

Department of Homeland Security
U. S. Coast Guard
CG PSC-2426 (Rev. 6/03)

CAREER STATUS BONUS (CSB) ELECTION

PRIVACY ACT STATEMENT

AUTHORITY: 37 U. S. Code 322.

PRINCIPAL PURPOSE: To record a member's eligibility and election to receive or not receive the Career Status Bonus with reduced retired pay and to adjust such retired pay according to the member's election.

ROUTINE USE(S): Information may be provided to the Internal Revenue Service to resolve matters relating to an individual's tax withholding; to the Federal Retirement Thrift Investment Board to establish eligibility for contributions to the Thrift Savings Plan for military personnel, and to the Department of Justice or state and local governments when a question of conflicting interest is raised concerning a member's declarations and election.

DISCLOSURE: Voluntary; however, failure to provide the requested information within 6 months after the date shown in item 6 below could result in an irrevocable determination affecting the amount of retired pay the individual may later qualify to receive and disqualification for electing the Career Status Bonus.

SECTION I – PERSONAL IDENTIFICATION (Normally completed by PSC)

1. NAME (Last, First, Middle Initial)		2. EMPLID	3. RANK/PAY GRADE/ BRANCH OF SERVICE
4. DIEMS (YYYYMMDD)	5. AD BASE DATE (YYYYMMDD)	6. DATE OF NOTIFICATION (YYYYMMDD)	

SECTION II – DETERMINATION OF ELIGIBILITY

7. You may be eligible to elect a Career Status Bonus (CSB). To be eligible, you must:
- (1) Be on active duty,
 - (2) Complete 15 years of active duty service,
 - (3) Have a DIEMS of August 1, 1986 or later, and
 - (4) Qualify under Coast Guard/NOAA regulations for retention to 20 years of active duty service.

Service records indicate that you are currently:

Eligible to elect the Career Status Bonus **Not eligible** to elect the Career Status Bonus

REASON NOT ELIGIBLE:

8. DATE OF DETERMINATION (YYYYMMDD)	9. PSC AUTHENTICATING REPRESENTATIVE	
	a. PRINTED NAME (Last, First, Middle Initial)	b. SIGNATURE

SECTION III, IV, OR V (To be completed by Member and Witness)

NOTE: Complete only one of these sections and then return this form to PSC (MAS).

If not eligible, complete Section III only.

If eligible and you want to elect to receive the bonus, complete Section IV only.

If eligible and you do not want to receive the bonus, complete Section V only.

SECTION III – NOT CURRENTLY ELIGIBLE FOR CAREER STATUS BONUS

Complete this section only if you are **not currently eligible to elect the Career Status Bonus**.

10. I understand that I am not eligible for the Career Status Bonus at this time and that my ineligibility does not preclude my continued service to retirement if authorized by Coast Guard/NOAA regulations. I understand that I will not receive a bonus and I remain under the High-3 retirement system. I understand that PSC will notify me if I later become eligible to elect the bonus.

a. SIGNATURE		b. DATE SIGNED (YYYYMMDD)
11. WITNESS		
a. PRINTED NAME (Last, First, Middle Initial)	b. RANK/PAY GRADE	c. POSITION/DUTY TITLE
d. ORGANIZATION	e. ORGANIZATIONAL ADDRESS	
f. SIGNATURE		g. DATE SIGNED (YYYYMMDD)

Continued on Reverse

SECTION IV – ELIGIBLE AND ELECTING TO RECEIVE THE CAREER STATUS BONUS

Complete this section only if you are eligible and you desire to elect to receive the Career Status Bonus.

