

Fiscal Year  
2021

Military  
Retirement  
Fund  
Audited  
Financial  
Report

November 8, 2021



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**Management's Discussion and Analysis  
Summary of the Military Retirement System  
For the Years Ended September 30, 2021 and 2020**

**REPORTING ENTITY**

The reporting entity is the Department of Defense (DoD) Military Retirement Fund (MRF, or "Fund"). The Military Retirement System (MRS) provides benefits for military members' retirement from active duty and the reserves, disability retirement benefits, and survivor benefits. The MRF accumulates funds to finance, on an actuarial basis, the liabilities of DoD under military retirement and survivor benefit programs.

Within DoD, the operations of the MRS are jointly overseen by the:

- (1) Office of the Under Secretary of Defense (Comptroller) (OUSD(C)),
- (2) Defense Finance and Accounting Service (DFAS), and
- (3) Office of the Under Secretary of Defense for Personnel and Readiness (OUSD (P&R)).

DFAS is responsible for the accounting, investing, payment of benefits, and reporting of the MRF. The DoD Office of the Actuary (OACT) within OUSD (P&R) calculates the actuarial liability and funding requirements of the MRF, relying on data produced from files maintained by the Defense Manpower Data Center (DMDC). The Office of Military Personnel Policy within OUSD (P&R) issues policy related to MRS benefits. While the MRF does not have a designated Chief Financial Officer (CFO) it is overseen by the MRF Financial Management Committee (FMC), relying upon the diverse support team to collectively provide input for the efficient and effective operation of the Fund.

The Fund was established by Public Law (P.L.) 98-94 (currently Chapter 74 of Title 10, United States Code (U.S.C.)) starting October 1, 1984. The Fund is overseen by an independent, three-member Secretary of Defense-appointed DoD Board of Actuaries ("Board"). The Board is required to review valuations of the MRS, determine the method of amortizing unfunded liabilities, report annually to the Secretary of Defense, and report to the President and the Congress at least once every four years on the status of the MRF. OACT provides technical and administrative support to the Board.

The Fund receives income from three sources: (1) normal cost payments from the Services and U.S. Treasury; (2) payment from the U.S. Treasury to amortize the unfunded liability; and (3) investment income.

During Fiscal Year (FY) 2021, the MRF received approximately \$25.2 billion in normal cost payments, and \$108.0 billion payment from the U.S. Treasury consisting of both an amortization and concurrent receipt payment, and earned approximately \$56.9 billion in investment income, net of premium/discount amortization and accrued inflation compensation. In comparison, in FY 2020 the MRF received approximately \$21.8 billion in normal cost payments, a \$100.4 billion payment from the U.S. Treasury consisting of both an amortization and concurrent receipt payment, and earned approximately \$22.6 billion in investment income, net of premium/discount amortization and accrued inflation compensation (see the Financial Performance Overview section for an explanation of the changes).

In FY 2021, the MRF paid approximately \$63.1 billion in benefits to military retirees and survivors compared to approximately \$62.3 billion in FY 2020.

## Management's Discussion and Analysis

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### THE FUND

#### *General Benefit Information*

The MRS covers members of the Army, Navy, Marine Corps, and Air Force; however, most of the provisions also apply to retirement systems for uniformed service members of the Coast Guard (administered by the Department of Homeland Security), the Public Health Service (PHS) (administered by the Department of Health and Human Services), and the National Oceanic and Atmospheric Administration (NOAA) (administered by the Department of Commerce). This report applies only to members in plans administered by the DoD.

Generally, MRS is a funded, noncontributory defined benefit plan that includes non-disability retired pay, disability retired pay, survivor annuity programs, and Combat-Related Special Compensation (CRSC). The Service Secretaries may approve immediate non-disability retired pay at any age with credit of at least 20 years of active duty service. Reserve retirees generally must be at least 60 years old and have at least 20 qualified years of service before retired pay commences; in some cases the age can be less than 60 if the reservist performed certain types of active duty service. There is no vesting of benefits before non-disabled retirement.

There are distinct non-disability benefit formulas related to four populations within the MRS, per current statute (see Tables 1 and 2).

- 1) **Final Pay:** Military personnel who first became members of a uniformed service before September 8, 1980, have retired pay equal to final basic pay times a multiplier. The multiplier is equal to 2.5% times years of service. Retired pay and survivor annuity benefits are automatically adjusted annually to protect the purchasing power of initial retired pay. Final pay retirees have their benefits adjusted annually by the percentage increase in the average Consumer Price Index (CPI). This is commonly referred to as full CPI protection.
- 2) **High-3:** If the retiree first became a member of a uniformed service on or after September 8, 1980, the average of the highest 36 months of basic pay is used instead of final basic pay. The multiplier is also equal to 2.5% times years of service and High-3 retirees also have their benefits adjusted annually by the percentage increase in the average CPI.
- 3) **Career Status Bonus (CSB)/Redux:** Members who first became a member of a uniformed service on or after August 1, 1986, may choose between a High-3 and CSB/Redux retirement. Those who elect CSB/Redux receive the CSB outlined below, also have retired pay computed on a base of the average of their highest 36 months of basic pay, but are subject to a multiplier penalty if they retire with less than 30 years of service; however, at age 62, their retired pay is recomputed without the multiplier penalty. Members make their election during the fifteenth year of service and may receive the CSB of \$30,000 in either a lump sum or multiple installment payments. Those who elect CSB/Redux must remain continuously on active duty until they complete 20 years of active duty service or forfeit a portion of the \$30,000 (exceptions include death and disability retirement). CSB retirees have their benefits adjusted annually by the percentage change in the CPI minus 1% (except when the change in the CPI is less than 1%). When the military member's age is 62, or when the member would have been age 62 for a survivor annuity, the benefits are restored to the amount that would have been payable had full CPI protection been in effect and had there not have been a multiplier penalty. However, after this restoration, partial indexing (CPI minus 1%) continues for future retired pay and survivor annuity payments. The National Defense Authorization Act for FY 2016 (NDAA 2016, P.L. 114-92) sunsets the CSB/Redux benefit tier by not allowing any CSB elections after December 31, 2017.

## Management's Discussion and Analysis

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- 4) ***Blended Retirement System (BRS)***: Members who first become a member of a uniformed service after December 31, 2017, will be covered under the BRS which was enacted in NDAA FY 2016 and took effect January 1, 2018. Members who first entered the military before January 1, 2018 and who have served for fewer than 12 years (as defined in the statute) as of December 31, 2017 had the option to “opt in” to BRS via an irrevocable election during a one-year (calendar year 2018) open season or remain in the High-3 system. Members who have served 12 or more years as of December 31, 2017 were not permitted to opt in to BRS and will receive benefits based on their current plan. As a result of NDAA 2016, members with 12 or more but fewer than 15 years of service as of December 31, 2017 did not have the opportunity to opt in to BRS or to elect the CSB and will automatically remain in the High-3 system<sup>1</sup>. The BRS lowers the nondisabled retired pay multiplier from 2.5% per year to 2.0% and includes automatic and matching government contributions to member Thrift Savings Plan (TSP) accounts and a mandatory mid-career continuation bonus if the member agrees to serve additional time. The BRS also provides members the choice of receiving a portion (either 25% or 50%) of their retired pay entitlement from when the member is eligible to begin receiving retired pay to normal Social Security retirement age (usually 67) as a discounted lump sum instead of an annuity. For additional information, see table at the end of this section or refer to the DoD Office of Military Compensation website (<http://militarypay.defense.gov/>).

Retiree and annuitant pay are automatically adjusted annually by cost-of-living adjustments (COLAs) to protect the purchasing power of the initial benefit. Members first entering a uniformed service before August 1, 1986, and those entering on or after that date who do not elect CSB have their benefits adjusted by the percentage increase in the CPI. This is commonly referred to as “full CPI protection.” Benefits for members who entered on or after August 1, 1986, and who elect CSB are increased by the CPI minus 1% (except when the CPI increase is less than or equal to 1%, when it is increased by the full CPI). At age 62, or when the member would have been age 62 (for a survivor annuity), the benefits are restored to the amount that would have been payable had the full COLA been in effect. This restoration is in combination with the elimination of the penalty for retiring with less than 30 years of service; however, after this restoration, partial indexing (CPI minus 1%) continues for future benefit payments.

The FY 2011 National Defense Authorization Act (FY 2011 NDAA, P.L. 111-383), required that amounts of retired pay due to a retired member of the uniformed services shall be paid on the first day of each month beginning after the month in which the right to such pay accrues. This means that when the first day of the month falls on a non-business day (weekend / holiday), the retired pay must be disbursed the preceding business day. The law does not apply to survivor annuitant pay and CRSC. It will result in retirees receiving 13 payments in some fiscal years and 11 payments in others, with 12 payments occurring in most fiscal years.

### ***Non-Disability Retirement from Active Service***

The current retirement system allows for voluntary retirement at any age upon completion of at least 20 years of service, subject to Service Secretary's approval. The military retiree immediately receives retired pay calculated as base pay multiplied by the specified benefit formula factor and years of service. “Base pay” is equal to terminal basic pay if the retiree first became a member of a uniformed service before September 8, 1980; for all other members, “base pay” is equal to the average of the highest 36 months of basic pay. The number of years of service is rounded down to the nearest month when computing retired pay. Refer to Tables 1 and 2 on the following pages for additional details.

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<sup>1</sup> Because of breaks in service and technical differences in the definition of qualifying years of service under BRS compared to CSB/Redux, it is not possible to precisely define this group based solely on dates of entry, but generally it will include members who joined the service after December 31, 2002 and on or before December 31, 2005.

## Management's Discussion and Analysis

As of September 30, 2021, there were approximately 1.443 million non-disability retirees from active duty receiving approximately \$49.33 billion of annualized retired pay. For comparison, as of September 30, 2020, there were approximately 1.448 million non-disability retirees from active duty receiving approximately \$48.68 billion of annualized retired pay.

**TABLE 1**  
**MILITARY RETIREMENT SYSTEM PROPERTIES**  
**(FOR NONDISABILITY RETIREMENT FROM ACTIVE DUTY)**

Benefit System	Final Pay	High-3 (HI-3)	Career Status Bonus (CSB)/Redux	Blended Retirement System (BRS)
Applies to Members Who Joined a Uniformed Service:	<ul style="list-style-type: none"> <li>before <u>September 8, 1980</u></li> </ul>	<ul style="list-style-type: none"> <li>on or after <u>September 8, 1980</u> and before <u>August 1, 1986</u></li> <li>on or before <u>August 1, 1986</u> and before <u>January 1, 2003</u> who do not elect to accept the CSB at the 15-year anniversary</li> <li>on or after <u>January 1, 2003</u> and before <u>January 1, 2006</u></li> <li>on or after <u>January 1, 2006</u> and before <u>January 1, 2018</u> who do not elect to participate in BRS</li> </ul>	<ul style="list-style-type: none"> <li>on or after <u>August 1, 1986</u> and before <u>January 1, 2003</u> who elect to accept the CSB with additional 5-year service obligation</li> </ul>	<ul style="list-style-type: none"> <li>on or after <u>January 1, 2018</u></li> <li>on or after <u>January 1, 2006</u> and before <u>January 1, 2018</u> who elect to participate in BRS</li> </ul>
Retired Pay Computation Basis	Final basic pay rate	Highest 36 months of basic pay rate	Highest 36 months of basic pay rate	Highest 36 months of basic pay rate
Multiplier	2.5% per year of service	2.5% per year of service	2.5% per year of service less 1% for each year of service less than 30 (restored at age 62)	2.0% per year of service
Cost-of-Living Adjustment Mechanism	Full CPI-W	Full CPI-W	Full CPI-W minus 1% (one-time catch-up at age 62)	Full CPI-W
Additional Benefit(s)	---	---	<ul style="list-style-type: none"> <li>\$30,000 CSB payable at 15-year anniversary upon assumption of 5-year obligation to remain on continuous active duty</li> </ul>	<ul style="list-style-type: none"> <li>Choice of receiving a portion (either 25% or 50%) of the retired pay entitlement from retirement age to normal Social Security retirement age (usually 67) as a discounted lump sum instead of an annuity                             <ul style="list-style-type: none"> <li>Automatic and matching Government contributions to TSP account</li> </ul> </li> <li>Mandatory mid-career contribution bonus if member agrees to serve additional time</li> </ul>

**Notes:**

- Due to breaks in service and technical differences in the definition of qualifying years of service under different benefit systems, in some cases above it is not possible to precisely define which benefit systems cover the appropriate members based solely on dates of entry. The above table does not cover every possibility.

- For additional up-to-date information, refer to the DoD Office of Military Compensation website (<http://militarypay.defense.gov/>).

**TABLE 2**  
**MILITARY RETIREMENT SYSTEM MULTIPLIERS**  
 (FOR NONDISABILITY RETIREMENT FROM ACTIVE DUTY)

Years of Service	Final Pay/Hi-3 Multiplier	BRS Multiplier	CSB/Redux Multiplier	
			Before Age 62	After Age 62
20	50.0%	40.0%	40.0%	50.0%
21	52.5	42.0	43.5	52.5
22	55.0	44.0	47.0	55.0
23	57.5	46.0	50.5	57.5
24	60.0	48.0	54.0	60.0
25	62.5	50.0	57.5	62.5
26	65.0	52.0	61.0	65.0
27	67.5	54.0	64.5	67.5
28	70.0	56.0	68.0	70.0
29	72.5	58.0	71.5	72.5
30	75.0	60.0	75.0	75.0
31	77.5	62.0	77.5	77.5
32	80.0	64.0	80.0	80.0
33	82.5	66.0	82.5	82.5
34	85.0	68.0	85.0	85.0
35	87.5	70.0	87.5	87.5
36	90.0	72.0	90.0	90.0
37	92.5	74.0	92.5	92.5
38	95.0	76.0	95.0	95.0
39	97.5	78.0	97.5	97.5
40	100.0	80.0	100.0	100.0
41	102.5	82.0	102.5	102.5
42	105.0	84.0	105.0	105.0
:	:	:	:	:



## Management's Discussion and Analysis

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### *Disability Retirement*

A military member in an active component or on active duty for more than 30 days who is found unfit for duty is entitled to disability retired pay if the disability:

- 1) based upon accepted medical principles, is of a permanent nature and stable;
- 2) was incurred while entitled to basic pay;
- 3) is neither the result of the member's intentional misconduct nor willful neglect;
- 4) was not incurred during a period of unauthorized absence; and
- 5) either:
  - a. the member has at least 20 years of service; or
  - b. the disability is rated at least 30% under the Department of Veterans Affairs (VA) Schedule of Rating Disabilities and one of the following conditions is met:
    - i. the disability was not noted at the time of the member's entrance on active duty (unless clear and unmistakable evidence demonstrates that the disability existed before the member's entrance on active duty and was not aggravated by active military service);
    - ii. the disability is the proximate result of performing active duty;
    - iii. the disability was incurred in the line of duty in time of war or national emergency; or
    - iv. the disability was incurred in the line of duty after September 14, 1978.

Under certain conditions, members on active duty for 30 days or less or on inactive-duty training are also entitled to disability retired pay for disabilities incurred or aggravated in the line of duty.

In disability retirement, the member may elect to receive retired pay equal to either:

- 1) the accrued non-disability retirement benefit regardless of eligibility to retire; or
- 2) base pay multiplied by the rated percent of disability.

Except for members with a multiplier under (1) that is greater than 75% (which will equate to different years of service depending on whether the member is under BRS), the benefit cannot be more than 75% of base pay. Only the excess of (1) over (2) is subject to federal income taxes if the member had service on or before September 24, 1975. If the individual was not a member of a uniformed service on September 24, 1975, disability retired pay is tax-exempt only for those disabilities that are combat or hazardous duty-related. Base pay is equal to final basic pay if the retiree first became a member of a uniformed service before September 8, 1980; otherwise, base pay is equal to the average of the highest 36 months of basic pay.

Members whose disabilities may not be permanent are placed on a temporary-disability retired list and receive disability retirement pay just as if they were permanently disabled; however, the member must be physically examined every 18 months for any change in disability, with a final determination made within five years. For retirees placed on this list on or after January 1, 2017, the final determination must be made within three years. The temporary disability pay is calculated like the permanent disability retired pay, except the payment cannot be less than 50% of base pay.

Members who elected the CSB/Redux retirement option, but who retired for disability, are not subject to the reduced CSB/Redux retired pay multiplier and are awarded retired pay based on the disability retirement rules outlined above. However, such members continue to be subject to the reduced CPI (with age 62 restoration) as CSB recipients. Members who are under BRS and who retire for disability do not have the option of receiving a portion of retired pay as a discounted lump sum.

