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RECENT CHANGES TO THE U.S. MILITARY RETIREMENT SYSTEM

HEARING

BEFORE THE

COMMITTEE ON ARMED SERVICES
UNITED STATES SENATE

ONE HUNDRED THIRTEENTH CONGRESS

SECOND SESSION

JANUARY 28, 2014

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RECENT CHANGES TO THE U.S. MILITARY RETIREMENT SYSTEM

TUESDAY, JANUARY 28, 2014

U.S. SENATE,
COMMITTEE ON ARMED SERVICES,
Washington, DC.

The committee met, pursuant to notice, at 9:36 a.m. in room SD–G50, Dirksen Senate Office Building, Senator Carl Levin (chairman) presiding.

Committee members present: Senators Levin, Reed, Nelson, Hagan, Manchin, Shaheen, Gillibrand, Blumenthal, Donnelly, Kaine, King, Inhofe, McCain, Sessions, Wicker, Ayotte, Fischer, Graham, Vitter, Blunt, and Lee.

OPENING STATEMENT OF SENATOR CARL LEVIN, CHAIRMAN

Chairman LEVIN. Good morning, everybody. The committee meets this morning to review the reduction in the cost-of-living adjustments (COLA) for working age military retirees that was enacted as part of the Bipartisan Budget Act (BBA) of 2013 (Public Law 113–67). We welcome today the Acting Deputy Secretary of Defense Ms. Christine Fox, and Vice Chairman of the Joint Chiefs of Staff Admiral Sandy Winnefeld, and I will introduce the second panel of outside witnesses after we hear from Secretary Fox and Admiral Winnefeld.

The Bipartisan Budget Act adopted in December included a provision that reduced the COLA for working age military retirees by 1 percent until the retiree reaches the age of 62, at which time retired pay is adjusted to the level it would have been had the COLA not been reduced. In a USA Today column defending the legislation, Congressman Paul Ryan explained the provision as follows:

"Here's what the new law will do. We make no changes for those currently at or above age 62. This reform affects only younger military retirees. Right now any person who has served 20 years can retire regardless of age. That means a serviceman who enlists at 18 becomes eligible for retirement at 38. The late 30s and early 40s are prime working years and most of these younger retirees go on to second careers."

Now, the Consolidated Appropriations Act adopted a few weeks ago amended the BBA to exempt disability retirees and their survivors from the COLA reduction.

I believe that the COLA reduction is wrong because it targets a single group, military retirees, to help address the budget problems of the Federal Government as a whole. While reforms have been made to the Federal civilian pension system over the past several

years, those changes applied prospectively to new employees. By contrast, this change to military pensions will apply upon implementation to current retirees, their families, and survivors.

We've established a commission to review the military compensation and retirement systems. But I believe it is unfair to single out military retirees in a Federal deficit reduction effort.

There have been myriad proposals to repeal this COLA change, including proposals with different offsets and some with no offsets. These include proposals from Senators Shaheen, Ayotte, McConnell, Sanders, Pryor, Hagan, and others. The differences among these proposals highlight the challenges and opportunities in endeavoring to repeal this legislation before it takes effect in 2016. I believe we must find a way to repeal it and I predict that we will.

I trust that our first panel will also address the broader context in which this provision's repeal will be considered, including both the stress placed on the Department of Defense (DOD) budget by the combination of congressionally-mandated budget reductions approaching $1 trillion over the next decade and also combined with the dramatic growth in the cost of military pay and benefits.

The Services have responded to severe budget pressure by reducing force structure and end strength, deferring repair of equipment, delaying or canceling modernization programs, and allowing training levels to seriously decline. DOD has told us that it will be unable to meet legislatively mandated future budget levels unless it also begins to curtail growth in the cost of military pay and benefits.

Army Chief of Staff Ray Odierno told us in November that the average cost of a soldier's pay and benefits has doubled since 2001 and if left unchecked, will double again by 2025. The Service Chiefs have testified that this rate of growth was not sustainable even before the steep budget cuts mandated by law and that a failure to curb this growth will necessarily result in drastic reductions to military force structure, readiness, and modernization accounts.

So we look forward to the testimony of our witnesses on the impact that the reduction in COLA for military retired pay will have on the current force and on retirees, its impact on recruiting and retention, and how these changes fit into the overall DOD budget picture.

Thank you.

Senator Inhofe.

STATEMENT OF SENATOR JAMES M. INHOFE

Senator INHOFE. Thank you, Mr. Chairman. Almost everything that you've said was in my statement too, so I'll just forego that, except for one thing that wasn't mentioned. That is, the National Defense Authorization Act (NDAA) for Fiscal Year 2013 established a commission to undertake a comprehensive review of the military compensation and retirement systems and propose reforms to Congress by early 2015. Now, when the commission was created, Congress made a promise in law to retirees and those currently serving that they would be grandfathered from any changes to the benefits that they were promised when they volunteered in service to our country.

I've often said that people make a career decision, Mr. Chairman, and it's predicated on what they are told at that time would be the situation. To change that, I think, becomes a moral issue.

That promise of grandfathering was again made by the President through the presidential principles submitted to guide the commission. Section 403 of the BBA breaks these promises. I think we all agree that there needs to be a serious look back at military pay and compensation. However, the piecemeal approach taken in the BBA is the wrong way to do it.

I would add that this is on top of other cuts that aren't classified as cuts, but such changes to the detriment of our retirees in TRICARE.

So I think we're on board here together in trying to come up with a solution to this problem. Thank you, Mr. Chairman.

Chairman LEVIN. Thank you very much, Senator Inhofe.

Secretary Fox.

STATEMENT OF HON. CHRISTINE H. FOX, ACTING DEPUTY SECRETARY OF DEFENSE

Ms. FOX. Thank you, Mr. Chairman. Chairman Levin, Senator Inhofe, and distinguished members of the committee:

I appreciate the opportunity to appear before you with Admiral Winnefeld to discuss the state of military compensation and retirement benefits. On behalf of Secretary Hagel and the men and women in uniform we serve, I'd like to begin by offering my appreciation for the support of this committee in once again enacting the NDAA. Your dedication to passing the NDAA means DOD has the authorities it needs to accomplish the incredible array of missions we undertake around the world each and every day, as well as those that support our number one asset, our people.

Allow me to situate today's discussion within the larger frame of the DOD's fiscal situation. We in DOD are grateful for the support of Congress in enacting the fiscal year 2014 Appropriations Act and for the BBA of 2013, which provides us with much-needed certainty over our budget for fiscal years 2014 and 2015 and partially addresses some of the significant budgetary challenges imposed by the sequester provisions of the Budget Control Act of 2011 (BCA).

In response to sequester, last summer Secretary Hagel directed that DOD be prepared to operate with significantly fewer resources than those previously requested. The resulting Strategic Choices and Management Review (SCMR) showed that savings from increased efficiencies, reduced overhead, and reduced military and civilian pay and benefits would not come close to closing the funding gap created by the BCA. Nonetheless, every dollar saved in these areas could remedy some of the shortfalls to military readiness, capacity, and capability caused by sequestration.

That's in part why last summer Secretary Hagel announced another round of management reforms, most notably a 20 percent cut in DOD's major headquarters, staff directorates, and support agencies.