12. I elect to receive the Career Status Bonus payment upon my attainment of 15 years of active duty service and having been determined eligible for the bonus by PSC. I understand that once the election is effective it may not be revoked. My election is effective once received and accepted at the 15th year of service, or if later, the date received and determined acceptable by PSC, but no later than the date that is six months after being notified of my eligibility. I understand that if I receive the CSB in error, I must repay the full, before-tax bonus amount. I agree to remain on continuous active duty, subject to Coast Guard/NOAA regulations, until I attain a minimum of 20 years of such service. If I fail to complete such service, I understand that I will be required to repay a share of the bonus payment in proportion to the amount of service I failed to complete compared to the additional service I agreed to serve. If I am separated prior to 20 years, I consent to withholding from current pay, final pay, or any other money due to me to satisfy the indebtedness. I further consent to such withholding at a rate sufficient to satisfy this indebtedness no later than my separation, and understand that this could result in the withholding of 100% of any current pay, final pay, or other money due me. I further understand that if and when I do retire, it will be under the provisions of the 1986 Military Requirement Reform Act (1986 MRRRA, known as REDUX) and that my future retired pay, if based on length of service, will be reduced under such provisions in the form of a reduced multiplier before age 62 and annual Cost-of-Living Adjustments (COLAs) that are 1% less than I would otherwise receive both before and after age 62, but with a one-time catch-up COLA adjustments at age 62. I have received the Fact Sheet of Information for Eligible Career Status Bonus Members, explaining the details and effects of making this decision.

a. I elect to receive the bonus under the following payment options:

- Single lump sum of \$30,000 Two installments of \$15,000 each
 Three installments of \$10,000 each Four installments of \$7,500 each
 Five installments of \$6,000 each

b. **I intend to participate in the TSP** **I do not intend to participate in the TSP.**

c. SIGNATURE**d. DATE SIGNED (YYYYMMDD)****13. WITNESS****a. PRINTED NAME** (Last, First, Middle Initial)**b. RANK/PAY GRADE****c. POSITION/DUTY TITLE****d. ORGANIZATION****e. ORGANIZATIONAL ADDRESS****f. SIGNATURE****g. DATE SIGNED (YYYYMMDD)****SECTION V – ELIGIBLE AND ELECTING NOT TO RECEIVE THE CAREER STATUS BONUS**Complete this section only if you are eligible to receive the Career Status Bonus but **you desire NOT** to elect the bonus.

14. I elect not to receive the Career Status Bonus upon my attainment of 15 years of active duty service. I understand that once the election is effective it may not be revoked. My election is effective upon completion of 15 years active service, or 6 months after the date shown in item 6 if that date is later. I will not have any further opportunity to elect to receive this bonus. I understand that I will not receive a bonus payment and that I remain under the High-3 retirement system. I have received the Fact Sheet of Information for Eligible Career Status Bonus Members, explaining the details and effects of making this election not to receive this bonus.

a. SIGNATURE**b. DATE SIGNED (YYYYMMDD)****15. WITNESS****a. PRINTED NAME** (Last, First, Middle Initial)**b. RANK/PAY GRADE****c. POSITION/DUTY TITLE****d. ORGANIZATION****e. ORGANIZATIONAL ADDRESS****f. SIGNATURE****g. DATE SIGNED (YYYYMMDD)****SECTION VI – SERVICE RECORDING OF ELECTION**

(To be completed by PSC Officials after member makes an election to receive the bonus)

16. CSB ELECTION EFFECTIVE DATE (YYYYMMDD):**17. RECORDING OFFICIAL****a. PRINTED NAME** (Last, First, Middle Initial)**b. RANK/PAY GRADE****c. POSITION/DUTY TITLE****d. ORGANIZATION****e. ORGANIZATIONAL ADDRESS****f. SIGNATURE****g. DATE SIGNED (YYYYMMDD)**

INSTRUCTIONS FOR COMPLETING CG PSC FORM 2426, CAREER STATUS BONUS (CSB) ELECTION

GLOSSARY:

CSB Election Effective Date: This is the date the member's election to receive a Career Status Bonus becomes irrevocable. This is the date on which the member attains 15 years of active duty service or the date that is 6 months after the date of CSB notification, if that is a later date.

Date of CSB Notification: This is the date PSC processed the notification to the member. PSC should record this date in Section I, Item 6 of the form as this date may determine the effective date of an election.

Date of Initial Entry to Military Service: This date is referred to as **DIEMS**. This is the date someone first became a member of a Uniformed Service and pertains to the earliest date of enlistment, induction, or appointment in a regular or reserve component of a Uniformed Service as a commissioned officer, warrant officer, or enlisted member. Breaks in service shall not affect the date someone first became a member. Cadets and midshipmen of the Academies, cadets of the reserve Officer Training Corps, and members of the Delayed Entry Program (DEP) are considered to have become members for the purposes of these provisions. All members should be informed of the implications of these provisions on their potential retired pay.