## Management's Discussion and Analysis

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As of September 30, 2021, there were approximately 129,000 disability retirees receiving approximately \$1.94 billion of annualized retired pay. For comparison, as of September 30, 2020, there were approximately 129,000 disability retirees receiving approximately \$1.91 billion of annualized retired pay.

### *Reserve Retirement*

Members of the reserves may retire after 20 qualifying years of creditable service. However, reserve retired pay is not payable until age 60 unless the member performs certain types of active duty or active service specified in NDAA 2008 (P.L. 110-181), in which case the age is reduced below 60 by three months for every 90 days of such service within a fiscal year. However, the age cannot be reduced below 50, and eligibility for subsidized retiree health benefits remains at age 60 even if the eligibility age for retired pay is reduced.

For members not under BRS, retired pay is computed as base pay times 2.5% times years of service. For members under BRS (as explained below) the 2.5% multiplier is reduced to 2.0%. If the reservist was first a member of a uniformed service before September 8, 1980, base pay is defined as the active duty basic pay in effect for the retiree's grade and years of service at the time that retired pay begins. If the reservist first became a member of the armed services on or after September 8, 1980, base pay is the average basic pay for the member's grade in the highest 36 months computed as if he/she was on active duty for the entire period preceding the age at which retired pay commences. The years of service are determined by using a point system, where 360 points convert to a year of service. Typically, one point is awarded for one day of active duty service (e.g., active duty training) or one inactive duty training (IDT) drill attendance. Reservists may perform two IDT periods in one day thereby receiving two retirement points per day. In addition, 15 points are awarded for completion of one year's membership in a reserve component. A creditable year of service is one in which the member earned at least 50 points. A member generally cannot retire with less than 20 creditable years, although points earned in non-creditable years are used in the retirement calculation. Beginning with years of service that include October 30, 2007, non-active duty points are limited in any year to no more than 130. Lesser limitations have applied in the past.

Reservists who first joined the service on or before December 31, 2017 and with fewer than 4,320 points (equating to 360 points per year multiplied by 12 years of service) as of that date are eligible to opt in to BRS. Reservists who first become a member of the uniformed service after December 31, 2017 are automatically under BRS. For reserve retirement under BRS, the discounted lump sum option covers the period from retirement age (i.e., 60 or earlier if certain qualifying service is performed) to normal Social Security retirement age (usually 67).

As of September 30, 2021, there were approximately 438,000 reserve retirees receiving approximately \$7.64 billion of annualized retired pay. For comparison, as of September 30, 2020, there were approximately 427,000 reserve retirees receiving approximately \$7.43 billion of annualized retired pay.

### *Survivor Benefits*

Legislation originating in 1953 provided optional survivor benefits, later referred to as the Retired Servicemen's Family Protection Plan (RSFPP). The plan proved to be expensive to the participants and inadequate, since the survivor annuities were not adjusted for inflation and could not exceed 50% of retired pay. RSFPP was designed to be self-supporting in the sense that, on average, the present value of the premiums equaled the present value of the survivor annuity.

On September 21, 1972, RSFPP was replaced by the Survivor Benefit Plan (SBP) for new retirees. RSFPP still covers those servicemen retired before 1972 who did not convert to the new plan or who retained RSFPP in conjunction with SBP.

## Management's Discussion and Analysis

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Retired pay is reduced, before taxes, for the member's cost of SBP. Total SBP costs are shared by the government and the retiree, so the reductions in retired pay are only a portion of the total cost of the SBP program.

The SBP survivor annuity is 55% of the member's base amount. The base amount is elected by the member, but cannot be less than \$300 or more than the member's full gross monthly retired pay, with one exception. If the member elects CSB/Redux and is subject to a penalty for service under 30 years in the calculation of retired pay, the maximum base amount is equal to the full retired pay without the penalty. However, the annuity for a survivor of a CSB/Redux retiree is subject to the reduced COLA.

When SBP started in 1972, survivor benefits for those 62 and older were reduced by the estimated amount of Social Security for which the survivor would be eligible based on the member's military pay. In 1985, that reduction formula was changed so all annuitants 62 and over received a reduced flat rate of 35% of the member's base amount. Beginning October 1, 2005, the reduced rate at age 62 was phased out in 5% increments. On April 1, 2008, the survivor benefit reduction at age 62 was fully eliminated and the rate of 55% of the member's elected base amount became the standard for all survivors, regardless of age.

Prior to FY 1987, the survivor annuity benefit for a surviving spouse who remarried before age 60 was suspended. In FY 1987, SBP changed to suspend benefits when the remarriage occurred at the age of 55. If the remarriage ends in divorce or death, the annuity is reinstated.

Members who die on active duty are generally assumed to have retired with full disability on the day they died and to have elected full SBP coverage for spouses, former spouses, and/or children. If it is more beneficial for the survivors to have elected child only because of Dependency and Indemnity Compensation (DIC) offsets, the family has the option to make that election instead. If the death does not occur in the line of duty, the SBP benefit is based on the member's years of service, rather than assuming a full disability retirement. Insurable interest elections may be applicable in some cases. These benefits have been improved and expanded over the history of the program.

The surviving spouse (or dependent children, if there is no surviving spouse or if the spouse subsequently dies) of a reservist who dies in the line of duty while performing IDT service is entitled to an SBP annuity. For payments prior to December 23, 2016, the annuity is based on the reservist's years of service. Effective December 23, 2016, the annuity is based on assuming the reservist retired with full disability and elected full SBP on the day of death.

SBP annuities may be reduced by VA survivor benefits (DIC), and all premiums relating to the reductions are returned to the survivor. The FY 2008 NDAA enacted, and subsequent legislation extended, a temporary Special Survivor Indemnity Allowance (SSIA) that pays a monthly amount to survivors with a DIC offset (or the amount of the DIC offset, if less than the SSIA). The FY 2018 NDAA extended this allowance to a permanent benefit with annual cost-of-living adjustments. For calendar year 2021, the SSIA paid a monthly amount of \$327. The FY 2020 NDAA repealed the DIC offset, phasing it out over three years starting in calendar year 2021. During 2021, SBP benefits for survivors will be subject to an offset equal to the lesser of their SBP pay and two-thirds of their DIC award. In 2022, the offset will be no more than one-third of their DIC award, and effective January 1, 2023, there will not be any offset to SBP pay from a DIC award.

As a result of the "Sharp Case" ruling, the SBP benefit of survivors with entitlement to both DIC and SBP who remarry after age 57 is not reduced by DIC benefits received.

As with retired pay, SBP annuities and premiums are increased annually with COLAs. These COLAs are either full or partial CPI increases, depending on the benefit formula covering the member. If a member who elected

## Management's Discussion and Analysis

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the CSB dies before the age of 62, the survivor's benefit is subject to partial COLAs and his/her annuity is increased, on what would have been the member's 62nd birthday, to the amount that would have been payable had full COLAs been in effect. Partial COLAs continue annually thereafter.

For reserve retirees, the retired pay reductions applicable under SBP take effect for survivor coverage after a reservist turns 60 (or earlier if they have certain active service) and begins to receive retired pay. The Reserve Component Survivor Benefit Plan (RCSBP) provides annuities to survivors of reservists who die before age 60 (or earlier if they have certain active service) provided they attained 20 years of qualified service and elected to participate in the program (or were within their 90-day election window after receiving a letter confirming 20 years of credible service). However, if the death occurs either on active or inactive duty as described above, the survivor receives an annuity under SBP. The added cost of RCSBP is borne completely by reservists through deductions from future retired pay.

Beginning October 1, 2008, a "paid-up" provision eliminated the reduction in retired pay for premiums for SBP, RCSBP, and RSFPP coverage for participants age 70 or older whose retired pay has been reduced for at least 360 months.

SBP premiums for members who elect lump sums under BRS will be equivalent to what they would have been without the lump sum, and consequently, the survivors' annuities will be equivalent to what they would have been without the lump sum. The maximum base amount will be equal to unreduced retired pay (i.e., ignoring the lump sum), premiums will be deducted only from monthly retired pay received, and SBP benefits will commence upon the retiree's death.

As of September 30, 2021, there were approximately 323,000 survivors of military members receiving approximately \$4.30 billion in annuity and/or SSIA payments. As of September 30, 2020, there were approximately 312,000 survivors of military members receiving approximately \$3.85 billion in annuity and/or SSIA payments.

### ***Temporary Early Retirement Authority (TERA)***

The FY 1993 NDAA (P.L. 102-484) granted temporary authority for the military services to offer early retirements to members with more than 15 but less than 20 years of service. The retired pay was calculated in the usual way, except that there was a reduction of 1% for every year below 20 years of service. Part or all of this reduction can be restored at age 62 if the retired member works in a qualified public service job during the period from the date of retirement to the date on which the retiree would have completed 20 years of service. Unlike members who leave military service before 20 years with Voluntary Separation Incentives or Special Separation Benefits, these early retirees are generally treated like regular military retirees for the purposes of other retirement benefits. This authority originally expired on September 1, 2002.

The FY 2012 NDAA (P.L. 112-81) reinstated TERA from January 2012 through December 2018, but without the qualified public service provision. The FY 2017 NDAA further extended TERA through December 2025. These reinstatements of TERA are on a much smaller scale than the FY 1993 authority.

As of September 30, 2021, there were approximately 70,000 TERA retirees receiving approximately \$1.36 billion in annualized retired pay. For comparison, as of September 30, 2020 there were approximately 70,000 TERA retirees receiving \$1.32 billion in annualized retired pay.

## Management's Discussion and Analysis

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### *Cost-of-Living Increase*

All non-disability retirement, disability retirement, and most survivor annuities are adjusted annually for inflation. COLAs are automatically scheduled to occur every 12 months, on December 1, to be reflected in checks issued at the beginning of January.

The "full" COLA, effective December 1, is computed by calculating the percentage increase in the average CPI from the third quarter of the prior calendar year to the third quarter of the current calendar year. The increase is based on the Urban Wage Earner and Clerical Worker Consumer Price Index (CPI-W) and is rounded to the nearest tenth of one percent. Many members receive a "partial" COLA on December 1 of their first year of retirement to reflect the fact that they were not retired for the full year. Members under the Final Pay benefit system may receive an additional one-time COLA adjustment in the first year of retirement to reflect the fact that an earlier retirement date would have been beneficial for them.

The benefits of retirees (and most survivors) are increased annually with the full COLA, with one exception for those first entering the armed services on or after August 1, 1986, who elect the \$30,000 CSB. Their benefits are increased annually with a partial COLA equal to the full COLA minus 1% (except if the full COLA is less than or equal to 1%). A one-time restoration is given to a partial COLA recipient on the first day of the month after the retiree's 62nd birthday. At this time, retired pay (or the survivor benefit, if the retiree is deceased) is increased to the amount that would have been payable had full COLAs been in effect. Annual partial COLAs continue after this restoration. Note that the FY 2016 NDAA sunsets the CSB/Redux benefit tier by not allowing any CSB elections after December 31, 2017.

## FUND RELATIONSHIPS

### *Department of Veterans Affairs Benefits*

The VA provides compensation for Service-connected and certain non-Service-connected disabilities. These VA benefits can be in place of or in combination with DoD retired pay, but through December 31, 2003, were not fully additive. Since VA benefits are exempt from federal income taxes, it is often to the advantage of a member to elect them. Through calendar year 2003, retired pay earned from the DoD for military service was offset by any payment received from VA for a VA-rated disability. Beginning with NDAA 2004 (P.L. 108-136), a series of legislation has been enacted that increasingly reduces or eliminates the offset to military retired pay due to receipt of VA disability compensation. Members with a combined VA disability rating of 50% or greater who have at least 20 years of service have their offset eliminated under the Concurrent Retirement and Disability Pay (CRDP) program. Members whose disability meets certain combat-related criteria can elect to receive payments against the offset under the CRSC program. Under CRSC, members are not subject to a phase-in schedule, are not required to have at least 20 years of service, and are not required to have at least a 50% VA disability rating. Although CRSC amounts are calculated based on retired pay lost due to offset and are paid from the MRF, CRSC is not technically considered retired pay. CRSC payments are tax exempt. A member may not participate in both the CRDP and CRSC programs simultaneously, but may change from one to the other during an annual "open season."

For members who elect lump sums under BRS and qualify for VA disability compensation: (1) if the member is not eligible for CRDP or CRSC, the VA will withhold disability payments until the amount withheld equals the lump sum amount, after which VA disability payments, as an offset to retired pay, may be paid; (2) if the member is eligible for CRDP, no withholding of VA disability payments is required, and the retiree may receive VA disability compensation and retired pay without offset; and (3) if eligible for CRSC, the procedures for withholding VA disability payments are more complicated and relate to the portion of the total VA entitlement considered combat-related.

## Management's Discussion and Analysis

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VA benefits also overlap survivor benefits through the DIC program. DIC is payable to survivors of veterans who die from Service-connected causes. Although SBP annuities are generally reduced by the amount of any DIC benefit, all SBP premiums relating to the reduction in benefits are returned to the survivor. The FY 2008 NDAA enacted, and subsequent legislation extended, a temporary SSIA that pays a monthly amount to survivors with a DIC offset (or the amount of the DIC offset, if less than the SSIA). The FY 2018 NDAA extended this allowance to a permanent benefit with annual cost-of-living adjustments. For calendar year 2021, the SSIA paid a monthly amount of \$327. The FY 2020 NDAA repealed the DIC offset, phasing it out over three years starting in calendar year 2021. During 2021, SBP benefits for survivors will be subject to an offset equal to the lesser of their SPB pay and two-thirds of their DIC award. In 2022, the offset will be no more than one-third of the DIC award, and effective January 1, 2023, there will not be any offset to SPB pay from a DIC award.

As a result of the “Sharp Case” ruling, the SBP benefit of survivors with entitlement to both DIC and SBP who remarry after age 57 is not reduced by DIC benefits received.

As of September 2021, there were approximately 753,000 CRDP members and 96,000 CRSC members. These members were receiving an additional annualized amount of \$17.12 billion and \$1.17 billion, respectively. As of September 2021, there were 67,000 survivors receiving annualized SSIA benefits of \$269 million.

### *Interrelationships with Other Federal Service*

For military retirement purposes, no credit is given for other federal service, except for TERA and where cross-service transferability is allowed. Military service is generally creditable toward the federal civilian retirement systems if military retired pay is waived. However, a deposit (equal to a percentage of post-1956 basic pay) must be made to the Civil Service Retirement and Disability Fund in order to receive credit. Military service is not generally creditable under both systems (but is for reservists and certain disability retirees). Military retirees may qualify separately for Civil Service retirement and receive concurrent pay from both systems.

### *Retired Pay to Military Compensation*

Basic pay is the only element of military compensation upon which non-disability retired pay is based and entitlement is determined. Basic pay is the principal element of military compensation that all members receive, but it is not representative, for comparative purposes, of salary levels in the public and private sectors. Reasonable comparisons can be made to regular military compensation (RMC). RMC is the sum of (1) basic pay, (2) the housing allowance, which varies by grade, location, and dependency status, (3) the subsistence allowance, and (4) the tax advantages accruing to the housing and subsistence allowances because they are not subject to federal income tax. Basic pay represents approximately 70% of RMC for all retirement eligible members. For the 20-year retiree, basic pay is approximately 67% of RMC. Consequently, a member retired with 20 years of service if entitled to 50% of basic pay, would only receive approximately 34% of RMC. Further, such 20-year retirees (except for those who first entered service prior to September 8, 1980) receive a percentage (50%, or 40% for those under CSB/Redux or BRS) of their High 36-month average of basic pay, typically less than final basic pay. For a 30-year retiree, basic pay is approximately 73% of RMC and such members if entitled to 75% of basic pay, would only receive 55% of RMC. Again, note that most members currently retiring with 30 years will actually receive a percentage (75%, or 60% for those under BRS) of their high 36-month average, rather than of their final basic pay. P.L. 109-364 allows certain members, who retire on or after January 1, 2007 with sufficient years of service (greater than 37.5 years under BRS and 30 years under the other benefit formulas), to retire with entitlements exceeding 75% of their High 36-month average of basic pay. These relationships should be considered when military retired pay is compared to compensation under other retirement systems.

## Management's Discussion and Analysis

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### *Social Security Benefits*

Many military members and their families receive monthly benefits indexed to the CPI from Social Security. As full participants in the Social Security system, military personnel are generally entitled to the same benefits and are subject to the same eligibility criteria and rules as other employees. Details concerning these benefits are covered extensively in other publications.

Beginning in 1946, Congress enacted a series of amendments to the Social Security Act that extended some benefits to military personnel and their survivors. These "gratuitous" benefits were reimbursed out of the general fund of the U.S. Treasury. The Servicemen's and Veterans' Survivor Benefits Act brought members of the military into the contributory Social Security system effective January 1, 1957.

