall be established as necessary to meet reporting requirements.

b. Since 97X8097 is an Office of the Secretary of Defense account, the DFAS shall be responsible for its overall accounting and reporting.

c. The DFAS, acting for the Secretary of Defense, shall allocate a portion of 97X8097 to each Military Department in order to fund payments of retirement benefits.

d. Annuity payments to retired Judges of the U.S. Court of Military Appeals shall be charged to 97X8097.

160310. Reporting requirements for the Retirement Fund and payments to the Fund are as follows:

A. DoD Components shall report in their Statement of Operations the amount of Federal contributions (including accrued amounts), if any, made to the pension plans(s) on behalf of their employees. The agency contribution shall not include amounts withheld from employee's compensation for submission to the plan(s).

B. DoD Components which administer programs that provide annuity benefits to eligible participants shall recognize, for reporting purposes, a liability for the actuarial present value of accumulated benefits. These are benefits earned or accrued as of the benefit information date (see subparagraph 160303.A.2., above), but will not be paid until a later date.

1. The actuarial present value of accumulated benefits is that amount, as of the benefit information date, that results from applying actuarial assumptions to the benefit amounts determined pursuant to subparagraphs 160303.A. of this chapter. The actuarial assumptions are used to adjust the amounts to reflect the time value of money (through discounts for interest) and the probability of retirement between the benefit information date and the date of retirement.

2. The significant assumptions used in determining actuarial present values shall, in the aggregate, be reasonable and reflect the best estimate of each program's anticipated experience.

3. The benefit information date shall be the end of the fiscal year being reported on. Changes in benefit rules during a year shall be reflected in that year's computation of accumulated benefits.

4. For the year in which the liability for the present value of accumulated benefits is first recorded, the initial amount of the liability shall be reported as an accounting change, i.e., a charge to equity and an accrued liability. Thereafter, changes in the liability each year shall be charged or credited to expense.

5. Footnotes to the financial statements shall disclose the nature and amount of required agency contributions, if any. The footnotes also shall disclose the agency responsible for the pension plan and, thus, responsible for reporting the unfunded liability.

6. Components that administer pension plans shall comply with requirements established by 31 U.S.C. 9501, and the accounting guidance issued pursuant to that law. Financial information for pension plans shall be reported in the annual financial statements of administering agencies.

7. The notes to the financial statements shall include a description of the methods and significant assumptions used in computing the actuarial present value of future program benefits. Additionally, if the actuarial liability computed in accordance with these standards is different from the actuarial liability computed for funding purposes, the liability used for funding purposes shall be disclosed in the footnotes along with an adequate explanation of any significant differences between the two liabilities.

C. Permanent Indefinite Appropriation 97 0040 - Payments to the Department of Defense Military Retirement Fund. The DFAS is responsible for the preparation of the reports for this account in accordance with Volume 6 of this Regulation.

D. Department of Defense Military Retirement Fund

1. Report on Budget Execution, DD Form 1176. The DFAS shall submit a DD Form 1176 for all of the Retirement Fund receipt and expenditure accounts. The report on the Retirement Fund receipt account shall be footnoted to indicate the source of deposits to account 97X8097.1 - Employing Agency Contribution, Department of Defense Military Retirement Fund.

2. Appropriation Status by Fiscal Year Program and Subaccounts, RCS DD-Comp(M)1002. The DFAS shall submit this report for the Retirement Fund expenditure account prepared in accordance with Volume 6 of this Regulation.

3. Other Reports. The DFAS shall follow the instruction in Volume 6 of this Regulation, as applicable. In addition, the Military Departments shall comply with the monthly reporting requirements contained in Volume 6 of this Regulation.

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