While the BBA partially mitigates the worst of DOD's readiness problems in fiscal year 2014 and to a lesser extent in fiscal year 2015, beyond those 2 years the BCA remains the law of the land. If sequestration is allowed to persist, our analysis shows that it

will lead to a force that is too small, inadequately equipped, and insufficiently trained to fully defend the Nation's interests. That is why DOD continues to call for a change in the law, even as we plan responsibly for a future that could include a return to sequestration.

It's within this context that I join the rest of DOD's leadership in stating that we cannot afford to sustain the rate of growth in military compensation we've experienced over the last decade. The one-third of the defense budget consumed by military compensation cannot be exempt as an area of defense savings. We must find ways to slow the rate of growth.

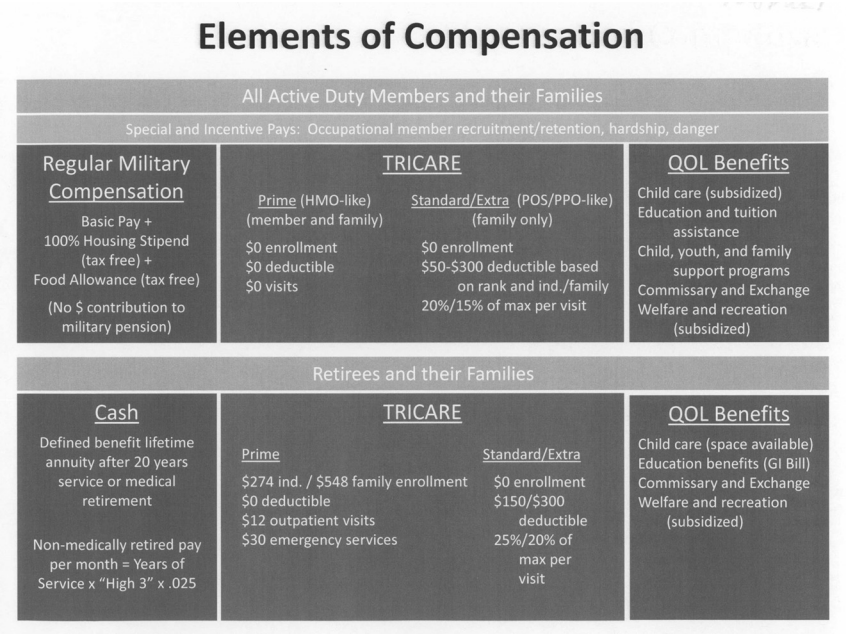
I'd like to be clear. We are where we are today with respect to personnel costs because of good intentions, from a desire to make up for previous gaps between military and private sector compensation, to the needs of recruiting and retaining a top-notch force during a decade-plus of war, to an expression of the Nation's gratitude for the sacrifices of our military members and their families. As a result, inflation-adjusted pay and benefit costs are 40 percent higher than in 2001, even though the Active Force today is only slightly larger.

Defense health care costs alone have grown from less than $20 billion in 2001 to nearly $50 billion in 2013. Payments for housing costs have also increased faster than inflation.

This rate of growth occurred, of course, in an era in which DOD's top line was also growing to meet the needs of a Nation involved in multiple conflicts. Given today's fiscal realities, barring unforeseen events, we are unlikely to see defense budgets rise substantially for some time. So if DOD is going to maintain a future force that is properly sized, modern, and ready, we clearly cannot maintain the last decade's rate of military compensation growth.

Admiral Winnefeld and I brought with us a simple handout that details the elements of compensation each of our servicemembers receive. It is on your table in your packages just below our written testimony.

[The information referred to follows:]



Ms. FOX. What we hear unmistakably from our people is that they feel that the quality of life enabled by the pay and benefits package listed on this chart is relatively high. But conversely, what we increasingly hear them saying is lacking, particularly following sequestration, isn't their level of pay but their quality of service. Our men and women are the first to say that they're well-compensated, but DOD doesn't have money to maintain their equipment or supply them with the latest technology or send them to get the training they need, and then they are being done a disservice.

When they're sent into harm's way, this disservice can quickly translate into a breach of trust. Here I am referring to our collective sacred obligation to provide our troops with the finest training and equipment possible so that they can deploy to combat, able to accomplish their mission, and return to their family safely.

Against this backdrop, DOD has done a significant amount of work to explore how we slow the rate of compensation growth responsibly, fairly, and effectively. We have provided Congress several proposals in recent years, some of which have been accepted. Most notably, just this year Congress accepted a 1 percent basic pay raise even though the employment cost index called for an increase of 1.8 percent. We are currently reviewing all military pays and benefits and may offer further proposals.

A few words now on the COLA-Minus-1 or Consumer Price Index (CPI)-Minus-1 provision included as part of the BBA. To my knowledge, no DOD officials were consulted on the details of the BBA, including the CPI-Minus-1 provision. The Department fully supported the changes made to the provision to exempt military disability retirement and survivors. Moving forward, we support a

comprehensive review of this provision, including its effects on retirees not currently exempted.

If Congress decides to retain the CPI-Minus-1 approach, we strongly recommend it be modified to include grandfathering. Because of the complex nature of military retirement benefits, I would urge that Congress not make any changes in this area until the Military Compensation and Retirement Modernization Commission presents its final report in February 2015.

There are many ways we might change military retirement, including far more fundamental reforms. Because the CPI-Minus-1 provision does not go into effect until December 2015, there is ample time for such a careful review, including waiting for the commission to provide its input.

I'll conclude by reiterating that pay and benefits are an area where we must be particularly thoughtful and cognizant of commitments made and our ability to recruit and retain the force needed for tomorrow. Yet it has become increasingly clear that slowing the rate of growth of compensation cannot be excluded from critical efforts to sustain a force that is balanced, equipped with the latest technology, and ready to meet challenges seen and unforeseen. Not to do so in the name of serving our people or for any other reason would ultimately risk a future in which our men and women could be sent into harm's way with less than what they need to accomplish their mission.

Secretary Hagel and the rest of the Department's leadership won't let this happen on their watch. He and I appreciate the support of this committee and look forward to working with you to achieve the balance we all seek and our men and women deserve.

[The joint prepared statement of Ms. Fox and Admiral Winnefeld follows:]

JOINT PREPARED STATEMENT BY HON. CHRISTINE H. FOX AND ADM JAMES A. WINNEFELD, JR., USN

Chairman Levin, Senator Inhofe, and distinguished members of the committee, we appreciate the opportunity to appear before you to discuss the state of military compensation and retirement benefits in the context of the current fiscal environment. Let us begin, on behalf of Secretary of Defense Chuck Hagel, Chairman of the Joint Chiefs of Staff General Martin Dempsey, and the men and women in uniform we serve, by offering our appreciation for the support of this committee in once again enacting a National Defense Authorization Act (NDAA). As Acting Deputy Secretary Fox was recently able to discuss with both the chairman and ranking member, this committee's dedication to getting the NDAA passed means the Department has the authorities it needs to accomplish the incredible array of missions we undertake around the world each and every day, as well as those that support our number one asset: our people.