For the Old Age, Survivors, and Disability Insurance (OASDI) program, military members must contribute the employee portion of the OASDI payroll tax, with the Federal Government contributing the matching employer contribution. Only the basic pay of a military member constitutes wages for Social Security purposes. One feature of OASDI unique to military personnel grants a noncontributory wage credit of (i) \$300 for each quarter between 1956 and 1978 in which such personnel received military wages, and (ii) up to \$1,200 per year after 1977 (\$100 of credit for each \$300 of wages, up to a maximum credit of \$1,200). The purpose of this credit is to take into account elements of compensation, such as quarters and subsistence, not included in wages for Social Security benefit calculation purposes. Under the 1983 Social Security amendments, the cost of the additional benefits resulting from the noncontributory wage credits for past service was met by a lump sum payment from general revenues, while the cost for future service will be met by payment of combined employer-employee tax on such credits as the service occurs. Payments for these wage credits ended in 2002.

Members of the military are also required to pay the Hospital Insurance payroll tax, with the Federal Government contributing the matching employer contribution. Medicare eligibility occurs at age 65, or earlier if the employee is disabled.

### **SIGNIFICANT CHANGES**

#### *From FY 2020 to FY 2021*

Changes in the MRF valuation during FY 2021 included:

- 1) Updated noneconomic assumptions approved by the DoD Board of Actuaries at their July 2021 meeting for use in the September 30, 2021 MRF valuation, including: (a) mortality improvement modifications, (b) updated pre-retirement decrement rates for active duty members, (c) updated pre-retirement decrement rates for reserve duty members, and (d) adding Coast Guard experience in the development of the active and reserve duty pre-retirement decrement rates; and
- 2) New economic assumptions due to the Federal Accounting Standards Advisory Board (FASAB) financial reporting Statement of Federal Financial Accounting Standards 33 (SFFAS No. 33), discussed further in Note 13, *Federal Employee and Veteran Benefits Payable*.

Item (2) is classified as an assumption change in the actuarial valuation. SFFAS No. 33 requires the use of a yield curve based on marketable Treasury securities to determine the interest rates used to calculate actuarial liabilities for federal financial statements. Historical experience is the basis for expectations about future trends in marketable Treasury securities, as well as COLA and salary. The yield curve was provided by the Treasury Office of Economic Policy. Item (2) is prescribed and therefore the resulting economic assumptions will be different than those assumed by the DoD Board of Actuaries for statutory funding calculations.

## Management's Discussion and Analysis

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### *For FY 2022 and Beyond*

The FY 2021 National Defense Authorization Act (NDAA) requires the U.S. Coast Guard (USCG) be covered by the MRF no later than the beginning of FY 2023. The USCG actuarial liability will be included on the September 30, 2022, MRF financial statements, and the first initial unfunded liability amortization payment scheduled to be made on October 1, 2022.

In the current fiscal climate, it is difficult to predict changes for any particular year. In the coming fiscal years, the potential benefit and assumptions changes with respect to the MRF include:

- 1) Further BRS legislative and policy refinements;
- 2) Continued review of economic assumptions pursuant to SFFAS No. 33;
- 3) Continued review of non-economic assumptions, including the potential effect of SARS-CoV-2 Coronavirus Disease (COVID-19) on future mortality experience and decrements;
- 4) Adding PHS and NOAA to the MRF; and
- 5) Additional Concurrent Receipt enhancements.

OACT will propose updates to the actuarial assumptions underlying the valuation of the MRS to more accurately reflect emerging plan experience as changes are implemented, in addition to the ongoing assumptions/parameter review conducted annually each year.

### **PERFORMANCE MEASURES**

MRF made disbursements to approximately 2.333 million retirees and annuitants in September 2021, and to 2.316 million retirees and annuitants in September 2020.

There are many ways to measure the performance of a pension plan. Table 3 depicts a few common measures, specifically 1) Percent Funded, 2) Asset-to-Annuitant Liability Ratio, and 3) Effective Fund Yield. The last twelve years are shown below.



**TABLE 3**  
**MILITARY RETIREMENT SYSTEM**  
**PERFORMANCE MEASURES**

As of Sept. 30,	Percent Funded	Asset-to-Annuitant Liability Ratio	Effective Fund Yield
2021	57.2%	93.4%	5.3%
2020	54.6	89.5	2.3
2019	51.1	82.6	3.0
2018	50.3	82.2	3.8
2017	46.5	75.8	2.9
2016	44.3	71.8	2.3
2015	38.5	63.6	1.8
2014	34.9	57.9	3.2
2013	31.8	53.5	3.1
2012	29.0	49.2	2.9
2011	27.3	46.2	4.9
2010	25.6	43.2	3.2

**Notes:**

- Percent Funded computed as total assets (from Balance Sheet) to actuarial accrued liability.
- Asset-to-Annuitant Liability Ratio computed as total assets (from Balance Sheet) to present value of future benefits for the annuitant population.
- Effective Fund Yield is the approximate fund yield over the course of the associated fiscal year.
- The MRF is invested solely in intragovernmental U.S. Treasury securities, with constraints to hold securities until maturity and invest with the primary objective of meeting the cash flow needs of the Fund. Therefore, the above measures should be used with caution when compared with other retirement funds and cited in the appropriate context.

**PROJECTED LONG-TERM HEALTH OF THE FUND**

The projected long-term health of the MRF is adequate due to the fact that it has three different sources of funding. The first two sources are:

- 1) Annual payments from Treasury to amortize the unfunded liability and pay the normal cost of the concurrent receipt benefits; and
- 2) Monthly normal cost payments from the Services to pay for the current years’ service cost.

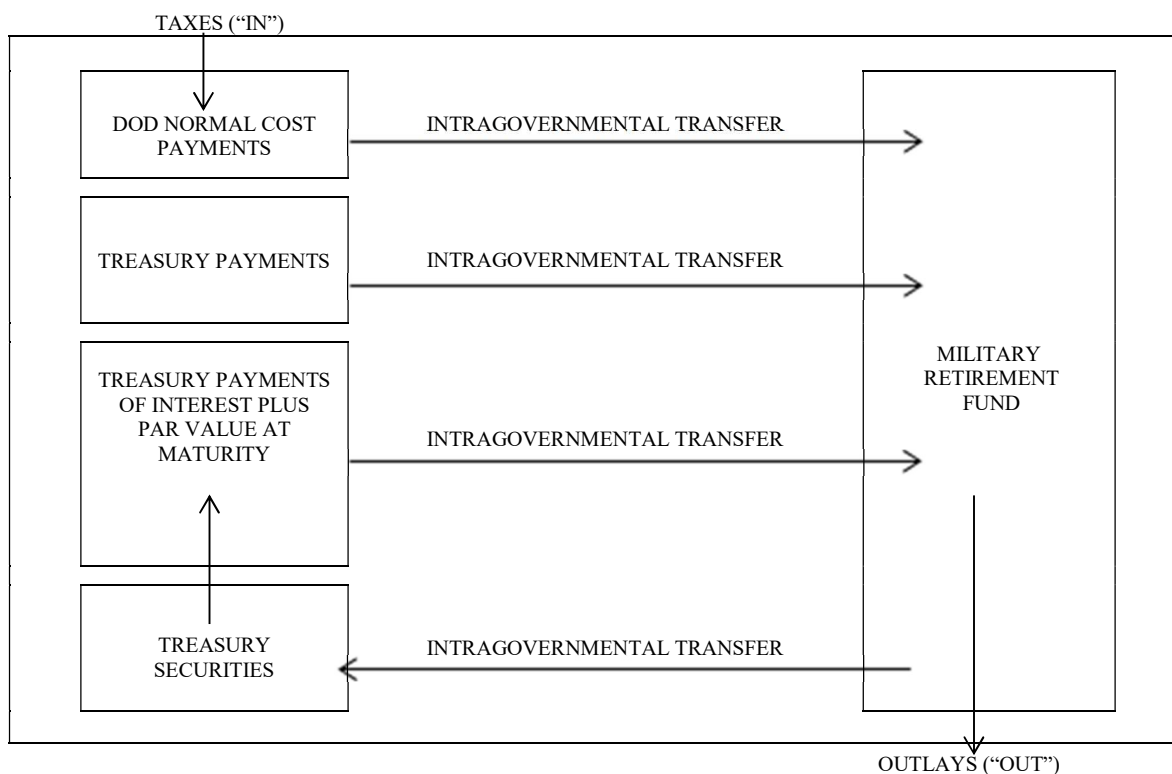
The third source of funding, earnings on investments, is projected to be an increasing contribution to the MRF due to an increasing fund balance. All three of these sources can be considered secure sources of funding, backed by the full faith and credit of the U.S. Government.

MRF investment policy mandates that securities will be held to maturity. Occasionally, however, securities in the portfolio are liquidated prior to their stated maturity date. MRF has the authority to sell all or part of a security early to meet cash flow/benefit payment requirements. Historically, MRF holds cash in overnight securities in an amount equal to approximately 110% of the following month’s benefit. During FY 2021 and FY2020, all securities were held to maturity.

## *Unified Budget of the Federal Government*

The MRF was created inside the Unified Budget of the Federal Government for the monies of the MRS. All three sources of fund income are intragovernmental transactions consisting of transfers from one government account to another. The only transactions in a particular year directly affecting the deficit of the Unified Budget are those passing in or out of the government, such as tax collections (“in”) and beneficiary payments (“out”). The intragovernmental transfers are debits and credits within the federal budget, with no direct effect on the deficit. Just as in the pay-as-you-go method, the only transactions directly affecting the deficit in the retirement system accounting process are payments to retirees and survivors (i.e. outlays/payments). The purchase of securities by the Fund does increase the national debt, specifically the portion of the debt held by the government – the portion held by the public does not change (see Figure 1).

**FIGURE 1  
UNIFIED BUDGET**



However, funding does have an effect on the DoD budget. With the normal cost payments (except for Concurrent Receipt) included in the DoD budget, policymakers now consider the impact on future retirement costs when they make manpower decisions, which could have a significant impact on future federal budgets. For example, if a decision were made today to double the size of the active duty and reserve forces, the DoD budget would automatically have an immediate increase in retirement obligations. Under the pay-as-you-go system, the retirement expenses would not necessarily be considered in the initial decision since they would not show up for 20 years, generally.

The fact that MRF costs are recognized in advance provides greater benefit security over the long term. Also, when there is a retirement fund, the MRS is not as dependent on obtaining the necessary appropriation from Congress each year in order to pay benefits for that year. This can provide additional benefit security. As such, the existence of the Fund promotes a high degree of “psychological security” for plan participants

## Management's Discussion and Analysis

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### *20-Year Projection*

Table 4 presents a projection of contributions to and disbursements from the MRF. It includes the dollar amounts as a percentage of payroll. The Fund is projected to remain solvent over the 20-year projection period. Further, as long as the funding sources continue making the required payments to the MRF in a timely fashion, the Fund is projected to remain solvent well beyond the 20-year projection horizon.

The following projections were made for FY 2021:

- Basic pay for FY 2021 was projected to be \$74.7 billion.
- Normal cost payments were projected to be \$35.1 billion.
- The unfunded liability amortization payment was projected to be \$98.1 billion.
- Investment income was projected to be \$51.9 billion.
- Fund disbursements for FY 2021 were projected to be \$64.0 billion.

**TABLE 4**  
**MILITARY RETIREMENT SYSTEM**  
**PROJECTED FLOW OF PLAN ASSETS**  
**(In Billions of Dollars and as a Proportion of Payroll)**

Fiscal Year	Basic Payroll	Normal Cost Payments	Amortization of Unfunded Liability	Investment Income	Fund Disbursements	Fund Balance End of Year
2022	\$77.2	\$36.7	(0.475)	\$114.5	(1.483)	\$51.0 (0.661) \$65.2 (0.845) \$1,231.8 (15.956)
2023	\$80.7	\$38.7	(0.480)	\$116.7	(1.446)	\$57.0 (0.706) \$67.1 (0.831) \$1,377.1 (17.063)
2024	\$82.1	\$39.1	(0.476)	\$119.9	(1.460)	\$63.2 (0.770) \$69.0 (0.840) \$1,530.2 (18.638)
2025	\$83.6	\$39.6	(0.474)	\$123.2	(1.474)	\$69.9 (0.836) \$70.9 (0.848) \$1,691.9 (20.238)
2026	\$85.2	\$40.0	(0.469)	\$126.5	(1.485)	\$76.9 (0.903) \$72.9 (0.856) \$1,862.5 (21.860)
2027	\$86.9	\$40.6	(0.467)	\$11.8	(0.136)	\$79.2 (0.911) \$74.8 (0.861) \$1,919.2 (22.085)
2028	\$88.6	\$41.1	(0.464)	\$12.2	(0.138)	\$81.6 (0.921) \$76.8 (0.867) \$1,977.3 (22.317)
2029	\$90.3	\$41.6	(0.461)	\$12.5	(0.138)	\$84.1 (0.931) \$78.8 (0.873) \$2,036.6 (22.554)
2030	\$92.0	\$42.2	(0.459)	\$12.8	(0.139)	\$86.6 (0.941) \$81.0 (0.880) \$2,097.2 (22.796)
2031	\$93.9	\$42.8	(0.456)	\$13.2	(0.141)	\$89.1 (0.949) \$83.3 (0.887) \$2,159.0 (22.993)
2032	\$95.8	\$43.5	(0.454)	\$13.6	(0.142)	\$91.7 (0.957) \$85.7 (0.895) \$2,222.1 (23.195)
2033	\$97.7	\$44.1	(0.451)	\$13.9	(0.142)	\$94.4 (0.966) \$88.1 (0.902) \$2,286.4 (23.402)
2034	\$99.7	\$44.8	(0.449)	\$14.3	(0.143)	\$97.1 (0.974) \$90.4 (0.907) \$2,352.2 (23.593)
2035	\$101.7	\$45.4	(0.446)	\$14.7	(0.145)	\$99.9 (0.982) \$92.8 (0.912) \$2,419.4 (23.790)
2036	\$103.7	\$46.1	(0.445)	\$15.1	(0.146)	\$102.7 (0.990) \$95.2 (0.918) \$2,488.2 (23.994)
2037	\$105.7	\$46.8	(0.443)	\$15.5	(0.147)	\$105.7 (1.000) \$97.7 (0.924) \$2,558.4 (24.204)
2038	\$107.7	\$47.5	(0.441)	\$16.0	(0.149)	\$108.6 (1.008) \$100.3 (0.931) \$2,630.2 (24.422)
2039	\$109.9	\$48.3	(0.439)	\$16.4	(0.149)	\$111.7 (1.016) \$102.9 (0.936) \$2,703.7 (24.601)
2040	\$112.2	\$49.1	(0.438)	\$16.8	(0.150)	\$114.8 (1.023) \$105.3 (0.939) \$2,779.2 (24.770)
2041	\$114.7	\$50.1	(0.437)	\$17.3	(0.151)	\$118.0 (1.029) \$107.8 (0.940) \$2,856.7 (24.906)

**Notes**

- The preceding projections assume a long-term 4.25% interest rate each year.
- The projections will vary in the short-term depending on the actual economic experience.
- Note that the above projection is based on FY 2020 MRF methods and assumptions for funding purposes.
- The above Fund Disbursements do not include the effect of NDAA 2011 (retired pay date change).

**Expected Problems**

There are no anticipated problems with respect to MRF that would require disclosure in the Management's Discussion and Analysis.