Active Duty Base Date: This is the AD Base Date in item 5. This is the actual or constructive date of your entry on active duty. For members with no prior military service, it is the date of commission/enlistment. If you elect to receive the CSB, you agree to remain on active duty until twenty years after this date.

GENERAL

PSC Officials: Complete Sections I, II, and VI as appropriate to member being notified.

Member: Complete only Section III, IV, or V, as appropriate to your situation.

1. Read these instructions carefully before completing the form.
2. This form will record your election to receive a Career Status Bonus. Your election will carry Service obligation requirements and affect your future retired pay.
3. If eligible to elect the career status bonus, you must be furnished a copy of the fact sheet: **Information for Members Eligible to Receive a Career Status Bonus** explaining the details and effects of making your election to receive or not to receive the bonus. You should read this fact sheet and consult other sources if desired.

SECTION I and II: To be completed by PSC.

SECTION III, IV, AND V: To be completed by the Member.

Complete only the one section appropriate for your situation. Sign and date the form in the appropriate blocks for the applicable section. Have your signature witnessed by your Commanding Officer or his/her designee.

SECTION III: Not Currently Eligible for Career Status Bonus.

Complete Section III only if you have been determined currently **not eligible to elect the bonus**. Have your signature witnessed by your Commanding Officer or his/her designee.

SECTION IV: Eligible and Electing to Receive the Career Status Bonus.

Complete Section IV only if you are eligible and desire to **receive the bonus** with associated reductions in future retired pay, and you agree to remain on active duty for a minimum of 20 years. Have your signature witnessed by your Commanding Officer or higher designee.

SECTION V: Eligible and Electing NOT to Receive the Career Status Bonus.

Complete Section V only if you are **eligible but desire NOT to receive the bonus** with associated reductions in retired pay. Have your signature witnessed by your Commanding Officer or higher designee.

SECTION VI: Service Recording of Election

This section is to be completed by PSC if the member elects to receive the CSB.

MAIL THE COMPLETED FORM TO:

Commanding Officer (MAS)
Coast Guard Personnel Service Center
444 SE Quincy St
Topeka, KS 66683-3591

A copy of this form shall be retained by the member.
A copy of this form shall be sent to the PERSRU.

Fact Sheet of Information for Eligible Career Status Bonus Members

You have been identified as potentially eligible for a career status bonus of \$30,000. To be an eligible member, you must:

1. Be on active duty
2. Complete 15 years of active duty service
3. Have a DIEMS (Date of Initial Entry to Military Service) of 1 August 1986 or later, and
4. Qualify under Coast Guard/NOAA regulations for retention to 20 years of active duty service.

If eligible, your options are summarized in the following table:

Option Comparisons - High-3 Retirement versus Bonus with REDUX Retirement		
Item	High-3 Retirement	Bonus with REDUX Retirement
Bonus and Service Obligation	No Bonus and No New Service Obligation However, Member Must Serve 20 Years to Qualify for Retirement	\$30,000 Payment in lump sum or installments Member Must Agree to Remain on Continuous Active Duty to 20 Years of Service
Base	Average Monthly Basic Pay over Highest 36 Months	Average Monthly Basic Pay over Highest 36 Months
Multiplier	2.5% per Year of Service	2.5% per Year of Service Less 1% for Each Year Less Than 30, Restored to Same as High-3 System at Age 62
COLAs	Full Inflation Adjustment Equal to the Annual Increase in CPI-W	Reduced Inflation Adjustment Equal to Annual Increase in CPI-W minus 1% With A One-Time Readjustment at Age 62

It's Your Decision: Electing the bonus gives you money now, but requires that you agree to remain on continuous active duty until you have 20 years. Your future retired pay will be computed under the provisions of the 1986 Military Retirement Reform Act (1986 MRRA, also called **REDUX**). REDUX retired pay has: (1) a reduced multiplier until age 62, and (2) reduced COLAs (Cost-of-Living Adjustments) with a one-time catch up at age 62. This paper helps explain the details and implications.

In considering whether to accept the bonus you must weigh the \$30,000 payment against the possible month-by-month reduction in future retired pay. The decision can be complicated, but it is yours to make! Make it carefully and intelligently! There is an element of risk either way. Consider your tolerance for risk; assess your personal career expectations and your probable use of the bonus money, and work through at least a basic analysis of the options. This paper offers some ideas on how to do that. We encourage you to use the flexible quantitative analysis tool on line at <http://www.dod.mil/militarypay/>. We also encourage you to seek the views of other trusted advisors.