BUDGET ENVIRONMENT

We in the Department are likewise appreciative of the full year appropriations bill that Congress recently enacted, which funds the Department of Defense for the remainder of fiscal year 2014, and also for the budget agreement reached under the Bipartisan Budget Act (BBA) of 2013, which provides the Department with much-needed certainty over our budget for fiscal year 2014 and fiscal year 2015, and partially addresses some of the significant budgetary challenges imposed by the Budget Control Act (BCA) of 2011.

The Department fully supports the goal of deficit reduction in the context of maintaining adequate funding to preserve a strong national defense in a rapidly shifting and highly complex global security environment. The President's budget submission for fiscal year 2014 reflected our commitment to achieving this goal. While fully resourcing the President's strategy as described in the Defense Strategic Guidance,

the proposed budget for fiscal year 2013 trimmed the Department's budget by $487 billion over 10 years, as required under the BCA. This nearly half-trillion-dollar reduction dovetailed with efforts undertaken by Secretaries Gates and Panetta to improve departmental efficiencies and eliminate unnecessary or underperforming acquisition programs. It was followed by additional cuts in proposed budget 2014 in support of the President's proposal to replace sequestration.

Once triggered, the BCA's sequestration mechanism reduced the Department's fiscal year 2013 budget by $37 billion, and threatened the Department with an additional $52 billion in cuts in this fiscal year. In response to these realities, last summer Secretary Hagel directed that the Department be prepared to operate with significantly fewer resources than those envisioned in our fiscal year 2014 request. The resulting Strategic Choices and Management Review (SCMR) responded to the Secretary's direction, and clearly demonstrated two points worth noting in the context of today's discussion.

First, the SCMR showed us that in addition to delivering a force that could not fully support the Defense Strategic Guidance in the mid-term, sequester-level cuts under the BCA severely limited the ability of our fighting forces to be ready in the near-term.

Second, it showed that while savings from increased efficiencies, reduced overhead, and reduced military and civilian pay and benefits would not come close to closing the funding gap created by the BCA, every dollar saved in these areas could contribute to maintaining the readiness, capacity, and capability impaired by sequestration-level cuts. That's in part why last summer Secretary Hagel announced another round of management reforms, most notably a 20 percent cut in the Department's major headquarters, staff directorates, and support agencies.

The BBA's increased funding for DOD partially mitigates the worst of the Department's readiness problems in fiscal year 2014, adding about $21 billion above sequestration-level funding. At only about $9 billion above sequestration-level funding in fiscal year 2015, it will do less to help next year. In fiscal year 2016 and beyond, the full BCA sequestration-level cuts remain the law of the land, and will lead to a force that is too small, and takes on too much risk, to fully defend the Nation's interests. That is why the Department continues to call for a change in the law, even as we plan for a future at sequestration levels.

REQUIREMENT FOR SLOWING THE RATE OF GROWTH IN MILITARY COMPENSATION

Mindful of this context, Secretary Hagel, the Joint Chiefs, and the Service Secretaries agree that we cannot afford to sustain the rate of growth in military compensation that we've experienced over the last decade.

The rate of growth in pay and benefits to our military members since the early 2000s reflects the convergence of multiple motivations, all of them well-intentioned. These include making-up for previous shortfalls between military and private-sector compensation, expressing the Nation's gratitude for the sacrifices required by many servicemembers and their families as a result of the wars in Iraq and Afghanistan, and assisting some services—primarily the Army—in recruiting and retaining a top-notch force during the height of last decade's fighting.

As a result of a series of increases to pay and benefits motivated by these interests—and sometimes in excess of those requested by the Department—since 2001, inflation-adjusted pay and benefit costs for servicemembers have risen by about 40 percent. Defense health-care costs alone have grown at an unparalleled rate—from less than $20 billion in 2001 to over $48 billion in 2013. Payments for housing costs have also increased faster than inflation.

As we have witnessed recently with respect to the consumer price index (CPI)-Minus-1 provision included in the BBA, which will be discussed in greater depth below, any discussion of compensation for our uniformed personnel is both emotional and fraught with tough decisions about what the Department, and ultimately the American people, promise our men and women when they put on the uniform.

Here we would like to reiterate a point made by several members of the Joint Chiefs. From talking to our sailors, soldiers, airmen, and marines, the sense of the Department's leadership is that given current rates of compensation, our military workforce feels, in general, that their quality of life is quite high. Conversely, the Chiefs and Service leaders are also told that one effect of sequestration is a marked decrease in what they term quality of service, defined as the satisfaction a servicemember feels at knowing they have what they need to do their job, whether that's well-maintained equipment or adequate training.

Our men and women recognize that if they are well paid, but the Department does not have money to maintain their equipment, or supply them with the latest technology, or send them to get the training they need, then we have not done them

a service, but rather a disservice. When we send them into harm's way, this disservice can quickly transition into a breach of trust. That is because America makes a two-fold sacred contract with its military. The first aspect of our obligation is to properly compensate and care for our service personnel and their families, both during and after their service. But the second part of the contract is equally important: that we provide our troops the finest training and equipment possible, so they can deploy to combat prepared to accomplish their mission and safely return to their families.

As the Department's overall budget declines, we must confront the balance between this two-fold commitment head-on, just as we are confronting the need to balance force size with readiness and modernization.

WORK TO DATE

Against this backdrop, the Department has done a significant amount of work to explore how we slow the rate of compensation growth responsibly, fairly, and effectively.

In so doing, we have followed several key principles.

First, we have endeavored to ensure that pay and benefits remain at levels that would permit us to attract and retain a high-quality All-Volunteer Force.

Second, all adjustments made would serve simply to slow the rate of growth. No servicemember would experience a cut in pay.

Third, we've stated that savings accrued through changes to compensation should be invested in warfighting capability and personnel readiness. Since every 1 percent we save in military pay and benefits equates to almost $2 billion, our ability to reallocate these savings translates into the potential for substantial additional combat power.

In line with these principles, the Department has provided several proposals in recent years seeking to slow the rate of growth in compensation costs, some of which have been accepted by Congress. For example, Congress has modestly increased TRICARE enrollment fees and indexed them to inflation. Congress has also permitted increases in pharmacy co-pays that are structured to provide incentives to use generic drugs ordered by mail. In fact, Congress piloted a program to require the use of mail order for many prescriptions. Just this year, Congress accepted a 1 percent basic pay raise, even though the Employment Cost Index called for an increase of 1.8 percent. We are currently reviewing all military pays and benefits and may offer further proposals in the future.

CPI–MINUS–1 ADJUSTMENT

Recently, Congress enacted and the President signed a change in military retirement. The so-called "CPI-minus-1" provision included as part of the BBA reduces cost-of-living adjustments to military retirees to one percentage point below the CPI, until the retiree reaches age 62. At that point, the retiree's annuity is recomputed based on full past CPI increases, and all increases after age 62 are based on the full CPI.

While no DOD officials, to our knowledge, were consulted on the details of the BBA, including the CPI-Minus-1 provision, DOD fully supported the provisions in the fiscal year 2014 Omnibus Appropriation that modified the CPI-Minus-1 provision to exempt military disability retirements, payments under Combat-Related Specialty Compensation (CRSC) and Concurrent Receipt and Disability Pay (CRDP), survivors of those who died while on active duty, and survivors of disability retired members. These modifications provide critical financial support to those members and their families who have given our country the best years of their lives.