*Investments*

**FIGURE 2  
INVESTMENTS**

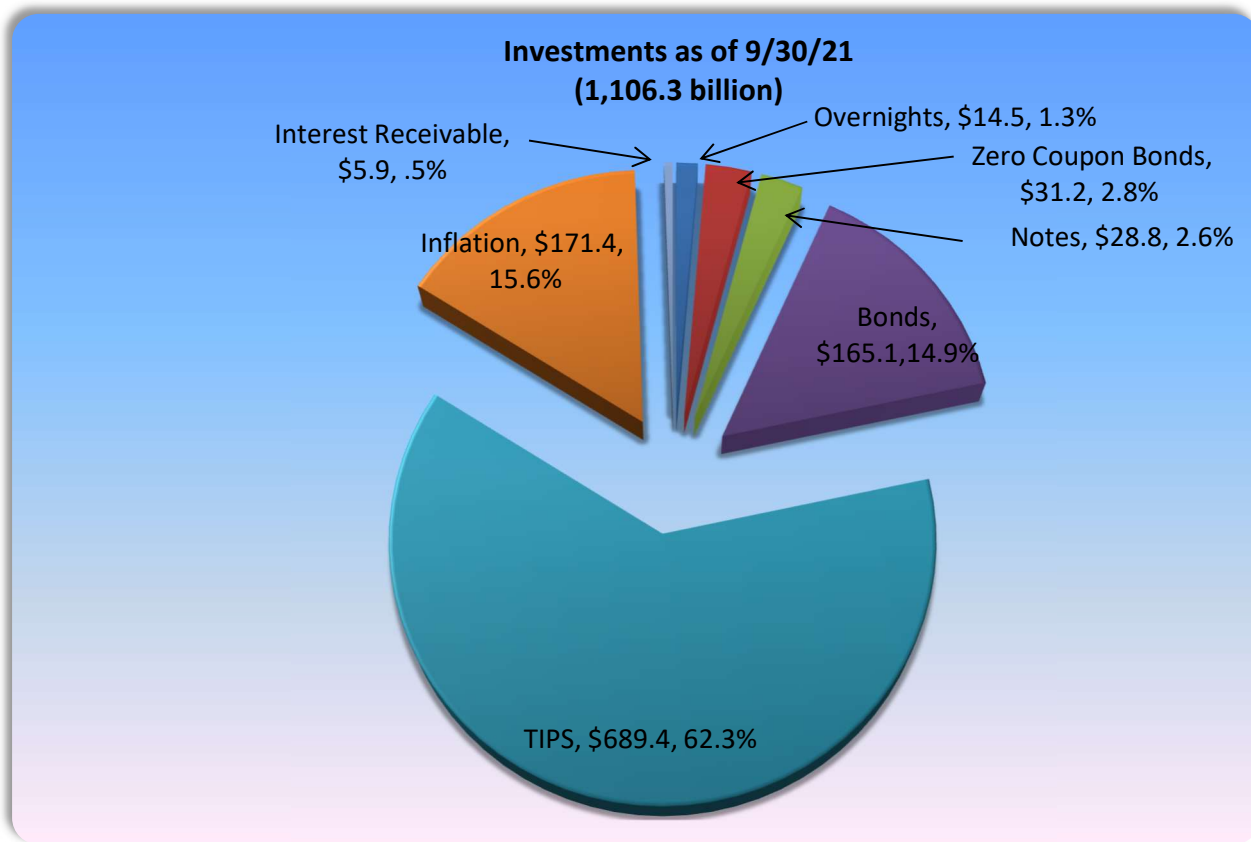


Figure 2 depicts the value (par, net of unamortized discount/premium) of investment holdings as of September 30, 2021.

***Management Oversight***

The Fund receives management oversight from the DoD Investment Board established in September 2003. The members of the Investment Board are the Director, DFAS; the Deputy CFO, OUSD(C); and a senior military member. The Investment Board meets twice each FY to consider investment objectives, policies, performance, and strategies with the goal of maximizing MRF's investment income. The Investment Board reviews MRF's law and Department of Treasury guidelines to ensure MRF complies with broad policy guidance and public law. At the September 24, 2021 meeting, the Investment Board approved the FY 2021 investments recommended by the Investment Advisory Committee (a group of military reservists whose civilian expertise is investing).

***Anticipated Changes between the Expected and Actual Investment Rate of Return***

The past decade-plus has seen increased volatility in interest rates and equity markets, increasing deficits, volatility in the markets with regard to energy prices, elevated states of international conflict, increasing sovereign debt levels, unusual central banking monetary policy, and various levels of economic growth. These items have been a catalyst in the on-going discussion of implementing strong U.S. fiscal control and monetary policy among politicians. Active political management of the U.S. debt and annual deficit may create an opportunity to purchase Treasury market securities at higher rates of interest in the future. Conversely, uneasy equity markets tend to push participants toward government securities causing downward pressure on interest rates. There has also been

## Management's Discussion and Analysis

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a movement among pension plan sponsors to increase pension plan investments in lower risk securities, driven by analysis of risk in relation to liabilities. The current MRF investment strategy is to maintain a portfolio allocation of 75%-90% U.S. Treasury Inflation-Protected Securities (TIPS) to partially hedge against any future inflation.

The Fund receives investment income from a variety of U.S. Treasury-based instruments such as bills, notes, bonds, overnight investment certificates, and zero coupon bonds. U.S. Treasury bills are short-term securities with maturities of less than one year issued at a discount. U.S. Treasury notes are intermediate securities with maturities of one to ten years. U.S. Treasury bonds are long-term debt instruments with maturities of greater than ten years. Overnight certificates are interest-based market securities purchased from the U.S. Treasury maturing the next business day and accrue interest based on the Federal Reserve Bank of New York survey of Reserve repurchase agreement rates. U.S. Treasury zero-coupon bonds are fixed-principal bonds having maturities of at least five years and are purchased at a discount.

The Fund also invests in TIPS. TIPS are fixed-rate instruments designed to protect against inflation, with the principal amount indexed to the CPI by adjusting the CPI at issuance to the current CPI. As inflation increases, so does the principal amount.

**FINANCIAL PERFORMANCE OVERVIEW**

*Financial Data*

Table 5 presents significant changes in the comparative financial statement information for the MRF.

**TABLE 5  
MILITARY RETIREMENT FUND  
ANALYSIS OF FINANCIAL STATEMENTS**

For the Years Ended September 30, 2021 and 2020

(\$ in Thousands)	<u>2021</u>	<u>2020</u>	<u>Difference</u> Increase / (Decrease)	<u>%</u> Change
<b><i>BALANCE SHEET</i></b>				
Intragovernmental:				
Investments	\$1,106,264,905	\$979,210,403	\$127,054,502	13%
Accounts Receivable, Net	\$159,896	\$147,107	\$12,789	9%
Liabilities not covered by Budgetary Resources <sup>1</sup>	\$920,627,316	\$901,675,521	\$18,951,795	2%
Federal Employee and Veteran Benefit Payable	\$1,933,646,716	\$1,799,172,254	\$134,474,462	7%
<b><i>STATEMENT OF NET COST</i></b>				
Net Cost of Operations	\$7,406,893	(\$42,484,591)	\$49,891,484	(117%)

<sup>1</sup> included as a component of the line titled "Federal Employee and Veteran Benefits Payable"

**BALANCE SHEET**

**Investments and Related Interest  
Intragovernmental Securities**

Total Intragovernmental Securities, Net Investments increased \$127.1 billion (13%) primarily due to the MRF purchase of \$100.0 billion in additional securities in October of 2020, the purchase of \$2.0 billion in March of 2021 and the Overnight security balance of \$14.5 billion. Offset by the maturity of \$12.1 billion in securities in June 2021. The increase is due to normal growth in the MRF from U.S. Treasury and Military Services contributions. The annual investment of these funds has a cumulative effect with an expectation that invested balances will continue growing to cover future benefits.

**Accounts Receivable, Net**

Nonfederal Accounts Receivable increased \$12.8 million (9%) primarily due to an increase of \$5.3 million in Annuity debt principal. An upward trend is normal, as new debts are established faster than old debts are

## Management's Discussion and Analysis

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eliminated through repayment agreements and/or write-offs. Additionally, system changes that expedite the cost refund process (which accounts for many annuity pay debts) and efforts to reduce a backlog in annuity pay cases have led to an increase in receivables. The increase in Nonfederal A/R is offset by a decrease of \$8.5 million in Allowance for Loss on Accounts Receivables, the overall allowance percentage used for non-CCP debts, which is calculated based on a three-year average of the ratio of write-offs to delinquent receivables, decreased, which caused the MRF to recognize more of its Nonfederal A/R balance as collectable.

### Liabilities Not Covered by Budgetary Resources

Total Liabilities Not Covered by Budgetary Resources increased \$19.0 billion (2%). This change is due to an increase of \$134.5 billion in Federal Employee and Veteran Benefits Payable, offset by an increase of \$115.5 billion in net receipts that are available to pay future benefits. Net receipts are comprised of contributions, interest income, and outlays. See Note 13, Federal Employee and Veteran Benefits Payable, for additional information about these changes.

### Federal Employee and Veteran Benefits Payable

The Federal Employee and Veteran Benefits liability, comprised of the actuarial liability plus the liability for benefits due and payable, increased \$134.5 billion (7%). Each year the actuarial liability is expected to increase with the normal cost, decrease with benefit outlays, and increase with the interest cost, resulting in an expected increase of \$32.9 billion in FY 2021. The September 30, 2021, actuarial liability also included changes due to revised actuarial assumptions and experience. The net effect of these changes was an increase of \$101.5 billion. The MRF actuarial liability is adjusted at the end of each fiscal year. The 4th quarter, FY 2021 balance represents the September 30, 2021 amount that will be effective through 3rd quarter, FY 2022.

### STATEMENT OF NET COST

Net Cost of Operations decreased \$49.9 billion (117%) primarily due to an Earned Revenue increase of \$45.4 billion (31%). The Earned Revenue increase is comprised of an increase in Interest Revenue of \$34.3 billion, an increase in contributions received by the fund of \$6.2 billion in the unfunded liability amortization payment from Treasury and 4.8 billion from Treasury concurrent receipts and service contributions. The Treasury contribution amounts are determined by the DoD Office of the Actuary (OACT), and the contributions made by the Military Services are a factor of base pay times the normal cost percentage rate determined by the OACT.



**FIGURE 3  
TOTAL ASSETS**

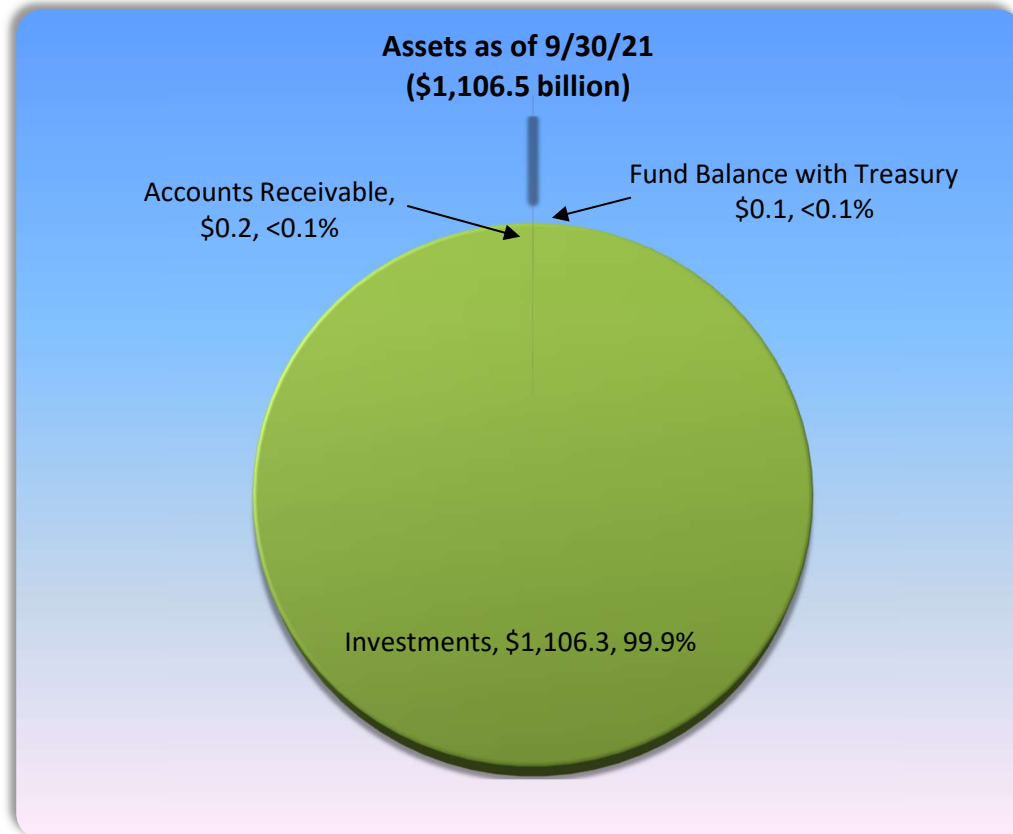


Figure 3 depicts the value of significant assets as of September 30, 2021.

***Assets***

Assets of \$1,106.5 billion shown in Figure 3 represent amounts that the MRF owns and manages. Assets increased \$127.1 billion, or 12%, from the end of FY 2020 to the end of FY 2021. This increase is primarily due to the MRF purchase of \$100.0 billion in additional securities in October of 2020, the purchase of \$2.0 billion in March of 2021 and the Overnight security balance of \$14.5 billion. The increase in assets was offset by the maturity of \$12.1 billion in securities in June 2021. The net increase in investments is related to expected normal growth to cover unfunded portions of future military retirement benefits. Funds not needed to pay current benefits are invested in U.S. Treasury securities or invested in overnight securities, as necessary, to make future benefit payments.

**FIGURE 4  
TOTAL LIABILITIES**

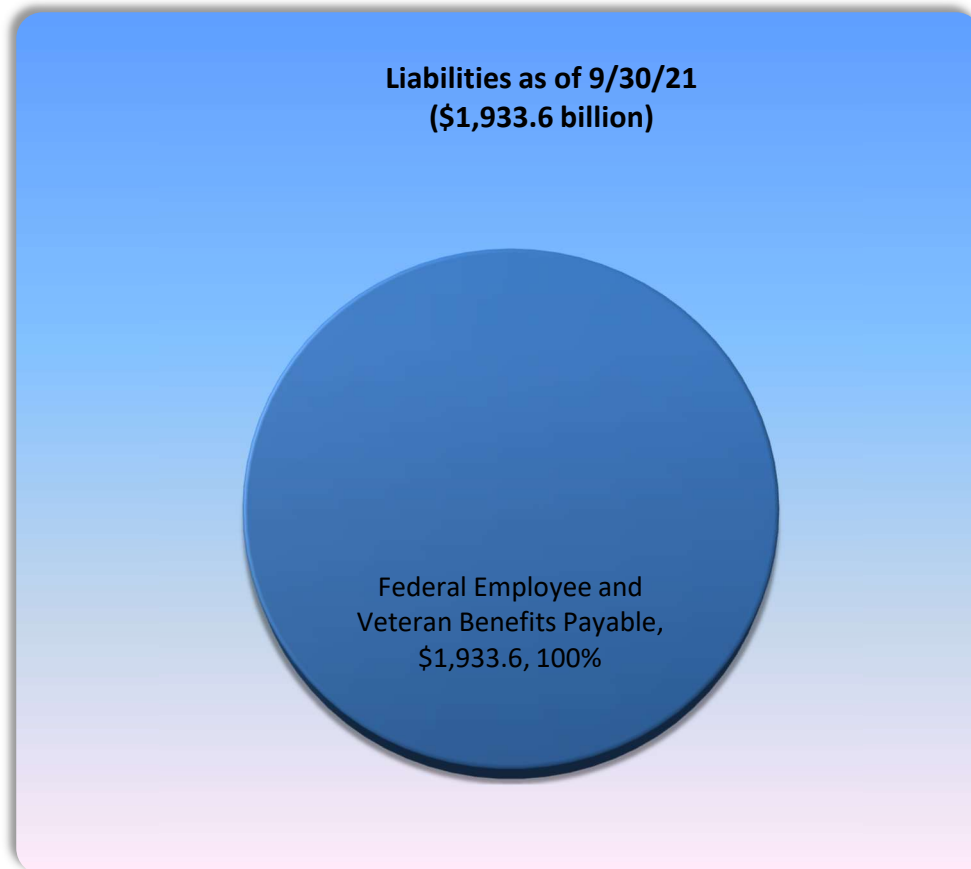


Figure 4 depicts the value of significant liabilities as of September 30, 2021.

***Liabilities***

Liabilities of \$1,933.6 billion shown in Figure 4 represent liabilities related to military retirement pension benefits. The liabilities of the MRF primarily consist of actuarial liability for future benefit payments. Liabilities increased \$134.5 billion, 7% from the end of FY 2020 to the end of FY 2021. This increase is attributable to the increase in the actuarial liability.

The MRF management is confident in the Fund's ability to meet its financial obligations. Of the \$1,933.6 billion in liabilities, approximately \$1,013 billion (52.4%) is covered primarily by investments in U.S. Treasury securities (Figure 5). While the liability presents a negative financial position, the majority of the unfunded portion will come from annual appropriations external to DoD ensuring benefits are paid regardless of available assets. The initial unfunded actuarial liability, \$529 billion in 1984, is being amortized over 42 years and is expected to be fully funded through U.S. Treasury contributions by FY 2026. The current investments, the interest received on the investments, and the amortization of the initial liability will provide sufficient funds to cover the financial obligations of the MRF.