Page 2

First Difference: The Bonus Payment – The bonus is a \$30,000 payment. It can be paid in the following manner: a single lump sum of \$30,000; two annual installments of \$15,000; three annual installments of \$10,000; four annual installments of \$7,500; or five annual installments of \$6,000. Bonus payments are subject to federal and state income tax withholding unless:

- (1) The member is serving in a combat zone on the date the member reaches 15 years of active service. In this case, the entire bonus may be tax exempt if the member is an enlisted member or warrant officer. If the member is an officer, \$5,382.90 of the bonus may be tax exempt. Although the bonus itself is exempt from taxation, earnings derived from investment of the bonus money are taxable.
- (2) The member elects to contribute the bonus into the Federal Thrift Savings Program (TSP). Information about the TSP can be found at <http://www.tsp.gov>. Amounts deposited into the TSP, and earnings on those deposits, are not taxed until the money is withdrawn. Under IRS regulations, a member can contribute up to \$12,000 per year in TSP, and such contributions are not subject to federal income tax withholding. The \$12,000 limit is a total of all contributions from basic pay, special pay, incentive pay, and bonuses. For example, assume a member has elected to contribute 7% of his/her basic pay into TSP, and the member's annual basic pay is \$30,000. In this situation, the member would contribute \$2,100 into TSP from basic pay for the year, leaving \$9,900 that could be invested in TSP. If the member elects four CSB installments of \$7,500 each, each installment could be invested tax-free into TSP.

Second Difference: Non-disability Military Retired Pay - Retired pay is computed as a **multiplier (percentage) times a base**. The **multiplier** depends on your length of service and the **base** is an accumulated average of your monthly basic pay over the highest 36 months of such pay. After retirement, annual Cost-of-Living Adjustments (**COLAs**) increase retired pay to keep pace with inflation as measured by the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W).

Page 3

The Base - Average Monthly Basic Pay for the Highest 36 Months

The base is the same under both the High-3 and REDUX retirement systems. The base drives the dollar value of all retired pay, and with it, the amount of any retired pay reductions under the bonus with REDUX option. The following table illustrates the base for an enlisted member (E-8), warrant officer (W-4), and officer (O-6). The table below assumes the member has a pay longevity date of 1 January, and a retirement date of 1 January 2003.

<i>Retired Pay Base – Average Monthly Basic Pay for Highest 36 Months</i>											
<i>Grade</i>	<i>Years of Service</i>										
	20	21	22	23	24	25	26	27	28	29	30
<i>E-8</i>	\$3,280	\$3,350	\$3,385	\$3,471	\$3,522	\$3,623	\$3,674	\$3,796	\$3,867	\$3,938	\$3,938
<i>W-4</i>	\$4,284	\$4,383	\$4,432	\$4,531	\$4,582	\$4,682	\$4,732	\$4,833	\$4,884	\$4,935	\$4,935
<i>O-6</i>	\$6,520	\$6,734	\$6,841	\$7,009	\$7,070	\$7,192	\$7,254	\$7,436	\$7,555	\$7,675	\$7,675

The Reduced REDUX Multiplier

The following table compares the reduced **REDUX pre-age 62 multipliers** with those of **High-3** for careers of 20 to 30 years. The reduction is largest (20%) for 20 years of service and becomes gradually less until at 30 years of service the multipliers are identical. At age 62, all REDUX multipliers are readjusted to equal those of the High-3 system.

Multipliers for REDUX Retirement Versus High-3 Retirement											
	Years of Service										
	20	21	22	23	24	25	26	27	28	29	30
REDUX Multipliers	40.0%	43.5%	47.0%	50.5%	54.0%	57.5%	61.0%	64.5%	68.0%	71.5%	75.0%
High-3 Multipliers	50.0%	52.5%	55.0%	57.5%	60.0%	62.5%	65.0%	67.5%	70.0%	72.5%	75.0%