The CPI-Minus-1 provision does not take effect until December 1, 2015. It would save the Department roughly $500 million a year in reduced retirement accrual payments. It would not, however, fundamentally reform or modernize the military compensation system, and does not provide for "grandfathering." A repeal of the provision would eliminate approximately $6 billion in mandatory savings that would need to be offset.

The Department supports a comprehensive review of the CPI-Minus-1 provision, including its effect on retirees not exempted by the fiscal year 2014 Omnibus Appropriations Bill. Examples of issues to examine include whether to repeal the provision entirely, or to include it in an overarching restructuring of the military retirement system.

If Congress decides to retain the CPI-Minus-1 approach, we strongly recommend it be modified to include grandfathering, the approach the Department supports for any changes affecting military retirement. While we do not support retention of a non-grandfathered CPI-Minus-1 approach, because the provision does not take effect

until December 2015, it appears that Congress could wait to modify or repeal it until the Military Compensation and Retirement Modernization (MCRM) Commission presents its final report in February 2015. Because of the complex nature of military retirement benefits, we in the Department recommend that Congress not make any additional changes in this area until the Commission provides its report.

Let us finish by sharing our views on the Commission.

MILITARY COMPENSATION AND RETIREMENT MODERNIZATION COMMISSION

The leadership of the Department of Defense share the goals of the MCRM Commission: to ensure that now and in the future, the military compensation system recognizes the sacrifices of those who are serving and have served in uniform and their families; to ensure military compensation remains competitive with the private sector so we can attract and retain the quality and large number of personnel needed; to ensure compensation is structured to sustain the All-Volunteer Force; to ensure the military compensation system is flexible enough to assist military personnel managers in shaping the force; and to ensure the system delivers an All-Volunteer Force at the best value to the American taxpayer.

The MCRM commissioners have been given an extraordinarily important and complex task, and the Department welcomes their report. Acting Deputy Secretary Fox recently met with Commission Chairman Alphonso Maldon, and discussed with him the many challenges ahead. The Department has itself reviewed military pay and benefits thoroughly, and we believe that we have the necessary information to make judgments about potential changes in most types of pay and benefits. We have presented proposals in the past, and, if we make further proposals in the future, we hope Congress will act on them. However, because of the complexity of retirement issues, we would respectfully ask that Congress not make any more changes until the Commission completes its work. As we noted above, this includes waiting to make any changes in the CPI-Minus-1 provision.

From the very outset of the MCRM Commission's work, the Department has cooperated fully and collaborated closely with the commissioners and their staff. In addition to meeting with Acting Deputy Secretary Fox, Chairman Maldon met with Acting Under Secretary of Defense for Personnel and Readiness Jessica Wright and many members of her staff, as have many other commissioners and Commission-staff members. Additionally, the Department has responded to numerous data requests from the Commission. During their meeting, Acting Deputy Secretary Fox personally assured Chairman Maldon that such engagements and data sharing will continue for as long as the Commission requires, and Chairman Maldon expressed his appreciation for the Department's ongoing support.

The law that established the MCRM Commission also required the Secretary of Defense to transmit his recommendations for modernizing the military compensation and retirement systems to the Commission and Congress by November 1, 2013. As that date approached, the Department was still in the process of arriving at options in these areas, and was unable to share details beyond those contained in our fiscal year 2014 budget request. Since then, we have done more work, and, once completed, the details will be fully reflected in the President's fiscal year 2015 budget. Acting Deputy Secretary Fox assured Chairman Maldon that the Department's senior leaders will make every effort to explain our proposals to Commission members as well as to Members of Congress . We expect that we will be able to discuss a range of reform options with you and members of the Commission by no later than the end of February, and that these options will be fully informed by commitments made to our servicemembers and recent retirees.

We look forward to continuing the Department's close cooperation with the MCRM Commission throughout the coming year.

CONCLUSION

Since 2001 and until last year, the Department of Defense benefitted from increasing budgets as we fielded a necessarily larger force to answer the Nation's commitments at home and abroad. Today, as our combat mission in Afghanistan abates, we must responsibly return to a more routine footing, all the while contending with a rapidly evolving and dangerous security environment. We must do so while at the same time facing a changing—and challenging—fiscal environment.

Slowing the growth rate of compensation must be one element in a larger approach to preparing a future force that is balanced, and ready to meet challenges seen and unforeseen. Yet pay and benefits are an area where we must be particularly thoughtful, as we weigh commitments made, ensure we are able to recruit and retain the force needed for tomorrow, and make certain those we send into harm's way have all they need to accomplish their mission.

We appreciate the support of this committee, and look forward to working with you to achieve this balance.

Chairman LEVIN. Thank you very much, Secretary Fox.

Admiral Winnefeld.

STATEMENT OF ADM JAMES A. WINNEFELD, JR., USN, VICE CHAIRMAN OF THE JOINT CHIEFS OF STAFF

Admiral WINNEFELD. Good morning, Chairman Levin, Senator Inhofe, and distinguished members of the Armed Services Committee. Thank you for the opportunity to testify today on the CPI-Minus-1 provision and on military compensation in general. I'd like to start with the latter, if I may.

First, I want to make it very clear that our magnificent volunteer men and women in uniform and their incredible families deserve the best possible support we can provide, including competitive pay and other forms of compensation. This is especially true when they have experienced over a decade of wartime deployments and stress, coming on top of all the normal disruptions of military life, including the sacrifices made by our wonderful spouses and their families.

However, we must also exercise good stewardship over the resources that the American taxpayers entrust to DOD to protect the United States. This means investing prudently to maintain the highest quality All-Volunteer Force, while simultaneously getting the best value for the capability, capacity, and readiness that we need to win decisively in combat.

In this light, I try not to forget that the American people have been very supportive over a decade of war to those of us who wear the uniform. They provided ample funding for our combat operations. They treat us in person far differently from our Vietnam war predecessors. Many businesses have offered generous discounts and other special benefits to the men and women in uniform. Our Nation, with the support of Congress, has provided substantial increases over the last decade in compensation that have more than closed previously existing gaps with the rest of our Nation's workforce.

We in uniform are very grateful for all of this. It means a lot. However, demanding at this point that our compensation not only remain at its currently high relative level, but that it continue to rise faster than that for the average American, is simply not sustainable at a time when our entire budget is under great pressure. This growth has been substantial and rightly so. By the 1990s, military compensation had fallen to a deeply unsatisfactory level relative to the rest of the working population in America. The quality of our All-Volunteer Force suffered as a result. To address this, with the help of Congress we substantially increased the compensation growth trajectory in the late 1990s and in the post-September 11 period.

These increases worked. In 2001, U.S. median annual household income was $42,000. That equated to the direct pay of an average E–7 in the U.S. military. Today median annual household income is $52,000, roughly equal to what an average E–5 makes. So in short, the average enlisted servicemember surpasses the U.S. median annual household income two pay grades earlier, or about 8

to 10 years earlier, than his or her career would have in 2001. None of this includes indirect compensation, or the special pays and bonuses we use to shape our force, or very generous changes to the GI Bill.