**FIGURE 5  
FUNDED AND UNFUNDED LIABILITIES**

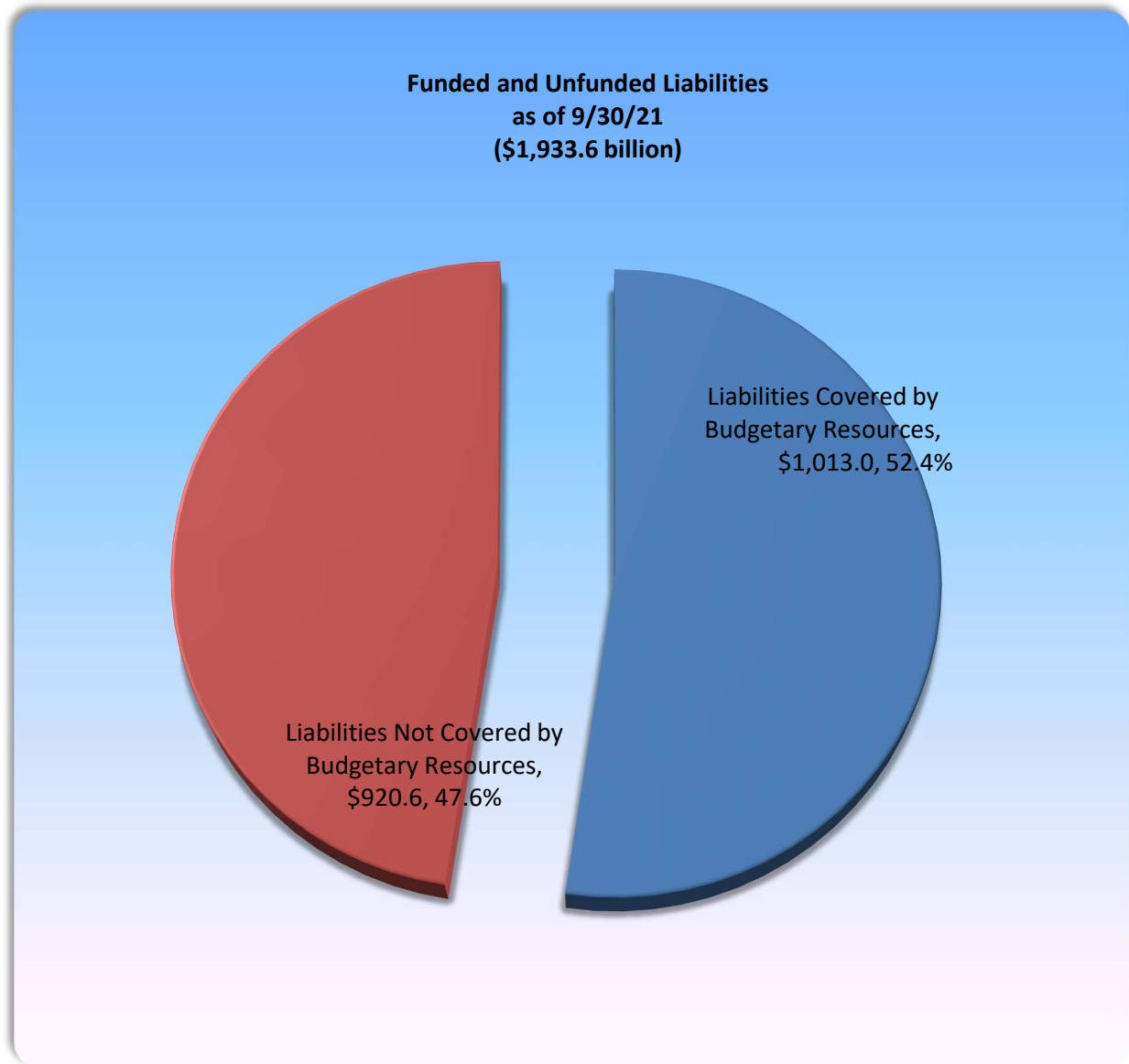


Figure 5 depicts the September 30, 2021, breakout of liabilities between those that are covered by budgetary resources and those that are not.

### **Analysis of Systems, Controls, and Legal Compliance**

Agencies are required to provide certain assurances as to the status and effectiveness of the internal controls and financial management systems that support the preparation of the financial statements. In the context of the MRF Management's Discussion and Analysis, DoD, and not MRF, represents the legislative definition of an Agency. Beginning with FY 2006, as directed in Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, Appendix A, *Internal Control over Financial Reporting*, the 24 CFO Act agencies (including DoD), are required to provide a separate assessment of the effectiveness of the internal controls over financial reporting as a subset of the overall Federal

## Management's Discussion and Analysis

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Managers Financial Integrity Act (FMFIA) assurance statement. Currently, DFAS and the DoD OACT provide Statements of Assurance for systems and controls relied upon in the day to day operation of MRF. Additionally, an overarching MRF Statement of Assurance was issued for FY 2021 by the Management Control Senior Responsible Official and Chair, MRF FMC. Procedures have been established to ensure adherence to the overarching statutory requirements of OMB Bulletin 21-04, "Audit Requirements for Federal Financial Statements" (defining requirements for conducting and submitting FMFIA assessments and reports) and OMB A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control" (defining management's accountability for internal control in Federal agencies).

During 2021, DFAS and OACT determined that the responsible MRF functions have effective internal controls to support effective and efficient programmatic operations and reliable financial reporting. The service providers are substantially compliant with applicable laws and regulations (FMFIA § 2). The current financial management system conforms to financial systems requirements and is substantially FMFIA compliant (FMFIA § 4).

Under the current management arrangement, DFAS and OACT are responsible for appropriately establishing and maintaining effective internal control and financial management systems meeting the objectives of the FMFIA, subject to MRF operation. They conducted a functional assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123. Based on the results of this evaluation, the service providers can assure that MRF can provide reasonable assurance that internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations for FY 2021 were operating effectively and no material weaknesses were found in the design or operation of the internal controls.

Additionally under the current management process, DFAS and OACT conducted assessments of the effectiveness of internal control over financial reporting, including safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of these evaluations, DFAS and OACT can assure that MRF can provide reasonable assurance that its internal control over financial reporting as of 3<sup>rd</sup> Quarter, FY 2021 were operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting.

### **LIMITATIONS OF THE FINANCIAL STATEMENTS**

These financial statements have been prepared to report the financial position and results of operations for the MRF pursuant to the requirements of the CFO Act of 1990. While the statements have been prepared from the books and records of MRF in accordance with the generally accepted accounting principles for federal entities and formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records. These statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. Unfunded liabilities reported in the financial statements cannot be liquidated without the enactment of an appropriation.

**DoD Transmittal of Auditor's Opinion**



**INSPECTOR GENERAL**  
DEPARTMENT OF DEFENSE  
4800 MARK CENTER DRIVE  
ALEXANDRIA, VIRGINIA 22350-1500

November 8, 2021

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF  
FINANCIAL OFFICER, DOD  
UNDER SECRETARY OF DEFENSE FOR PERSONNEL  
AND READINESS  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Transmittal of the Independent Auditor's Reports on the DoD Military  
Retirement Fund Financial Statements and Related Notes for FY 2021 and  
FY 2020 (Project No. D2021-D000FP-0087.000, Report No. DODIG-2022-029)

We contracted with the independent public accounting firm of Kearney & Company to audit the Military Retirement Fund Financial Statements and related notes as of and for the fiscal years ended September 30, 2021, and 2020. The contract required Kearney & Company to provide a report on internal control over financial reporting and compliance with provisions of applicable laws and regulations, contracts, and grant agreements, and to report on whether the Military Retirement Fund's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996. The contract required Kearney & Company to conduct the audit in accordance with generally accepted government auditing standards (GAGAS); Office of Management and Budget audit guidance; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual," June 2018, Volume 1 (Updated, April 2020), Volume 2 (Updated, March 2021), and Volume 3 (Updated, September 2021). Kearney & Company's Independent Auditor's Reports are attached.

Kearney & Company's audit resulted in an unmodified opinion. Kearney & Company concluded that the Military Retirement Fund FY 2021 and FY 2020 Financial Statements and related notes as of and for the fiscal years ended September 30, 2021, and 2020, are presented fairly in all material respects, in conformity with Generally Accepted Accounting Principles.

Kearney & Company's separate report, "Independent Auditor's Report on Internal Control Over Financial Reporting," did not identify any material weaknesses related to

## DoD Transmittal of Auditor's Opinion

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the Military Retirement Fund's internal controls over financial reporting.\* Kearney & Company's additional report, "Independent Auditor's Report on Compliance With Laws, Regulations, Contracts, and Grant Agreements," did not identify any instances of noncompliance with laws, regulations, contracts, or grant agreements.

In connection with the contract, we reviewed Kearney & Company's reports and related documentation and discussed them with Kearney & Company's representatives. Our review, as differentiated from an audit of the financial statements and related notes in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the Military Retirement Fund FY 2021 and FY 2020 Financial Statements and related notes. Furthermore, we do not express conclusions on the effectiveness of internal control over financial reporting, on whether the Military Retirement Fund's financial systems substantially complied with Federal Financial Management Improvement Act of 1996 requirements, or on compliance with provisions of applicable laws and regulations, contracts, and grant agreements. Our review disclosed no instances where Kearney & Company did not comply, in all material respects, with GAGAS. Kearney & Company is responsible for the attached November 8, 2021 reports, and the conclusions expressed within the reports.

We appreciate the cooperation and assistance received during the audit. Please direct questions to me.



Lorin T. Venable, CPA  
Assistant Inspector General for Audit  
Financial Management and Reporting

**Attachments:**

As stated

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\* A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting that results in a reasonable possibility that management will not prevent, or detect and correct, a material misstatement in the financial statements in a timely manner.

**Independent Auditor's Report**





1701 Duke Street, Suite 500, Alexandria, VA 22314  
PH: 703.931.5600, FX: 703.931.3655, www.kearneyco.com

## INDEPENDENT AUDITOR'S REPORT

To the Under Secretary of Defense for Personnel and Readiness and Inspector General of the Department of Defense

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Military Retirement Fund (MRF), which comprise the balance sheets as of September 30, 2021 and 2020, the related statements of net cost and changes in net position, and the combined statements of budgetary resources (hereinafter referred to as the "financial statements") for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 21-04, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 21-04 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the MRF as of September 30, 2021 and 2020, and its net cost of operations, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis (MD&A) (hereinafter referred to as the "required supplementary information") be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by OMB and the Federal Accounting Standards Advisory Board (FASAB), who consider it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing it for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. Other Information, as named in the Agency Financial Report (AFR), is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements; accordingly, we do not express an opinion or provide any assurance on it.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards* and OMB Bulletin No. 21-04, we have also issued reports, dated November 8, 2021, on our consideration of the MRF's internal control over financial reporting and on our tests of the MRF's compliance with provisions of applicable laws, regulations, contracts, and grant agreements, as well as other matters for the year ended

## Independent Auditor's Report

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September 30, 2021. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance and other matters. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 21-04 and should be considered in assessing the results of our audits.

A handwritten signature in blue ink that reads "Kearney &amp; Company". The signature is written in a cursive, flowing style.

Alexandria, Virginia  
November 8, 2021



1701 Duke Street, Suite 500, Alexandria, VA 22314  
PH: 703.931.5600, FX: 703.931.3655, www.kearneyco.com

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Under Secretary of Defense for Personnel and Readiness and Inspector General of the Department of Defense

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 21-04, *Audit Requirements for Federal Financial Statements*, the financial statements of the Military Retirement Fund (MRF) as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the MRF's financial statements, and we have issued our report thereon dated November 8, 2021.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the MRF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the MRF's internal control. Accordingly, we do not express an opinion on the effectiveness of the MRF's internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 21-04. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

# Independent Auditor's Report

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We noted certain additional matters involving internal control over financial reporting that we will report to the MRF's management in a separate letter.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of the MRF's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 21-04 in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Kearney &amp; Company". The signature is written in a cursive, flowing style.

Alexandria, Virginia  
November 8, 2021



1701 Duke Street, Suite 500, Alexandria, VA 22314  
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## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS, REGULATIONS, CONTRACTS, AND GRANT AGREEMENTS**

To the Under Secretary of Defense for Personnel and Readiness and Inspector General of the Department of Defense

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 21-04, *Audit Requirements for Federal Financial Statements*, the financial statements of the Military Retirement Fund (MRF) as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the MRF's financial statements, and we have issued our report thereon dated November 8, 2021.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the MRF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and provisions referred to in Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions and did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the MRF. However, providing an opinion on compliance with those provisions was not an objective of our audit; accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 21-04.

The results of our tests of compliance with FFMIA disclosed no instances in which the MRF's financial management systems did not comply substantially with the Federal financial management systems requirements, applicable Federal accounting standards, or application of the United States Standard General Ledger (USSGL) at the transaction level.



## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 21-04 in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Kearney &amp; Company".

Alexandria, Virginia  
November 8, 2021

**FY 2021 Military Retirement Fund  
Principal Financial Statements**



# DoD MRF Principal Financial Statements

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**Department of Defense  
Military Retirement Fund  
Balance Sheets  
As of September 30, 2021 and 2020**

(\$ in Thousands)	2021	2020
<b>ASSETS (Note 2)</b>		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	\$ 74,566	\$ 75,301
Investments (Note 5)	1,106,264,905	979,210,403
Total Intragovernmental Assets	\$ 1,106,339,471	\$ 979,285,704
Other than intragovernmental/with the Public:		
Accounts Receivable, Net (Note 6)	159,896	147,107
Total Other than Intragovernmental/With the Public	\$ 159,896	\$ 147,107
<b>TOTAL ASSETS</b>	<b>\$ 1,106,499,367</b>	<b>\$ 979,432,811</b>
 <b>LIABILITIES (Note 11)</b>		
Intragovernmental:		
Other Liabilities (Note 15)	\$ 2,667	\$ 3,688
Total Intragovernmental Liabilities	\$ 2,667	\$ 3,688
Federal Employee and Veteran Benefits Payable (Note 13)	1,933,646,716	1,799,172,254
Other Liabilities (Note 15)	\$ 306	\$ 298
<b>TOTAL LIABILITIES</b>	<b>\$ 1,933,649,689</b>	<b>\$ 1,799,176,240</b>
Commitments and Contingencies (Note 17)		
 <b>NET POSITION</b>		
Cumulative Results of Operations –Funds from other than Dedicated Collections	\$ (827,150,322)	\$ (819,743,429)
<b>TOTAL NET POSITION</b>	<b>\$ (827,150,322)</b>	<b>\$ (819,743,429)</b>
 <b>TOTAL LIABILITIES AND NET POSITION</b>	 <b>\$ 1,106,499,367</b>	 <b>\$ 979,432,811</b>

# DoD MRF Principal Financial Statements

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**Department of Defense  
Military Retirement Fund  
Statements of Net Cost  
For the years ended September 30, 2021 and 2020**

(\$ in Thousands)	<u>2021</u>	<u>2020</u>
<b>Gross Program Costs (Note 19)</b>		
Military Retirement Benefits		
Actuarial Non Assumption Costs	\$ 80,290,138	\$ 55,067,245
Other Program Costs	<u>63,124,054</u>	<u>62,363,999</u>
Total Gross Costs	\$ 143,414,192	\$ 117,431,244
Less: Earned Revenue	<u>(190,107,587)</u>	<u>(144,715,842)</u>
Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	\$ <u>(46,693,395)</u>	\$ <u>(27,284,598)</u>
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits (Note 13)	\$ <u>54,100,288</u>	\$ <u>(15,199,993)</u>
<b>Net Cost of Operations</b>	\$ <u>7,406,893</u>	\$ <u>(42,484,591)</u>

## DoD MRF Principal Financial Statements

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**Department of Defense  
Military Retirement Fund  
Statements of Changes in Net Position  
For the years ended September 30, 2021 and 2020**

(\$ in Thousands)	<u>2021</u>	<u>2020</u>
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
Beginning Balances	\$ (819,743,429)	\$ (862,228,020)
Net Cost of Operations (+/-)	<u>7,406,893</u>	<u>(42,484,591)</u>
Net Change	<u>(7,406,893)</u>	<u>42,484,591</u>
Cumulative Results of Operations	<u>(827,150,322)</u>	<u>(819,743,429)</u>
<b>Net Position</b>	<u>\$ (827,150,322)</u>	<u>\$ (819,743,429)</u>

# DoD MRF Principal Financial Statements

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**Department of Defense  
Military Retirement Fund  
Statements of Budgetary Resources  
For the years ended September 30, 2021 and 2020**

(\$ in Thousands)	<u>2021</u>	<u>2020</u>
<b>BUDGETARY RESOURCES</b>		
Appropriations (discretionary and mandatory)	\$ <u>63,137,856</u>	\$ <u>62,378,792</u>
<b>Total Budgetary Resources</b>	\$ <u><u>63,137,856</u></u>	\$ <u><u>62,378,792</u></u>
 <b>STATUS OF BUDGETARY RESOURCES</b>		
New obligations and upward adjustments (total)	\$ <u>63,137,856</u>	\$ <u>62,378,792</u>
Total Budgetary Resources	\$ <u><u>63,137,856</u></u>	\$ <u><u>62,378,792</u></u>
 <b>Outlays, Net:</b>		
Outlays, net (total) (discretionary and mandatory)	\$ 63,053,820	\$ 62,286,153
Distributed offsetting receipts (-)	\$ <u>(98,106,000)</u>	\$ <u>(91,873,000)</u>
Agency Outlays, net (discretionary and mandatory)	\$ <u><u>(35,052,180)</u></u>	\$ <u><u>(29,586,847)</u></u>

**FY 2021 Military Retirement Fund Footnotes to the  
Principal Financial Statements**

### Note 1. Significant Accounting Policies

#### A. Reporting Entity

The Department of Defense (Department or DoD) includes the Office of the Secretary of Defense (OSD), Joint Chiefs of Staff (JCS), DoD Office of the Inspector General (DoD OIG), Military Departments, Defense Agencies, DoD Field Activities, and Combatant Commands, which are considered, and may be referred to as, DoD Components. The Military Departments consist of the Departments of the Army, the Navy (of which the Marine Corps is a component), and the Air Force (of which the Space Force is a component). The Military Retirement Fund (MRF) is a component of the Department's reporting entity for the purposes of consolidated and combined financial statements. The Department's Statement of Budgetary Resources is reported as combined while the remaining financial statements are consolidated.