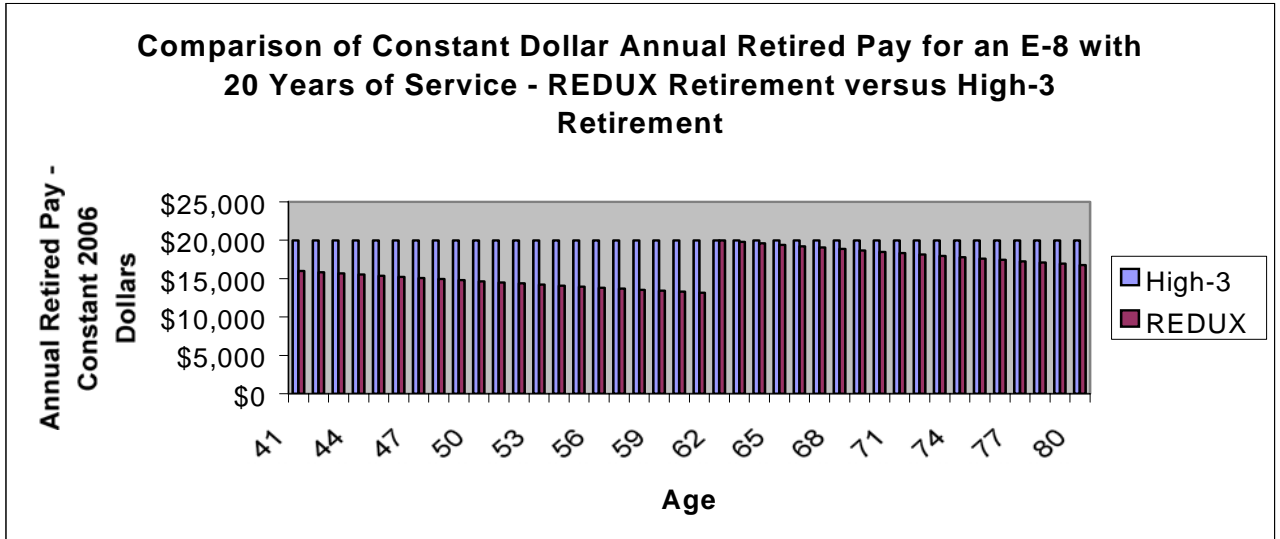
Page 4

Obviously, the dollar impact of the multiplier reductions will vary with your base, which depends on your grade and years of service in the three years just before retirement. The table below shows the pre-tax impact of REDUX versus High-3 retirement in the first year of retired pay for typical enlisted (E-8), warrant (W-4) and officer (O-6) grades. The longer you serve, the less the reduction in initial retired pay. At 30 years active duty service, there is no reduction in initial retired pay.

<i>Initial Annual Reduction In Retired Pay For REDUX versus High-3 Retirement</i>											
<i>Grade</i>	<i>Years of Service</i>										
	20	21	22	23	24	25	26	27	28	29	30
<i>E-8</i>	\$3,936	\$3,618	\$3,250	\$2,916	\$2,536	\$2,174	\$1,763	\$1,367	\$928	\$473	\$0
<i>W-4</i>	\$5,141	\$4,734	\$4,255	\$3,806	\$3,299	\$2,809	\$2,271	\$1,740	\$1,172	\$592	\$0
<i>O-6</i>	\$7,824	\$7,273	\$6,567	\$5,888	\$5,090	\$4,315	\$3,482	\$2,677	\$1,813	\$921	\$0

The Reduced REDUX COLA

High-3 COLAs equal the full increase of inflation as measured by the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). This theoretically keeps the purchasing power of retired pay constant over time. In other words, monthly High-3 retired pay should be able to buy the same goods and services at every age as it did at the time of retirement. **REDUX COLAs** equal 1% less than the CPI-W, causing REDUX retired pay to lose ground to inflation each year. There is a one-time adjustment at age 62 to restore the lost purchasing power. This catch up, in conjunction with the multiplier readjustment, increases REDUX retired pay to exactly match High-3 retired pay at age 62. Thereafter, the gradual loss to inflation resumes for all remaining years as shown below.