To provide additional context, in 2002, the Quadrennial Review of Military Compensation (QRMC) concluded that in order to attract and retain the best that America has to offer and because of the rigors of military service, military pay should equal around the 70th percentile of civilians with comparable education and experience. But in 2000, mid-grade enlisted personnel only placed in the 50th percentile. By 2009, our higher compensation trajectory enabled us to more than close this gap. In 2012, QRMC reported that average enlisted compensation had climbed between the 85th and 90th percentile, understandably so during a decade of war.

While these percentile numbers are not a goal, they are an indicator that we can and should gradually place compensation on a more sustainable trajectory. As Secretary Fox mentioned, Congress and the Department have already made some initial adjustments, but more are probably needed. The Department, with the support of the Joint Chiefs and our senior enlisted leaders, is now considering proposals that would meet that intent. Contrary to what some are reporting, none of these proposals would reduce the take-home pay of anyone in uniform.

We believe we should make this adjustment once. We'll still be able to recruit and retain the best of our Nation into our All-Volunteer Force, and indeed we are hearing from our people that they're much more concerned about their quality of life, their ability to continue serving in a modern and ready force, than they are about maintaining the trajectory of compensation that closed previous gaps.

We realize that we will probably not get this exactly right. We seldom do. There may be special cases and issues that require corrective action. If future upward adjustments are required in order to remain competitive for the best America has to offer, we will surely recommend them. We'll also do our best to ensure both active and retired communities have the most accurate information possible.

Some will say that savings can and should be found elsewhere through efficiencies. We agree. We're working hard to do just that, and we could use additional congressional support in that area. Yet even with our most ambitious efficiency efforts, we will still need to address the growth rate of compensation.

In the end, we believe the most important way we keep faith with the fantastic young men and women who volunteer to defend our Nation is to only send them into combat with the best possible training and equipment we can provide. Controlling compensation growth in a tough budget environment will help us do just that.

Now, regarding the CPI-Minus-1 provision, we are very pleased that the BBA prevented a government shutdown and gave us at least a couple of years of long-needed predictability in our budget. However, the inclusion of the CPI-Minus-1 provision has clearly led to considerable and understandable anxiety among those who are currently retired or who are planning for retirement.

I want to make it clear that Chairman Dempsey and I and the Service Chiefs and senior enlisted leaders support grandfathering any changes to our retirement structure. The Chairman has testified several times on this point, and the current CPI-Minus-1 provision does not fit within that principle. We believe changes to our retirement plan, if appropriate, should only be made after the commission takes a holistic look at the many variables involved in such a plan. Accounting for changes in the cost of living is only one of those variables and it's far too soon to reach a conclusion on whether it should be part of a grandfathered plan.

I'd also say that however and whenever the specific provision is addressed should not permanently remove COLAs as a potential variable in a future grandfathered plan. In other words, we don't have to rush into this. We just need to make sure we get it right.

However, as Secretary Fox said, we're grateful that the appropriations bill does exempt military disability retirements and survivors of members who die on Active Duty. We thank Congress for this correction. It's an important signal to those in our force who have sacrificed the most.

Thank you again for the opportunity to speak today and for your continued strong support for our magnificent men and women who serve and who have served. I look forward to hearing your views and your questions. Thank you, sir.

Chairman LEVIN. Thank you very much, Admiral.

You both have made reference to the fact, as did Senator Inhofe and myself, that we have a Military Compensation and Retirement Modernization Commission that is at work and their report is due in about, I think the end of this year or early next year. We'll have a 7-minute first round here, by the way.

What I would ask both of you is this. You've made reference to the possibility or the need for some kind of acceptable adjustments to benefits, given their growth. You talked about them being made holistically, Admiral. But that means that there has to be some kind of a criteria which is utilized to help draw that line between acceptable adjustments to existing benefits and changes that would cross the line and undermine commitments that we have made.

Now, one of those criteria would be grandfathering. Is there any other criteria beside that one which either one of you would suggest that we consider as we find a way to repeal this provision or the Commission considers as they look at the broader picture? Do either one of you have suggestions on that?

Ms. FOX. I can certainly start, I think. I'll bet we'll both have thoughts on this because we have been thinking very hard about it. I do believe that the changes to compensation fall into two buckets. There's changes to pay and copays and things of existing benefit programs and pay; and then there's retirement. So the kinds of things DOD has proposed in the past and is looking at are adjustments to things like pay raises. You're going to get paid next year. How much your raise is is something we should talk about. Certainly we believe that those need to be looked at in a very clear-eyed way to make sure we can recruit and retain the best people that we need for the All-Volunteer Force.

There are standards for that, but frankly we monitor that very, very closely every year and, as Admiral Winnefeld said, would cer-

tainly come back to you if we saw any kinds of trends in the negative direction.

Retirement, however, is a program that the Commission is looking at and considering fundamental reform. Those reforms are important for the ways we think about shaping the force, how long people stay in on the force, for example. That has to be thought of in a very different way, and that's why we really do want the Commission to help us think through and look at all the considerations of how that would affect the shape of the force in the future.

So we parse them in that way and have been thinking of them in that way.

Admiral Winnefeld?

Admiral WINNEFELD. Senator, I think you were mostly referring to the retirement side. When I came in the service as a young aspiring fighter pilot, I didn't think I was very smart. I didn't really understand what promises were being made to me. But I did feel like I was going to get 30 days of leave, I was going to be able to have my own personal health care covered, and that I was going to be able to retire at 20 years. I think that's the expectation that currently serving members and retired members have.

So a grandfathering piece, I think, is important to us so that the currently serving and retired members don't sense a change in what they believe that they were promised. I don't believe I got many promises when I came in.

I do think that as we look and as the Commission looks at future potential changes to the retirement system, they have to look at all the variables. Those variables include vesting time—is it 20 years, is it something else—what your retired base pay is, what the defined benefit multiplier would be, if there is such—if that would be included—any bonuses that would take care of that, and matching, and also cost of living.

But in the end, I think there are three goals that such a system has to meet. One of those is that we have to take the best possible care of the people who serve this country. Another goal is that we have to allow the retirement program to help us shape our force with the right profile. Third, we have to get the best value for the American taxpayer. I think as long as we can meet those three goals with the Commission and grandfather what we do, then I think we'll be in good shape.

I hope that helps.

Chairman LEVIN. Thank you.

Do you expect there's going to be any changes in benefits in the 2015 budget request?

Admiral WINNEFELD. Are you talking about retirement benefits?

Chairman LEVIN. Yes.

Ms. FOX. We won't propose anything on retirement benefits in 2015. We are waiting for and working with the Commission to think through retirement.

Chairman LEVIN. Do you agree with that, Admiral?

Admiral WINNEFELD. Absolutely. I think this goes back to what Secretary Fox said a moment ago, where any adjustments we might make in existing compensation, those are changes within an existing structure. We think the Commission is going to look at the

entire structure and that takes a much longer deliberate look that addresses the variables that I mentioned.

Chairman LEVIN. When we find a way to repeal this provision, some of us are going to want to find an offset. Some of the bills that have been filed don't require an offset. But if we're looking for offsets, which is about a $6 billion number, since I think you have indicated that you support repealing this provision, do either of you have suggestions on offsets inside the defense budget?