#### B. Mission of the Reporting Entity

The mission of MRF is to accumulate funds to finance, on an actuarially sound basis, the liabilities of DoD military retirement and survivor benefit programs. The MRF is a program for the payment of pensions to retired military personnel, annuities to eligible survivors, and special compensation for certain disabled retirees.

#### C. Basis of Presentation

These financial statements have been prepared to report the financial position and results of MRF operations, as required by the Chief Financial Officers Act of 1990, as amended and expanded by the Government Management Reform Act of 1994, and other applicable legislation. To the extent possible, the financial statements have been prepared from the accounting records of the MRF in accordance with formats prescribed by Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*, and in accordance with U.S. Generally Accepted Accounting Principles (GAAP) for federal entities as prescribed by the Federal Accounting Standards Advisory Board. The financial statements account for all resources for which the MRF is responsible, unless otherwise noted.

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

#### D. Basis of Accounting

The MRF's financial management systems meet all full accrual accounting requirements. The MRF's accounting systems record transactions based on the U.S. Standard General Ledger. Financial and nonfinancial feeder systems and processes are updated from legacy systems to collect and report financial information as required by U.S. GAAP.

The financial statements and supporting trial balances are compiled from the underlying financial data and trial balances. The underlying data for the MRF is largely derived from budgetary transactions (obligations, disbursements, and collections) and proprietary transactions (assets and liabilities) and accruals made for major items such as pension liabilities.

#### E. Accounting for Intragovernmental and Intragovernmental Activities

The Treasury Financial Manual, Volume 1, Part 2-Chapter 4700 provides guidance for reporting and reconciling intragovernmental balances. The MRF is able to reconcile balances pertaining to investments in federal securities.

## DoD MRF Footnotes to the Principal Financial Statements

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### **F. Non-Entity Assets**

Non-entity assets are not available for use in the MRF's normal operations. The MRF has stewardship accountability and reporting responsibility for non-entity assets. An example of a non-entity asset is the amount of interest, penalties, and administrative charges to be collected by MRF on behalf of the U.S. Treasury.

For additional information, see Note 2, *Non-Entity Assets*.

### **G. Fund Balance with Treasury**

The MRF's monetary resources of collections and disbursements are maintained in U.S. Treasury accounts. The disbursing offices of DFAS process MRF's cash collections, disbursements, and adjustments worldwide. Each disbursing station prepares monthly reports that provide information to the U.S. Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits.

In addition, DFAS submits reports to the U.S. Treasury, by appropriation, on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records these transactions to the applicable Fund Balance with Treasury (FBWT) account. On a monthly basis, the MRF FBWT is reviewed and adjusted, as required, to agree with the U.S. Treasury accounts.

The U.S. Treasury allows MRF to be fully invested; therefore, FBWT may be zero at various times during the fiscal year. Controls are in place to prevent abnormal balances at the U.S. Treasury.

For additional information, see Note 3, *Fund Balance with Treasury*.

### **H. Cash and Other Monetary Assets**

Not Applicable

### **I. Investments and Related Interest**

The MRF reports investments in U.S. Treasury securities at cost, net of amortized premiums or discounts (book value). Premiums or discounts are amortized over the term of the investment using the effective interest rate method. The MRF's intent is to hold investments to maturity unless they are needed to finance claims or otherwise sustain operations. Consequently, there is no provision for unrealized gains or losses on these securities.

For additional information, see Note 5, *Investments and Related Interest*.

### **J. Accounts Receivable**

Accounts receivable from other federal entities or from the public include accounts receivable, claims receivable, and refunds receivable. Allowances for uncollectible accounts due from the public are based upon factors such as: aging of accounts receivable, debtor's ability to pay, and payment history during the previous three years. The MRF does not recognize an allowance for benefit contributions receivable from federal entities, as historically they are received in the following month within 30 days.

For additional information, see Note 6, *Accounts Receivable*.

### **K. Direct Loans and Loan Guarantees**

Not Applicable

### **L. Inventories and Related Property**

Not Applicable

### **M. General Property, Plant and Equipment**

Not Applicable

### **N. Other Assets**

Not Applicable

### **O. Leases**

Not Applicable

### **P. Liabilities**

Liabilities represent the probable future outflow or other sacrifice of resources as a result of past transactions or events. However, no liability can be paid by the MRF absent proper budget authority. Liabilities covered by budgetary resources have current resources otherwise available to pay amounts due. Liabilities not funded by the current year appropriation are classified as liabilities not covered by budgetary resources in Note 11, *Liabilities Not Covered by Budgetary Resources*. These liabilities represent actuarial liabilities for future pension benefits for which assets are not yet available.

### **Q. Environmental and Disposal Liabilities**

Not Applicable

### **R. Other Liabilities**

Intragovernmental Custodial Liabilities represent a liability for the MRF comprised of interest, penalties, and administrative charges to be collected on behalf of U.S. Treasury.

For additional information, see Note 15, *Other Liabilities*.

### **S. Commitments and Contingencies**

The MRF recognizes contingent liabilities on the Balance Sheet for legal actions where management considers an adverse decision to be probable and the loss amount is reasonably estimable. These legal actions are estimated and disclosed in Note 17, *Commitments and Contingencies*. However, there may be cases where amounts have not been accrued or disclosed because the likelihood of an adverse decision is considered remote or the amount of potential loss cannot be estimated. The MRF reports death payment contingencies that result from DoD's reasonability to cover benefits not paid by the VA during the month of death.

For additional information, see Note 17, *Commitments and Contingencies*.

### **T. Military and Civilian Retirement Benefits**

The Department applies SFFAS No. 33, "Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates," in selecting the discount rate and valuation date used in estimating actuarial liabilities. In addition, gains and losses from changes in long-term assumptions used to estimate the actuarial liability are presented separately on the Statement of Net Cost. Refer to Note 13, *Federal Employee and Veteran Benefits Payable*, and Note 19, *Disclosures Related to the Statement of Net Cost*, for additional information.

### **U. Revenues and Other Financing Sources**

Using methods and assumptions approved by the DoD Board of Actuaries, the DoD OACT determines the amount of the contributions made to MRF. The Military Services make a monthly contribution, which is a percentage of



## DoD MRF Footnotes to the Principal Financial Statements

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basic pay, to cover accruing costs for currently active military members. The MRF also receives a U. S. Treasury warrant at the beginning of each FY (1) to amortize unfunded liability and (2) to cover accruing costs for concurrent receipts (certain beneficiaries with combat-related injuries who are receiving payments from the VA). In addition, interest is earned on investments. Funds from the contributions that exceed the amounts required to pay current year expenses are invested in long-term securities. These investments and their associated interest revenues will be used to cover future liabilities of MRF.

### V. Recognition of Expenses

The DoD's policy requires the recognition of benefit expenses in the period incurred. Estimates are used in the computation of actuarial liabilities. The current financial management systems for MRF collect and record on full accrual accounting basis for liabilities and expenses of the fund.

### W. Treaties for Use of Foreign Bases

Not Applicable

### X. Use of Estimates

The MRF's management makes assumptions and reasonable estimates in the preparations of financial statements based on current conditions which may affect the reported amounts. Actual results could differ materially from the estimated amounts. Significant estimates include actuarial liabilities for military retirement.

### Y. Parent-Child Reporting

Not Applicable

### Z. Transactions with Foreign Governments and International Organizations

Not Applicable

### AA. Fiduciary Activities

Not Applicable

### BB. Tax Exempt Status

As an agency of the federal government, the MRF is exempt from all income taxes imposed by any governing body whether it is a federal, state, commonwealth, local, or foreign government.

### CC. Standardized Balance Sheet and Related Footnotes – Comparative Year Presentation

The format of the Balance Sheet has changed to reflect more detail for certain line items, as required for all significant reporting entities by OMB Circular A-136. This change does not affect totals for assets, liabilities, or net position and is intended to allow readers of this Report to see how the amounts shown on the DoD-wide Balance Sheet are reflected on the Government-wide Balance Sheet, thereby supporting the preparation and audit of the Financial Report of the United States Government. The presentation of the fiscal year 2020 Balance Sheet and the related footnotes was modified to be consistent with the fiscal year 2021 presentation. The mapping of USSGLs, in combination with their attributes, to particular Balance Sheet lines and footnotes is directed by the guidance published periodically under Treasury Financial Manual, USSGL Bulletins, Section V: *Crosswalks to Standard External Reports For FY 2021 GTAS Reporting*. The footnotes affected by the modified presentation are Note 6, *Accounts Receivable, Net*; Note 10, *Other Assets*; Note 12, *Federal Debt and Interest Payable*; Note 13, *Federal Employee and Veteran Benefits Payable*, and Note 15, *Other Liabilities*.

## DoD MRF Footnotes to the Principal Financial Statements \_\_\_\_\_

<b>Note 2. Nonentity Assets</b>			
<b>As of September 30</b>		<b>2021</b>	<b>2020</b>
(Amounts in thousands)			
Accounts Receivable	\$	2,667	\$ 3,688
<b>Total Nonentity Assets</b>		2,667	3,688
<b>Total Entity Assets</b>		1,106,496,700	979,429,123
<b>Total Assets</b>	\$	1,106,499,367	\$ 979,432,811

### Information Related to Nonentity Assets

Nonentity assets are assets for which the MRF maintains stewardship accountability and responsibility to report but are not available for MRF's operations.

Nonfederal Assets, Accounts Receivable, represent the amount of interest, penalties, and administrative charges to be collected by MRF on behalf of the U.S. Treasury. Once collected, this amount is transferred to the appropriate U.S. Treasury receipt account. This amount is offset by a corresponding custodial liability for MRF reported in Note 15, *Other Liabilities*.

<b>Note 3. Fund Balance with Treasury</b>			
<b>Status of Fund Balance with Treasury</b>			
<b>As of September 30</b>		<b>2021</b>	<b>2020</b>
(Amounts in thousands)			
<b>Unobligated Balance</b>			
Unavailable	\$	1,008,977,957	\$ 892,952,876
<b>Obligated Balance not yet Disbursed</b>	\$	5,202,043	\$ 5,118,007
<b>NonFBWT Budgetary Accounts</b>	\$	(1,014,105,434)	\$ (897,995,582)
<b>Total</b>	\$	74,566	\$ 75,301

### Information Related to Status of Fund Balance with Treasury

The Status of FBWT reflects the budgetary resources to support FBWT and is a reconciliation between budgetary and proprietary accounts. It primarily consists of unobligated and obligated balances. The balances reflect the budgetary authority remaining for disbursement against current or future obligations.

Unobligated Balance is classified as available or unavailable and represents the cumulative amount of budgetary authority not set aside to cover future obligations. The unavailable balance, consisting primarily of funds temporarily precluded from obligation by law, is invested in U.S. Treasury securities. The unobligated balance

## DoD MRF Footnotes to the Principal Financial Statements \_\_\_\_\_

for the MRF is restricted for use by the public law establishing the fund and becomes available without further congressional action.

Obligated Balance not yet Disbursed represents the amount of earned and accrued pension and annuity payments. The MRF balance represents benefits payable on September 30, 2021.

The MRF NonFBWT Budgetary Accounts balance represents investments in U.S. Treasury securities that are reflected in the MRF's budgetary resources, but are not part of the FBWT.

### Note 4. Cash and Other Monetary Assets

Not Applicable

### Note 5. Investments and Related Interest

	Amounts for 2021 Balance Sheet Reporting					
	Cost	Amortization Method	Amortized (Premium) / Discount	Interest Receivable	Investments, Net	Market Value Disclosure
(Amounts in thousands)						
<b>Intragovernmental Securities</b>						
Nonmarketable, Market-Based						
Military Retirement Fund	\$ 1,146,106,076	Effective Interest	\$ (45,734,573)	5,893,402	\$ 1,106,264,905	\$ 1,308,521,366
Total Nonmarketable, Market-Based	1,146,106,076		(45,734,573)	5,893,402	1,106,264,905	1,308,521,366
Total	\$ 1,146,106,076		\$ (45,734,573)	5,893,402	\$ 1,106,264,905	\$ 1,308,521,366
	Amounts for 2020 Balance Sheet Reporting					
	Cost	Amortization Method	Amortized (Premium) / Discount	Interest Receivable	Investments, Net	Market Value Disclosure
(Amounts in thousands)						
<b>Intragovernmental Securities</b>						
Nonmarketable, Market-Based						
Military Retirement Fund	\$ 1,013,708,906	Effective Interest	\$ (40,106,425)	5,607,922	\$ 979,210,403	\$ 1,218,732,913
Total Nonmarketable, Market-Based	1,013,708,906		(40,106,425)	5,607,922	979,210,403	1,218,732,913
Total	\$ 1,013,708,906		\$ (40,106,425)	5,607,922	\$ 979,210,403	\$ 1,218,732,913

### Information Regarding Investments and Related Interest

The MRF purchases and redeems nonmarketable market-based U.S. Treasury securities that fluctuate in tandem with the current selling price of the equivalent marketable security on the open market. The MRF purchases securities with the intent to hold until maturity; therefore, balances are not adjusted to market value.

## DoD MRF Footnotes to the Principal Financial Statements

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The cash generated from investments is deposited in the U.S. Treasury, which uses the cash for general government purposes. The U.S. Treasury securities are issued to the MRF as evidence of its receipts and are an asset to the MRF and a liability to the U.S. Treasury. Since MRF and the U.S. Treasury are both parts of the Federal Government, these assets and liabilities offset each other from the standpoint of the Federal Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government wide financial statements.

The U.S. Treasury securities provide MRF with authority access funds to make future benefit payments or other expenditures. When MRF requires redemption of these securities to make expenditures, the Federal Government will meet the requirement by using accumulated cash balances, raising taxes or other receipts, borrowing from the public or repaying less debt, or curtailing other expenditures. The Federal Government uses the same method to finance all other expenditures.

At the semiannual meetings, the DoD Investment Board approves the strategy for the type of securities purchased by MRF. These securities can include U.S. Treasury bills, notes, bonds, inflation-protected securities, overnight certificates, and zero-coupon bonds. The U.S. Treasury bills are short-term securities with maturities of one year or less and are purchased at a discount. The U.S. Treasury notes have maturities of at least one year, but not more than ten years, and are purchased at either a discount or premium. The U.S. Treasury bonds are long-term securities with maturities of ten years or more and are purchased at either a discount or premium. TIPS provide protection against inflation and are purchased at either a discount or premium. The TIPS principal increases with inflation and decreases with deflation, as measured by the CPI. When TIPS mature, the U.S. Treasury pays the adjusted principal or original principal, whichever is greater. The TIPS amount includes inflation compensation as well as the par value of the securities. Overnight securities are short-term securities, purchased at face value, that mature the next business day and earn interest at the daily Federal Reserve repurchase agreement rate. U.S. Treasury zero-coupon bonds are fixed-principal bonds having maturities of at least five years and are purchased at a discount.

The cost of the U.S. Treasury Securities is displayed in the following table.