The Combined Effect of Reduced Multipliers and Reduced COLAs

As you can see on the graphic above, REDUX retired pay for 20 years of service starts at 20% less than High-3 retired pay. Reduced COLAs cause an increasing gap, until at age 61, REDUX retired pay is 34% less than High-3 retired pay. The average loss over these years is about 27%. The losses are less following the REDUX readjustments at age 62, averaging about 8% over the years from age 62 to 80. Over the 38 years from age 42 to 80, REDUX retired pay averages about 18% less than the High-3. The table below shows this percentage loss from retirement to age 80 for retirements at 20 to 30 years of service and several rates of inflation. We assume that the member enters service at age 21, remains on active duty continuously until retirement, and lives to 80 years of age. This percentage incorporates the loss due to both the reduced multiplier and the reduced COLAs. It is independent of the base at retirement so it applies equally to any grade. The exact rate of inflation has little impact (only 1/10th of 1 percentage point) over the range of inflation considered. The percentage of lost purchasing power is actually less at higher rates of inflation. The percentage of loss declines more than 50% for a 30-year career versus a 20-year career.

		Percent of Lost Purchasing Power In Retired Pay for REDUX versus High-3										
Rate of Inflation	Years of Service At Retirement											
	20	21	22	23	24	25	26	27	28	29	30	
2.0%	-18.3%	-16.6%	-15.0%	-13.6%	-12.3%	-11.1%	-10.1%	-9.2%	-8.4%	-7.6%	-7.0%	
2.5%	-18.3%	-16.6%	-15.0%	-13.6%	-12.3%	-11.1%	-10.1%	-9.1%	-8.3%	-7.6%	-7.0%	
3.0%	-18.3%	-16.5%	-14.9%	-13.5%	-12.2%	-11.1%	-10.0%	-9.1%	-8.3%	-7.6%	-7.0%	
3.5%	-18.2%	-16.5%	-14.9%	-13.5%	-12.2%	-11.0%	-10.0%	-9.1%	-8.3%	-7.5%	-6.9%	
4.0%	-18.2%	-16.5%	-14.9%	-13.5%	-12.2%	-11.0%	-10.0%	-9.0%	-8.2%	-7.5%	-6.9%	

Page 6

The Impact of Life Expectancy

Your life expectancy is also important when comparing options. A typical enlisted member reaches 20 years of service at age 40 and lives to age 77. A typical officer reaches 20 years of service at age 42 and lives to age 80. This can help us value the REDUX retirement compared to High-3 retirement, but remember that these are only averages. No one knows how long they will actually live, so there is some risk and uncertainty. Consider the possible impact of your own age and health on these results.

The following chart shows the REDUX percentage of lost purchasing power for 3% annual inflation, life expectancies of 70 to 90 years of age, and 20 to 30 year careers. For a 20-year career, REDUX retired pay loses about 18 percent with a variance of just 1 or 2 percentage points over a 20-year difference in life expectancy. For a 30-year career, the percentage loss is about 7 percent, but the variance over the 20-year difference in life expectancy is 6 percentage points.

		Percent of Lost Purchasing Power In Retired Pay for REDUX versus High-3										
Life Expectancy	Years of Service At Retirement											
		20	21	22	23	24	25	26	27	28	29	30
70		-20.3%	-18.0%	-15.9%	-14.0%	-12.2%	-10.6%	-9.1%	-7.7%	-6.5%	-5.3%	-4.3%
75		-18.8%	-16.8%	-15.0%	-13.4%	-11.9%	-10.5%	-9.3%	-8.2%	-7.2%	-6.3%	-5.5%
80		-18.3%	-16.5%	-14.9%	-13.5%	-12.2%	-11.1%	-10.0%	-9.1%	-8.3%	-7.6%	-7.0%
85		-18.3%	-16.7%	-15.4%	-14.1%	-13.0%	-12.0%	-11.1%	-10.3%	-9.7%	-9.1%	-8.6%
90		-18.7%	-17.3%	-16.1%	-15.0%	-14.0%	-13.2%	-12.4%	-11.8%	-11.2%	-10.7%	-10.3%

Time Value of Money

You've heard the saying, "A bird in the hand is worth two in the bush." Similarly, a dollar in your pocket today is worth more than a dollar in your pocket next year and even more compared to a dollar in your pocket several years from now. This is true if only for the fact that we could invest \$1 today and simple interest would give us more than \$1 next year. Thus, there is a time value of money and it can be expressed as a discount rate. Using the discount rate, future money can be compared to money today. In this paper, we compared either constant dollars or compared a growing investment. We did not do an analysis where we discounted all future dollars to today's dollars. In particular, we did not do any analysis that discounts for the uncertainty of the future.