Ms. FOX. I can certainly start that. We have looked at that. It's about $6 billion, as you said, sir, in mandatory spending. Inside the defense budget, there's really only two places to go for mandatory, TRICARE for Life or changes to retirement, and we've already said any changes we believe should be grandfathered.

We have proposed changes to TRICARE for Life fees that would contribute, but not cover a $6 billion bill. So that's inside the defense budget.

In our budget there are savings that we would accrue aside from the mandatory savings that you referred to of about $500 million a year. We understand and are planning that these types of changes take time. So if you grandfather those savings would accrue over time, and that's true for all the compensation changes we've proposed, force structure reductions we've proposed, efficiencies, we understand it takes time. That's one of the big challenges a sudden drop like sequestration would give us, before the BBA, and we may go back to sequestration in 2016. That sudden drop is a real challenge for us because it does take time. We understand that.

Chairman LEVIN. Admiral, do you have anything on that?

Admiral WINNEFELD. I'd just add, I just want to make sure that the distinction is clear to the members, that there is the $6 billion in mandatory and then inside DOD, because of the CPI-Minus-1 provision, there is about $500 million a year that we're already going to have to contend with in non-mandatory ways, which will involve reduction, capability, capacity choices that we will not be able to make because of that.

But we're prepared to deal with that. We understand it's a factor among all the many other factors that we have to deal with when crafting a budget.

Chairman LEVIN. Thank you.

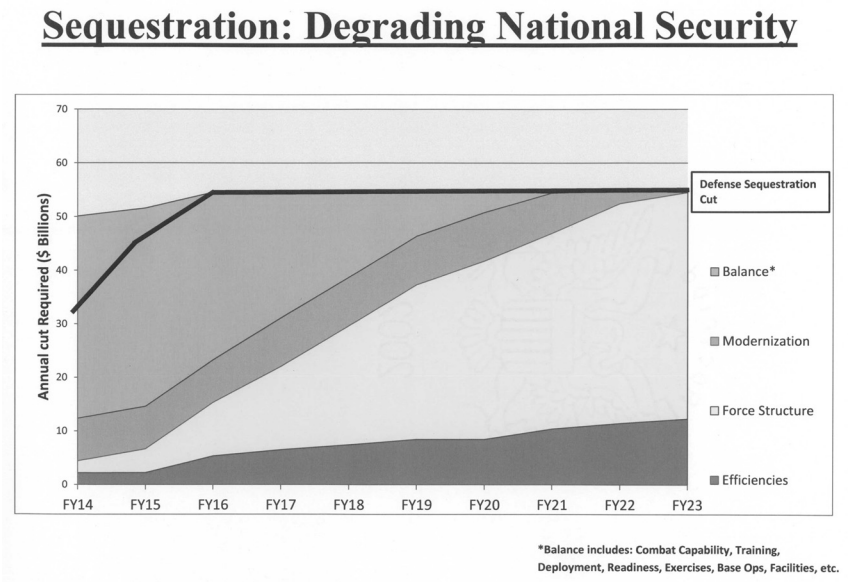
Senator Inhofe.

Senator INHOFE. Thank you, Mr. Chairman.

Secretary Fox, as a former Director of Cost Assessment and Program Evaluation (CAPE), you led the SCMR. In that effort you spent many hours examining the Department's military personnel compensation and benefits structure, including retirement pay and benefits. In your current role as the interim Deputy Secretary of Defense, you will have been heavily involved in the Department's fiscal year 2015 budget.

I have a chart you can see over there on this side. This is a chart that we have used quite a bit. I've talked to both of you about this chart in my office. I think that you have reviewed this.

[The information referred to follows:]



Chairman LEVIN. Can I interrupt you?

Senator INHOFE. Excuse me?

Chairman LEVIN. Roy, could you stay? We have a quorum now. Could we keep you here for 1 minute?

Senator BLUNT. I was just going to step out for a second, but I can stay.

Chairman LEVIN. We want to get to nominations. Forgive the interruption, but Senator Inhofe has encouraged me to interrupt anybody to get our nominations voted on, including himself. Thank you very much. Sorry to do that to you.

We now have a quorum, so I would ask the committee——

Senator BLUNT. So much for sneaking out. [Laughter.]

Chairman LEVIN. I shouldn't have singled you out. You would never have done that. This was a unique opportunity for me.

Since a quorum is now present, I ask the committee to consider 3 civilian nominations and a list of 1,096 pending military nominations. First, I ask the committee to consider the nominations of Madelyn Creedon to be Principal Deputy Administrator, National Nuclear Security Administration; Brad Carson to be Under Secretary of the Army; and William LaPlante, Jr., to be Assistant Secretary of the Air Force for Acquisition. Is there a motion?

Senator INHOFE. I so move.

Chairman LEVIN. Is there a second?

Senator NELSON. Second.

Chairman LEVIN. All in favor say aye. [Chorus of ayes.]

Opposed, nay. [No response.]

The ayes have it. The committee now will consider a list of 1,096 pending military nominations. All of these nominations have been before the committee the required length of time. Is there a motion to favorably report them?

Senator INHOFE. So moved.

Chairman LEVIN. Second?

Senator MANCHIN. Second.

Chairman LEVIN. All in favor say aye. [Chorus of ayes.]

Opposed, nay. [No response.] The motion carries.

[The list of nominations considered and approved by the committee follows:]

MILITARY NOMINATIONS PENDING WITH THE SENATE ARMED SERVICES COMMITTEE WHICH ARE PROPOSED FOR THE COMMITTEE'S CONSIDERATION ON JANUARY 28, 2014