	<b>FY 2021 COST</b>	<b>FY 2020 COST</b>
	(\$ in billions)	(\$ in billions)
Notes	29.9	41.9
Bonds	173.9	157.0
Zero Coupon Bonds	30.0	30.0
TIPS	897.8	771.6
Overnight Securities	14.5	13.2
<b>Total Cost</b>	<b><u>\$1,146.1</u></b>	<b><u>\$1,013.7</u></b>

## DoD MRF Footnotes to the Principal Financial Statements \_\_\_\_\_

<b>Note 6. Accounts Receivable, Net</b>				
As of September 30	2021			
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	
(Amounts in thousands)				
<b>Intragovernmental Receivables</b>	\$ 0	N/A	\$	0
<b>Nonfederal Receivables (From the Public)</b>	\$ 176,678	\$ (16,782)	\$	159,896
<b>Total Accounts Receivable</b>	\$ 176,678	\$ (16,782)	\$	159,896
As of September 30	2020			
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	
(Amounts in thousands)				
<b>Intragovernmental Receivables</b>	\$ 0	N/A	\$	0
<b>Nonfederal Receivables (From the Public)</b>	170,958	\$ (23,851)	\$	147,107
<b>Total Accounts Receivable</b>	\$ 170,958	\$ (23,851)	\$	147,107

### Information Related to Accounts Receivable

Accounts receivable represent the MRF's claim for payment from military retirees or their survivors for erroneous amounts previously paid. Allowances for uncollectible accounts due from the public are based upon factors such as: aging of accounts receivable, debtor's ability to pay, and payment history during the previous three years. MRF's intragovernmental receivables are a result of timing differences between the system and end of month cutoff. Historically, the transactions for these receivables are generally processed within 30 days; therefore, an allowance is not recognized. Claims with other federal agencies are resolved in accordance with the business rules published in Appendix 10 of Treasury Financial Manual, Volume I, Part 2, Chapter 4700.

### Note 7. Direct Loan and Loan Guarantees, Non-Federal Borrowers

Not Applicable

**DoD MRF Footnotes to the Principal Financial Statements** \_\_\_\_\_

**Note 8. Inventory and Related Property, Net**

Not Applicable

**Note 9. General PP&E, Net**

Not Applicable

**Note 10. Other Assets**

Not Applicable

**Note 11. Liabilities Not Covered by Budgetary Resources**

As of September 30	2021	2020
(Amounts in thousands)		
<b>Federal Employee and Veteran Benefits Payable</b>	\$ 920,627,010	\$ 901,675,223
<b>Other Liabilities</b>	306	298
<b>Total Liabilities Not Covered by Budgetary Resources</b>	920,627,317	901,675,521
<b>Total Liabilities Covered by Budgetary Resources</b>	\$ 1,013,022,372	\$ 897,500,719
<b>Total Liabilities</b>	<u>\$ 1,933,649,689</u>	<u>\$ 1,799,176,240</u>

**Information Related to Liabilities Not Covered by Budgetary Resources**

The MRF Liabilities Not Covered by Budgetary Resources amount represents actuarial liabilities for pension benefits for which assets are not yet available. Refer to Note 13, *Federal Employee and Veteran Benefits Payable*, for additional details and disclosures.

Nonfederal Other Liabilities represent contingent liabilities payable by DoD for estimated death payments. These liabilities cover the retiree benefits not paid by the VA during the month of death. This amount is also reported on Note 15, *Other Liabilities*.

**Note 12. Debt**

Not Applicable

## DoD MRF Footnotes to the Principal Financial Statements \_\_\_\_\_

### Note 13. Federal Employee and Veteran Benefits Payable

As of September 30

2021

Liabilities

(Less: Assets Available to Pay Benefits)

Unfunded Liabilities

(Amounts in thousands)

#### Pension and Health Benefits

Military Retirement Pensions	\$	1,928,444,673	\$	(1,007,817,663)	\$	920,627,010
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Total Pension and Health Benefits	\$	1,928,444,673		(1,007,817,663)	\$	920,627,010
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#### Other Benefits

Other		5,202,043	\$	(5,202,043)	\$	0
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Total Other Benefits	\$	5,202,043	\$	(5,202,043)	\$	0
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#### Total Federal Employee and Veteran Benefits Payable:

	\$	1,933,646,716	\$	(1,013,019,706)	\$	920,627,010
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Actuarial Cost Method Used for Pension and Health Benefits: Aggregate Entry-Age Normal Method

Market Value of Investments in Non-Marketable, Market Based Securities included in Assets Available to Pay Benefits: \$1.3 trillion

As of September 30

2020

Liabilities

(Less: Assets Available to Pay Benefits)

Unfunded Liabilities

(Amounts in thousands)

#### Pension and Health Benefits

Military Retirement Pensions	\$	1,794,054,247	\$	(892,379,024)	\$	901,675,223
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Total Pension and Health Benefits	\$	1,794,054,247		(892,379,024)	\$	901,675,223
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#### Other Benefits

Other		5,118,007	\$	(5,118,007)	\$	0
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Total Other Benefits	\$	5,118,007	\$	(5,118,007)	\$	0
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#### Total Federal Employee and Veteran Benefits Payable:

	\$	1,799,172,254	\$	(897,497,031)	\$	901,675,223
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Actuarial Cost Method Used for Pension and Health Benefits: Aggregate Entry-Age Normal Method

Market Value of Investments in Non-Marketable, Market Based Securities included in Assets Available to Pay Benefits: \$1.2 trillion

## DoD MRF Footnotes to the Principal Financial Statements

As of September 30	2021		2020	
		Military Retirement Pensions		Military Retirement Pensions
(Amounts in thousands)				
<b>Beginning Actuarial Liability</b>	\$	1,794,054,247		1,754,186,994
<b>Expenses:</b>				
Normal Cost		38,335,421		37,145,696
Interest Cost		57,027,102		59,245,723
Plan Amendments		0		15,537,771
Experience Losses (Gains)		47,367,437		3,811,854
Other factors		0		1
<b>Subtotal: Expenses before Losses (Gains) from Actuarial Assumption Changes</b>		142,729,960		115,741,045
<b>Actuarial losses/ (gains)/ due to:</b>				
Changes in trend assumptions		0		0
Changes in assumptions other than trend		54,100,288		(15,199,993)
<b>Subtotal: Losses (Gains) from Actuarial Assumption Changes</b>		54,100,288		(15,199,993)
<b>Total Expenses</b>	\$	196,830,248		100,541,052
<b>Less Benefit Outlays</b>		62,439,822		60,673,799
<b>Total Changes in Actuarial Liability</b>	\$	134,390,426		39,867,253
<b>Ending Actuarial Liability</b>	\$	1,928,444,673		1,794,054,247

The Military Retirement Fund (MRF) is a nonrevolving trust fund. New members are covered under the fund each passing year. Thus, the MRF actuarial liability is “expected” to increase each year, excluding any changes to underlying plan amendments, actuarial assumptions, or emerging experience.

Each year the actuarial liability is expected to increase with the normal cost (\$38.3 billion), decrease with benefit outlays (\$62.4 billion), and increase with the interest cost (\$57.0 billion), resulting in an expected increase of \$32.9 billion in the actuarial liability in FY 2021.

The September 30, 2021, actuarial liability includes changes due to revised actuarial assumptions and experience. The revised long-term economic assumptions under SFFAS No. 33 are as follows: 2.9% discount rate compared to 3.2% last year; 1.6% COLA unchanged from last year; 2.0% across-the-board salary increase compared to 1.8% last year. In addition, there are revised non-economic assumptions. There is a \$106.5 billion loss due to the newly adopted SFFAS No. 33 long-term economic assumptions. Revised non-economic actuarial assumptions led to a \$52.4 gain. The net effect of the revised actuarial assumptions is an increase in the September 30, 2021, actuarial liability of \$54.1 billion.

The experience loss of \$47.4 billion reflects economic experience being different from that assumed, as well as the new census data on which the September 30, 2021, actuarial liability is based.

### Information Related to Military Retirement Benefit Liabilities

The MRF accumulates funds used to pay pensions to retired military personnel and annuities to their survivors. The Military Retirement System is a single-employer, defined benefit plan.



## DoD MRF Footnotes to the Principal Financial Statements

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The schedules above reflect two distinct types of liabilities related to Military Retirement and Other Federal Employment Benefits. The line entitled “Military Retirement Pensions” represents the actuarial liability for future pension benefits not yet paid, i.e., the present value of future benefits less the present value of future normal costs. The line entitled “Other” represents retirement benefits due and payable on the first day of the next reporting period.

This schedule also computes “unfunded liabilities”, i.e. liabilities not covered by budgetary resources. The assets presented in this schedule differ from those reported on the balance sheet. The balance sheet assets consist primarily of investments, the value of which is based on the fully amortized cost or “book value” of the securities (see Note 4, Investments and Related Interest). The value of assets available to pay benefits presented in the above schedule is based on available budgetary funding. The difference between investments and assets available to pay benefits is the premium on U.S. Treasury Securities. At the time of purchase, budgetary funding is reduced by the premium on U.S. securities because the premium on securities is no longer a budgetary resource.

MRF complies with the requirements of SFFAS No. 33 (effective FY 2010), which directs that the long-term discount rate, underlying inflation (COLA) rate, and other economic assumptions be consistent with one another. A change in the discount rate may cause other assumptions to change as well. For the September 30, 2021, financial statement valuation, the application of SFFAS No. 33 required the DoD Office of the Actuary (OACT) to set the long-term inflation (COLA) and salary increase assumptions to be consistent with the underlying Treasury spot rates used in the valuation.

The MRF actuarial liability is adjusted at the end of each fiscal year. The 4<sup>th</sup> Quarter, FY 2021 balance represents the September 30, 2021 amount that will be effective through 3<sup>rd</sup> quarter, FY 2022.

### **Actuarial Cost Method**

As prescribed by law, the MRF is funded using the Aggregate Entry-Age Normal (AEAN) method. Per SFFAS No. 5, AEAN is also used to compute the actuarial liabilities reported herein. AEAN is a method whereby the costs of future retirement and survivor benefits for a new-entrant cohort are spread over the projected salaries of that group.

### **Revenues**

The MRF receives revenues from three sources: (1) interest earnings on MRF assets, (2) monthly contributions from the Military Services, and (3) an annual contribution from the U.S. Treasury. The contribution from the U.S. Treasury is paid into the MRF at the beginning of each fiscal year and represents the amortizations of (1) the unfunded liability for service performed before October 1, 1984, and (2) subsequent actuarial gains and losses. Starting October 1, 2004, Public Law 108-136 requires a Treasury contribution for the normal cost amount for the concurrent receipt provisions under Sections 1413a and 1414 in addition to the unfunded liability amortization payment. The DoD Board of Actuaries (the Board) approves methods and assumptions used to determine the amounts for contributions by the U.S. Treasury and the Military Services, and the Secretary of Defense directs the Secretary of Treasury to make the required payment.

## DoD MRF Footnotes to the Principal Financial Statements

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### Assumptions

The Board sets the long-term economic assumptions for each valuation performed for funding purposes. Prior to FY 2010, the same long-term assumptions were used for the financial statement valuations. The distinction between the two different valuations is discussed further below.

	Inflation (COLA)	Salary	Discount
Fiscal Year 2020 financial statement valuation	1.6%	1.8%	3.2%
Fiscal Year 2020 funding valuation	2.50%	2.75%	4.25%
Fiscal Year 2021 financial statement valuation	1.6%	2.0%	2.9%
Fiscal Year 2021 funding valuation	2.50%	2.75%	4.00%

(Note that the term “discount” refers here and throughout this note to the interest rate used to discount cash flows. The terms “interest” rate and “discount” rate are often used interchangeably in this context.)

The difference in the long-term assumptions between funding and financial statement valuations is attributable to SFFAS No. 33. This applicable financial statement standard is discussed further below. Other assumptions used to calculate the actuarial liabilities, such as mortality and retirement rates, were based on a blend of actual experience and future expectations. Because of reporting deadlines and as permitted by SFFAS No. 33, the current year actuarial present value of projected plan benefits for the MRF financial statement is rolled forward from the prior year valuation results as reported in the OACT report “Valuation of the Military Retirement System” using generally accepted actuarial methods. Modifications are made as necessary to adjust liabilities to a financial statement basis.

The effects of changes during the year in major factors such as actual pay raises and cost of living adjustments have been incorporated in the roll-forward adjustment. In calculating the FY 2021 “roll-forward” actuarial liability, the following assumptions were used:

	Inflation (COLA)	Salary	Interest / Discount
Fiscal Year 2021	1.3% (actual)	3.0% (actual)	3.2%
Fiscal Year 2022	6.0% (estimated)	2.7% (estimated)	2.9%
Long-Term	1.6%	2.0%	2.9%

For purposes of the Fund’s financial reporting, this roll-forward process is applied annually.

Contributions to the MRF are calculated using appropriate actuarial methods so as to maintain long-term Fund solvency. This means there will be sufficient funds to make all benefit payments to eligible recipients each year, and the Fund balance is projected to eventually equal the actuarial liability; i.e., all unfunded liabilities are liquidated. In order to accomplish this objective, normal costs are calculated to fully fund the current year projected liability for military personnel. In addition, amortization payments are calculated to fund liabilities that were present at plan inception (initial unfunded liability) and any emerging actuarial gains or losses. Because of “sequestration,” the Office of Management and Budget (OMB) required an \$891 million reduction to the actuarially determined contribution made to the MRF at the beginning of FY 2021. However, the Board chose to amortize this shortfall over one year as an experience loss, effectively putting MRF funding at the beginning of FY 2022 back to where it would have been without the sequestration reduction.

The initial unfunded liability of the program was amortized over a 50-year period through the FY 2007 payment. At its August 2007 meeting, the Board decided to decrease the period over which the initial unfunded

## **DoD MRF Footnotes to the Principal Financial Statements**

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liability is fully amortized by 8 years. The Board's decision was made to ensure, at a minimum, the amortization payment covered the interest on the unfunded actuarial liability. Therefore, starting with the FY 2008 payment, the initial unfunded liability is being amortized over a 42-year period, with the last payment expected to be made October 1, 2025. All subsequent gains and losses experienced by the system are amortized over a period determined by a weighted average using 30 years for the new gain or loss and the remaining period for the existing unamortized balance. At its July 2021 meeting, the Board decided to reset the period for benefit, assumptions, and experience gains and losses to 20 years on a combined, layered (projected) basis. Chapter 74 of Title 10, United States Code (U.S.C.), requires the Board approve the methods and assumptions used to (1) compute actuarial costs and liabilities for funding purposes, (2) amortize the initial unfunded liability, and (3) amortize all actuarial gains and losses. The Board is a Federal Advisory Committee appointed by the Secretary of Defense.

The FY 2021 National Defense Authorization Act (NDAA) requires the U.S. Coast Guard (USCG) be covered by the MRF no later than the beginning of FY 2023. The USCG actuarial liability will be included on the September 30, 2022, financial statements, and the first initial unfunded liability amortization payment scheduled to be made on October 1, 2022.

SFFAS No. 33, as published on October 14, 2008, by the Federal Accounting Standards Advisory Board (FASAB) requires the use of a yield curve based on marketable U.S. Treasury securities to determine the discount rates used to calculate actuarial liabilities for federal financial statements. Historical experience is the basis for expectations about future trends in marketable U.S. Treasury securities.

The statement is effective for periods beginning after September 30, 2009, and applies to information provided in general purpose federal financial statements. It does not affect statutory or other special-purpose reports, such as pension or Other Retirement Benefit reports. It requires a minimum of five periodic rates for the yield curve input and consistency in the number of historical rates used from period to period. It permits the use of a single average discount rate if the resulting present value is not materially different from what would be obtained using the yield curve.

OACT annually performs two MRF valuations. The primary one is for funding purposes—this valuation is governed by Chapter 74 of Title 10 U.S.C. and must use methods and assumptions approved by the Board. The other is for financial statement purposes and is governed by FASAB standards. For the September 30, 2021, financial statement valuation, OACT determined a single equivalent discount rate of 2.9% by using a 10-year average of quarterly zero coupon Treasury spot rates. These spot rates are from the U.S. Department of the Treasury-Office of Economic Policy's 10-year Average Yield Curve for Treasury Nominal Coupon Issues (TNC yield curve) representing average rates from April 1, 2011, through March 31, 2021. The same spot rate data source was used in production of last year's financial statements. In the summer of 2021, the Board approved a discount rate of 4.00% for the September 30, 2021, funding valuation, which differs from the SFFAS equivalent rate by 110 basis points. Using the SFFAS No. 33 long-term economic assumptions (as compared to Board assumptions) increases the MRF actuarial liability by 5.6%.