1. Col. Donald R. Lindberg, USAFR to be brigadier general (Reference No. 1299).
2. BG William D. Cobetto, ANG to be major general (Reference No. 1300).
3. BG Bart O. Iddins, USAF to be major general (Reference No. 1301).
4. In the Air Force, there are 30 appointments to the grade of brigadier general (list begins with Roy-Alan C. Agustin) (Reference No. 1302).
5. In the Air Force, there is one appointment to the grade of lieutenant colonel (Teresa G. Paris) (Reference No. 1303).
6. In the Air Force, there is one appointment to the grade of lieutenant colonel (Joel K. Warren) (Reference No. 1304).
7. In the Air Force, there are two appointments to the grade of lieutenant colonel and below (list begins with Jeffrey P. Tan) (Reference No. 1305).
8. In the Air Force, there are 17 appointments to the grade of colonel and below (list begins with Robert D. Coxwell) (Reference No. 1306).
9. In the Army, there is one appointment to the grade of major (David W. Bryant) (Reference No. 1307).
10. In the Army, there are 14 appointments to the grade of colonel (list begins with Joseph B. Berger III) (Reference No. 1308).
11. In the Air Force Reserve, there are three appointments to the grade of brigadier general (list begins with Dennis J. Gallegos) (Reference No. 1318).
12. In the Air Force Reserve, there are three appointments to the grade of brigadier general (list begins with Paul D. Jacobs) (Reference No. 1319).
13. In the Air Force Reserve, there are three appointments to the grade of major general (list begins with Jon K. Kelk) (Reference No. 1320).
14. In the Air Force Reserve, there are 12 appointments to the grade of major general (list begins with Daryl L. Bohac) (Reference No. 1321).
15. In the Air Force, there are 22 appointments to the grade of major general (list begins with Christopher J. Bence) (Reference No. 1322).
16. LTG David D. Halverson, USA to be lieutenant general and Assistant Chief of Staff for Installation Management/Commanding General, Installation Management Command (Reference No. 1325).
17. Col. Stuart W. Risch, USA to be brigadier general (Reference No. 1326).
18. In the Air Force, there are 14 appointments to the grade of colonel (list begins with Therese A. Bohusch) (Reference No. 1328).
19. In the Air Force, there are 49 appointments to the grade of lieutenant colonel (list begins with Richard T. Barker) (Reference No. 1331).
20. In the Air Force, there are 77 appointments to the grade of major (list begins with Jenara L. Allen) (Reference No. 1333).
21. In the Air Force, there are 123 appointments to the grade of major (list begins with Erin E. Artz) (Reference No. 1334).
22. In the Air Force, there are 276 appointments to the grade of major (list begins with Adam L. Ackerman) (Reference No. 1336).
23. In the Army, there are 29 appointments to the grade of major (list begins with Joseph A. Anderson) (Reference No. 1337).
24. In the Army, there are 67 appointments to the grade of major (list begins with Victor M. Anda) (Reference No. 1338).
25. In the Army, there are 159 appointments to the grade of major (list begins with Tracy K. Abenoja) (Reference No. 1339).
26. In the Army, there are 185 appointments to the grade of major (list begins with Harris A. Abbasi) (Reference No. 1340).
27. Col. Paul W. Tibbets IV, USAF to be brigadier general (Reference No. 1359).
28. In the Army Reserve, there are two appointments to the grade of colonel (list begins with Stephen E. Forsyth, Jr.) (Reference No. 1360).

Total: 1,096.

Chairman LEVIN. Thank you very much. Sorry to have done that to you, Roy. Goodbye, Roy. [Laughter.]

Senator BLUNT. I'll be right back now, but now that we've moved over 1,000 nominations while I was here, I'm glad I was able to help. [Laughter.]

Chairman LEVIN. Thank you. Sorry to have done that to you.

Senator Inhofe, we will not take that from your time.

Senator INHOFE. No, that's fine.

Mr. Chairman, I just wanted to point this out to get the big picture here. You're both familiar with this. This is the area of savings prior to the budget that was passed. The black line cuts down in the area of the balance, which is the readiness, for the first 2 years. The orange up there is the readiness area.

The modernization prior to the budget is the green. You see that's not very much. Force structure is the big thing, but not in the first years; it's in the last.

I think when we talk about the savings from various changes in compensation that you're looking at the blue line, and you're really looking only at about half of the blue line there, because that's titled "Efficiencies," of which changes in compensation would be a part. So it would be about 50 percent.

Now, Secretary Fox, do you agree with that analysis of that chart?

Ms. FOX. Yes, sir. You briefed my slide extremely well, sir. I would offer just one point. We did not in the SCMR consider retirement changes, because of the commission and the complexity, as I've said before. So those compensation—that is about half the blue, as you said correctly, are just changes to pay and fees and things of existing programs.

Senator INHOFE. I understand that and I appreciate it. The reason I wanted to bring this up is that this meeting here today is about compensation. There is this misunderstanding of where that fits in the overall picture. Most people would think it would be about the size of perhaps the green and the blue put together. I think people need to understand that it's a big deal, it's a lot of money, but relative to the rest of it, it's not. My concern has always been in the readiness area.

Secretary Fox, we've already seen that this is going to have a devastating effect on long-term financial impact for those who are currently serving. I think that we need to be sure that we're all on the same page on this. The cut squeezes military retirements between TRICARE fee increases that apply at the COLA rate and a compounding decrease in COLA adjustments to retired pay. Now, as a result the military retired pay will not keep up with inflation.

I wanted to bring this out because this is over and above those issues that are already in play right now. Do you both agree that, yes, as bad as they are, they're even worse because of the fact that they already have taken what most people will consider to be cuts in TRICARE medical services?

Ms. FOX. Sir, I want to make certain I have your question. The question is that the CPI-Minus-1 provision not grandfathered compounds on the changes we've made to TRICARE?

Senator INHOFE. That's correct, over and above those changes.

Ms. FOX. Certainly, again we believe that we should grandfather any changes to retirement, and we also believe that for retirement we need to look more holistically. CPI-Minus-1 might be right for the future, it might not. So absolutely the CPI-Minus-1 is important.

The TRICARE increase that we've talked about in 2012 was an increase of $60 a year above, as our chart shows—it's now up to, after being indexed—$548 a year. That compares for civil servants to $820 a month. So yes, there is an increase, but in my view anyway $60 a year as indexed is not as significant as the CPI-Minus-1 provision that we're talking about. So that was all we're trying to say.

Senator INHOFE. It's just over and above it. That's the point.

Ms. FOX. It is, yes, sir.

Senator INHOFE. Again, my concern has always been—when I was serving in the Army many years ago, probably before you guys were even born, we were talking to people who were going to be reenlisting, people what were making career decisions, and it was always based on what was there promised to them at this time. I think that's the reason I always bring that up.

General Dempsey said the other day, and I'm quoting now: "If anybody here thinks I want to be the Chairman that goes down in history for having carved up pay and compensation and health care, I assure you I do not. I don't want to be that Chairman. The problem is there's going to be a Chairman that has to do it. So in my view we should get on with it, but we should do it all at once."

Now, what he's referring to here is the Military Compensation and Retirement Modernization Commission which will be reporting next year. I think you already answered the question, Secretary Fox. Admiral Winnefeld, would you agree with that also, that the commission should be allowed to finish its report and then do everything all at once, rather than to do it piecemeal?

Admiral WINNEFELD. We certainly think that on the retirement side it would be a big mistake to make piecemeal changes, which is why the CPI-Minus-1 thing was a surprise and a bit of a disruption. We think, though, that on the generic compensation side that we have all the information we need to make—these are fine-tune adjustments on the regular compensation. But definitely on the retirement piece we should wait until the commission reports, yes, sir.

Senator INHOFE. Very good. I appreciate it.

Thank you, Mr. Chairman.

Chairman LEVIN. Thank you very much, Senator Inhofe.

Senator Hagan is not here. Senator Manchin.

Senator MANCHIN. Thank you, Mr. Chairman.

I want to thank both the witnesses for their testimony before the committee today. We're here to discuss a very important issue, as you've been talking about, the critical impact on today's servicemembers and for those who will join in the future. After more than a decade of war, our servicemembers have made tremendous sacrifices and I'm here to say that we should honor the promises made to the men and women of the service. I refuse to believe that we cannot find a responsible and thoughtful solution to these fiscal challenges.

I really want to thank Chairman Levin for holding the hearing today. There's a couple of things that I want to ask both of you. When I was Governor of West Virginia, the first thing they came to me and said was we had to raise taxes, the first thing. I said, "don't you think maybe we can run the place, let me check this out for about a year and see if we can do a little better job before we raise taxes?" As a matter of fact, we were able to lower taxes, find more efficiencies, and be more prudent in what we did. Basically, our values were based around our priorities and vice versa.