### **Military Services Contributions**

The contributions from the Military Services are the product of basic pay and normal cost percentages (NCPs) determined in accordance with the methods and assumptions approved by the Board. Basic pay generally increases each year, and on January 1, 2021, there was a 3.0% across-the-board basic pay increase. The NCPs for FY 2021 were promulgated by the Board in their July 2019 letter (and later revised in their June 2020 letter): 34.9% (full-time) and 26.9% (part-time). The NCPs for FY 2022 were promulgated by the Board in their June

## DoD MRF Footnotes to the Principal Financial Statements \_\_\_\_\_

2020 letter: 35.1% (full-time) and 25.7% (part-time). The above NCPs are based on the Board's funding valuation, not the financial statement valuation, and are calculated without regard to the concurrent receipt provisions of Sections 1413a and 1414 of Title 10, U.S.C.

### Market Value of MRF's Securities

The market value of MRF's nonmarketable, market-based securities as of September 30, 2021 totaled \$1.3 trillion. This amount is also reported on Note 5, Investments and Related Interest.

### Note 14. Environmental and Disposal Liabilities

Not Applicable

### Note 15. Other Liabilities

As of September 30	2021		
	Noncurrent Liability	Current Liability	Total

(Amounts in thousands)

#### Intragovernmental

Custodial Liabilities	\$	0	\$	2,667	\$	2,667
Total Intragovernmental		0		2,667		2,667

#### Contingent Liabilities

		0		306		306
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#### Total Other Liabilities

	\$	0	\$	2,973	\$	2,973
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As of September 30	2020		
	Noncurrent Liability	Current Liability	Total

(Amounts in thousands)

#### Intragovernmental

Custodial Liabilities	\$	0	\$	3,688	\$	3,688
Total Intragovernmental		0		3,688		3,688

#### Contingent Liabilities

		0		298		298
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#### Total Other Liabilities

	\$	0	\$	3,986		3,986
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### Information Related to Other Liabilities

Intragovernmental Custodial Liabilities represent a liability for the MRF comprised of interest, penalties, and administrative charges to be collected on behalf of U.S. Treasury. This amount is also reported as a nonfederal accounts receivable on Note 2, *Nonentity Assets*.

## DoD MRF Footnotes to the Principal Financial Statements \_\_\_\_\_

Nonfederal Other Liabilities represent contingent liabilities payable by the MRF for estimated death payments. These liabilities cover the retiree benefits not paid by the VA during the month of death. This amount is also reported on Note 11, *Liabilities not Covered by Budgetary Resources*, and disclosed in Note 17, *Commitments and Contingencies*.

### Note 16. Leases

Not Applicable

### Note 17. Commitments and Contingencies

#### Information Related to Commitments and Contingencies

As of September 30, 2021 there are no known contingent liabilities pending legal action of \$189.2 million or more individually, or exceeding \$473.0 million in aggregate.

The Military Retirement Fund has an estimated contingent liability of \$306 thousand that is measurable and probable and, therefore, has been recorded in the accounting records. These liabilities cover the retiree benefits not paid by the Department of Veterans Affairs during the month of death. This amount is also reported on Note 15, *Other Liabilities*.

### Note 18. Funds from Dedicated Collections

Not Applicable

### Note 19. Disclosures Related to the Statements of Net Cost

#### Intragovernmental Costs and Exchange Revenue

As of September 30	2021	2020
(Amounts in thousands)		
<b>Military Retirement Benefits</b>		
Gross Cost	\$ 143,414,192	\$ 117,431,244
Less: Earned Revenue	\$ (190,107,587)	\$ (144,715,842)
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	\$ 54,100,288	\$ (15,199,993)
Total Net Cost	\$ 7,406,893	\$ (42,484,591)

#### Information Related to the Statement of Net Cost

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of the MRF supported by an appropriation or another means. The intent of the SNC is to provide gross and net cost information related to

## DoD MRF Footnotes to the Principal Financial Statements

the amount of output or outcome for a given program or organization administered by a responsible reporting entity.

Intragovernmental costs and revenue represent transactions made between two reporting entities within the federal government. Public costs and revenues are exchange transactions made between the reporting entity and a nonfederal entity.

Intragovernmental Earned Revenue is comprised of the following amounts:

### Intragovernmental Earned Revenues for Program Costs

(\$ in Billions)		FY 2021		FY 2020
1. Military Service Contributions as a Percentage of Base Pay	\$	25.2	\$	21.8
2. Annual Treasury Unfunded Liability Payment		98.1		91.9
3. Annual Treasury Normal Cost Payment		9.9		8.5
4. Interest on Investments		56.9		22.5
<b>Total</b>	<b>\$</b>	<b><u>190.1</u></b>	<b>\$</b>	<b><u>144.7</u></b>

The MRF complies with SFFAS No. 33, “Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates.” This standard requires the separate presentation of gains and losses from changes in long-term assumptions used to estimate liabilities associated with pensions, other retirement benefits and other postemployment benefits on the SNC.

### Note 20. Disclosures Related to the Statements of Changes in Net Position

#### Reconciliation of Appropriations on the Statement of Budgetary Resources to Appropriations Received on the Statement of Changes in Net Position

As of September 30	2021	2020
(Amounts in thousands)		
<b>Appropriations, Statement of Budgetary Resources</b>	<b>\$ 63,137,856</b>	<b>\$ 62,378,792</b>
Permanent and Temporary Reductions	0	0
Trust and Special Fund Receipts	(63,137,856)	(62,378,792)
Miscellaneous Items	0	0
<b>Total Reconciling Difference</b>	<b>\$ (63,137,856)</b>	<b>\$ (62,378,792)</b>
<b>Appropriations Received, Statement of Changes in Net Position</b>	<b>\$ 0</b>	<b>\$ 0</b>

There was a difference of \$63.1 billion between Appropriations Received on the Statement of Changes in Net Position (SCNP) and Appropriations on the Statement of Budgetary Resources (SBR). The MRF records contributions as revenue on the SCNP, while contributions are recorded as Appropriations on the SBR. This is in accordance with OMB reporting requirements.

## DoD MRF Footnotes to the Principal Financial Statements \_\_\_\_\_

### Note 21. Disclosures Related to the Statement of Budgetary Resources

#### Permanent Indefinite Appropriations

P.L. 98-94, *The Defense Authorization Act of 1984*, authorized MRF and provided a permanent, indefinite appropriation.

#### Legal Arrangements Affecting the Use of Unobligated Balances

The MRF's unobligated balances of budget authority represent the portion of trust fund receipts collected in the current FY that exceeds (1) the amount needed to pay benefits or other valid obligations and (2) the receipts temporarily precluded from obligation by law. The receipts, however, are assets of MRF and are available for obligation as needed in the future.

#### Explanation of Differences between the SBR and the Budget of the U.S. Government

There was a difference of \$63.1 billion between Appropriations Received on the SCNP and Appropriations on the SBR. The MRF records contributions as revenue on the SCNP, while contributions are recorded as Appropriations on the SBR. This is in accordance with OMB reporting requirements. Refer to Note 20, *Disclosures Related to the Statement of Changes in Net Position* for further information.

There are no material differences between amounts reported on the SBR and the SF-133, Report on Budget Execution.

### Note 22. Disclosures Related to Incidental Custodial Collections

Not Applicable

### Note 23. Fiduciary Activities

Not Applicable

**DoD MRF Footnotes to the Principal Financial Statements** \_\_\_\_\_

<b>Note 24. Reconciliation of Net Cost to Net Outlays</b>			
As of September 30	2021		
	Intragovernmental	With the public	Total
(Amounts in thousands)			
<b>Net Cost of Operations (SNC)</b>	\$ (190,107,587)	\$ 197,514,480	\$ 7,406,893
<b>Components of Net Cost That Are Not Part of Net Outlays:</b>			
Other	0	13,810	13,810
(Increase)/decrease in liabilities:			
Salaries and benefits	0	(134,474,462)	(134,747,462)
Other Liabilities	0	(8)	(8)
<b>Total Components of Net Cost That Are Not Part of Net Outlays</b>	\$ 0	\$ (134,460,660)	\$ (134,460,660)
<b>Components of Net Outlays That Are Not Part of Net Cost:</b>			
Other	92,001,587	0	92,001,587
<b>Total Components of Net Outlays That Are Not Part of Net Cost</b>	\$ 92,001,587	\$ 0	\$ 92,001,587
<b>Net Outlays</b>	\$ (98,106,000)	\$ 63,053,820	\$ (35,052,180)
<b>Agency Outlays, Net, Statement of Budgetary Resources</b>			\$ (35,052,180)
<b>Reconciling Difference</b>			\$ 0



## DoD MRF Footnotes to the Principal Financial Statements

As of September 30	2020		
	Intragovernmental	With the public	Total
(Amounts in thousands)			
<b>Net Cost of Operations (SNC)</b>	\$ (144,715,842)	\$ 102,231,251	\$ (42,484,591)
<b>Components of Net Cost That Are Not Part of Net Outlays:</b>			
Other	0	14,808	14,808
(Increase)/decrease in liabilities:			
Salaries and benefits	0	(92,639)	(92,639)
Other Liabilities	0	(39,867,267)	(39,867,267)
<b>Total Components of Net Cost That Are Not Part of Net Outlays</b>	\$ 0	\$ (39,945,098)	\$ (39,945,098)
<b>Components of Net Outlays That Are Not Part of Net Cost:</b>			
Other	52,842,842	0	52,842,842
<b>Total Components of Net Outlays That Are Not Part of Net Cost</b>	\$ 52,842,842	\$ 0	\$ 52,842,842
<b>Net Outlays</b>	\$ (91,873,000)	\$ 62,286,153	\$ (29,586,847)
<b>Agency Outlays, Net, Statement of Budgetary Resources</b>			\$ (29,586,847)
<b>Reconciling Difference</b>			\$ 0

The Reconciliation of Net Cost to Net Outlays demonstrates the relationship between the MRF's Net Cost of Operations, reported on an accrual basis, and Net Outlays, reported on a budgetary basis. While budgetary and financial accounting are complementary, the reconciliation explains the inherent differences in timing and in the types of information between the two during the reporting period. The accrual basis of financial accounting is intended to provide a picture of the MRF's operations and financial position, including information about costs arising from the consumption of assets and the incurrence of liabilities. Budgetary accounting reports on the management of resources and the use and receipt of cash by the MRF. Outlays are payments to liquidate an obligation, other than the repayment to the Treasury of debt principal.

### Note 25. Public-Private Partnerships

Not Applicable

## DoD MRF Footnotes to the Principal Financial Statements \_\_\_\_\_

### **Note 26. Disclosure Entities and Related Parties**

Not Applicable

### **Note 27. Security Assistance Accounts**

Not Applicable

### **Note 28. Restatements**

Not Applicable

### **Note 29. COVID-19 Activity**

Not Applicable

### **Note 30. Subsequent Events**

Subsequent events have been evaluated from the balance sheet date through November 8, 2021 which is the date the financial statements were available to be issued. Management determined that there were no other items to disclose as of September 30, 2021.

### **Note 31. Reclassification of Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position for Compilation in the U.S. Government-wide Financial Report**

Not Applicable

**Other Information**\_\_\_\_\_

**Other Information**

**Other Information**

**SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES**

**Table 1. Summary of Financial Statement Audit**

Audit Opinion	Unmodified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
No material weaknesses	0	0	0	0	0
<i>Total Material Weaknesses</i>	0	0	0	0	0

**Table 2. Summary of Management Assurances**

<b>Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)</b>						
Statement of Assurance	Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
No Material Weaknesses	0	0	0	0	0	0
<i>Total Material Weaknesses</i>	0	0	0	0	0	0
<b>Effectiveness of Internal Control over Operations (FMFIA § 2)</b>						
Statement of Assurance	Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
No Material Weaknesses	0	0	0	0	0	0
<i>Total Material Weaknesses</i>	0	0	0	0	0	0
<b>Conformance with Federal Financial Management System Requirements (FMFIA § 4)</b>						
Statement of Assurance	Federal Systems conform to financial management system requirements					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
No Non-Conformances	0	0	0	0	0	0
<i>Total non-conformances</i>	0	0	0	0	0	0
<b>Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)</b>						
	Agency			Auditor		
1. Federal Financial Management System Requirements	No lack of compliance noted			No lack of compliance noted		
2. Applicable Federal Accounting Standards	No lack of compliance noted			No lack of compliance noted		
3. USSGL at Transaction Level	No lack of compliance noted			No lack of compliance noted		

## Other Information

### PAYMENT INTEGRITY

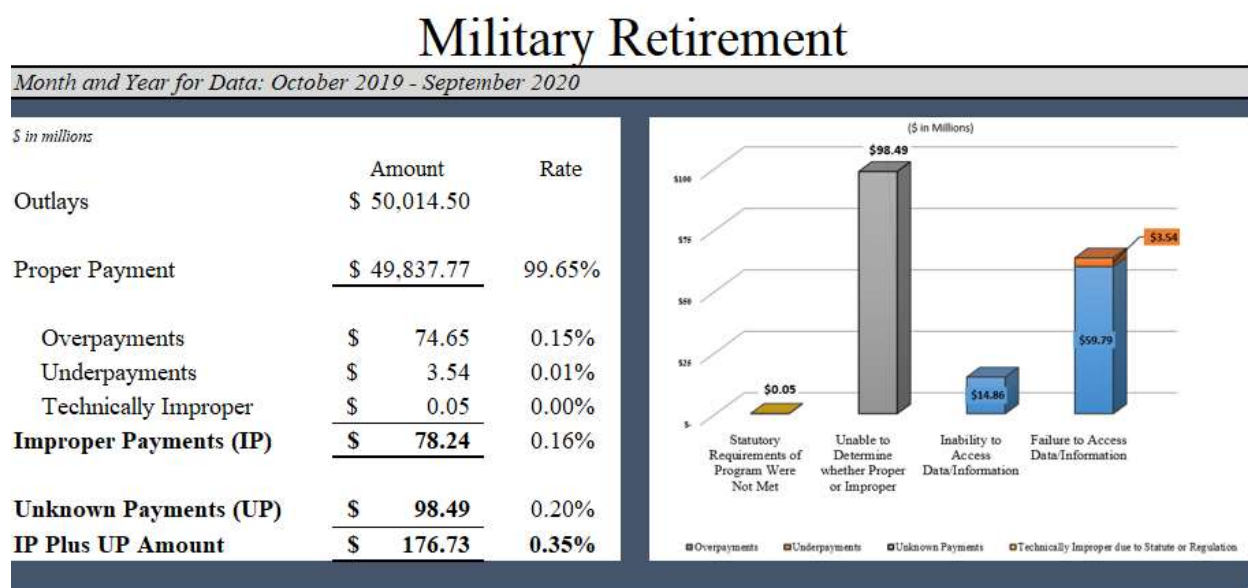
In accordance with the Payment Integrity Information Act of 2019 (*PIIA*), and Office of Management and Budget (OMB) Circular No. A-136, Financial Reporting Requirements; for information on DoD payment integrity, refer to the Other Information section of the consolidated DoD AFR at:

<https://comptroller.defense.gov/ODCFO/afr2021.aspx> and [PaymentAccuracy.gov](https://www.paymentaccuracy.gov) for detailed information related to program scorecards, corrective actions and payment recovery efforts.

Headquarters DFAS has conducted analysis/reviews on a wide range of programs that are contributing to improper payments DoD wide. The reviews include the financial transactions from the services and Defense Agencies and Activities, and are focused on determining the root causes and develop corrective actions for each of the areas identified. One such area is in improper payments specific to the Retired and Annuitant (R&A) Pay section, those corrective actions are developed specifically by DFAS R&A. The remaining corrective actions are developed by the Component responsible or OUSD(C) for the areas identified.

In FY 2021, the total estimated improper and unknown payments for the Military Retirement program were \$176.73 million. This estimate was based on a sampling methodology with a 95% confidence level, which equated to a 0.35% (+/- 0.24) improper and unknown payment rate and an estimated proper processing rate of 99.65%.

**FIGURE 6**  
**FY 2021\* MILITARY RETIREMENT ESTIMATED IMPROPER PAYMENTS BY OMB ROOT CAUSE CATEGORY**



\*The specific testing timeframe varies by program to capture a more complete universe of transactions in an effort to fully comply with the PIIA

In FY 2021, the Military Retirement program estimated improper and unknown payments decreased by 49.86 percent (\$175.76 million), from \$352.49 million in FY 2020 to \$176.73 million in FY 2021.

## **Other Information**

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In FY 2022, the Department plans to perform a strategic reorganization of the Military Retirement program to strengthen post payment reviews and the integration of quality assurance teams. This reorganization coupled with additional process improvements and system change requests, will streamline access to the proper key supporting documentation to reinforce pre- and post-payment integrity.