Just over a month ago, the U.S. Marine Corps became the first Service to complete an unqualified favorable audit opinion, the gold standard for auditing. Countless claims of mismanagement and waste have plagued DOD. I think all of you know that. The current goal is for a clean audit of DOD by 2017. Yet we are discussing cuts to soldiers' pay and benefits today.

It doesn't seem prudent to me for you to say the first thing you have to do is cut soldiers' pay and benefits when you don't know if you can run the place a little bit better. So if DOD fails to convince Congress that changes to the soldiers' retirement benefits are the best option for cost savings, what other courses of action will you recommend? Because we hear of the just unbelievable waste and fraud that goes on in DOD.

Ms. FOX. Sir, first, I don't want to say that we could not be more efficient. That would be a crazy statement, and of course we can be more efficient and need to be more efficient.

The other thing I want to just share with you is that from my time, as Senator Inhofe said, as Director of CAPE, I spent 4 years, starting with Secretary Gates, running efficiency initiatives in DOD. We found savings and we found efficiencies. Secretary Kendall is, of course, running his acquisition efficiencies review and has exercised better buying power, started by Dr. Carter, the former Deputy Secretary of Defense.

So DOD has been seized with efficiencies. We've found $100 billion first, and then another $60 billion, and then $30 billion. This year we'll propose more. We expect to propose efficiencies every year.

But as Senator Inhofe's chart shows, those efficiencies, while important and we must continue them, are not adequate to pay the bills of the sequestration. That said, we have to do them.

Slowing the growth of compensation is another piece of this, though. We're not cutting compensation. We just need to slow the growth. It can't continue to grow at 40 percent above inflation. So we think that's another piece of it. But fundamentally, at these budget levels everything is on the table, first and foremost efficiencies.

Admiral WINNEFELD. Mr. Senator, I would also reinforce that we aren't cutting. We aren't planning. No proposals we make are going to cut anybody's pay, and that's a really important thing I think to get out.

I'd also share in the belief that there's an awful lot more that DOD can do to become efficient. It would be irresponsible to say or believe anything else. We are working very hard on that. We're cutting our staff sizes considerably. We're working hard on acquisition efficiencies. We have a long way to go on that, and I think

many Senators here would point out examples where we have a long way to go on that, although we are making progress. We just saved $4 billion on the Expendable Launch Vehicle, which I think is a real tribute to Ash Carter and Frank Kendall's management of that program.

But no question we need to become more efficient. Even with our most ambitious efficiency targets, we still have more of this gap that we have to fill. As Senator Inhofe pointed out, the compensation slowing is only a very small sliver of that gap.

Senator MANCHIN. Let me say, the other thing I want to talk to you about is our National Guard. Going through the horrible chemical spill that we're going through in West Virginia right now, it was the Guard, the front line of defense for our State, and always has been. I think every State will echo the same.

With that being said, I'm concerned with the recent reports that the Army wants to move Apache helicopters out of the Guard and cut over 40,000 troops from the Guard. I look at what we're doing with contractors, private contractors in DOD, and it's been a real problem for me and really a thorn, to think that we're going to be maintaining our contractor size while we're cutting men and women in uniform.

Also, the Guard just makes sense with declining budgets. You can use your Guard more effectively and efficiently. But it seems like the military itself doesn't want to embrace that.

Maybe, Admiral, you can comment.

Admiral WINNEFELD. We do embrace the Guard. We love the Guard. It's a fantastic institution that this country has used for many hundreds of years. Depending on which State you talk to, they'll give you a different number.

Senator MANCHIN. As we're cycling out from Active, going into our Reserves and our Guard, wouldn't that be a way? You have all this experience and expertise.

Admiral WINNEFELD. We are in the process of our budget deliberations that we're doing right now looking at the balance between the Active Duty and the Reserve component. I would guess that there would be a difference in proportionality, but I wouldn't want to get into any details in there about how one would come down as opposed to the other. But no doubt about the Guard.

The other thing you mentioned was contractors, sir. Again, we completely share your belief. We have to make sure that we have our contractor——

Senator MANCHIN. We've had one heck of a fight on our hands just getting their salaries from $900,000 going to $700,000. We thought maybe they shouldn't be paid more than the Vice President at $233,000, but everybody's pushed back on that.

Admiral WINNEFELD. I will tell you that one thing—and the staff reductions, that the largest proportion of staff reductions that we're taking I know on the Joint Staff and I suspect elsewhere, out of the 20 percent reduction that we have offered up to do, the largest proportion of that is, in fact, contractors, because they are costly.

Senator MANCHIN. Most of them are military, ex-military, doing the same jobs. I would hope you'll look into it.

The Guard, to me, is the most effective, efficient way for us to go in this country, to have the expertise and keep that expertise

ready at all times. For some reason, I don't see DOD embracing that. Even though we've elevated that up to the full Joint Chiefs position—maybe it takes time. I know that Senator Graham tells me it takes a little bit—it's like Paul Masson's wine: "We will sell no wine before its time." I hope we're getting close to that.

So with that, thank you, sir.

Chairman LEVIN. Thank you very much, Senator Manchin.

Senator McCain.

Senator MCCAIN. Thank you, Mr. Chairman.

First, could I say, Secretary Fox, do you believe that the actions that were taken in context of a budget agreement was not the way DOD would like to see this issue addressed? Is that correct?

Ms. FOX. That's correct, sir.

Senator MCCAIN. That the best way to do this is an overall addressing of the issue through the commission that this committee had written into law and signed by the President?

Ms. FOX. That would be our preference.

Senator MCCAIN. Would you agree that one of the principles we should probably adhere to in addressing this issue—and it is an issue—would be to make sure that we do not act in a way that would affect existing servicemembers and retirees? In other words, it would be prospective in nature and we could address the issue effectively if we do it prospectively, rather than creating the impression to the men and women who are serving and those who have already served that we are reneging on our promises to them.

Ms. FOX. Sir, that is exactly DOD's position and has been.

Senator MCCAIN. So it will be definitely, you believe, a recommendation from this commission that whatever changes need to be made will be prospective in nature, rather than affect existing benefits and retirement parameters?

Ms. FOX. Yes, Senator McCain. I believe that is even written in the establishment of the commission, that they be grandfathered.

Senator MCCAIN. I know you respect the members of the Budget Committee, as I do. But they're not renowned for their expertise on military personnel issues. Would you agree?

You don't have to answer, Secretary Fox. You don't have to answer, Senator Fox. I will say that.

I think you already answered this question, but for the benefit of the record again: The plan to reduce 1 percent of military retirees' cost of living was not conceived within DOD, is that right?

Ms. FOX. That's correct, sir.

Senator MCCAIN. To your knowledge, were you ever consulted on this decision?

Ms. FOX. Not to my knowledge.

Senator MCCAIN. To your knowledge, this decision was made by the Budget Committee without ever consulting DOD as to the impact of it on readiness, morale, keeping our promise, et cetera?

Ms. FOX. To the best of my knowledge, sir, we were not consulted.

Senator MCCAIN. Mr. Chairman, I want to thank you especially for anticipating this issue, because it is an issue of rising personnel costs, and the fact that under your leadership we now have a commission established, that I think we can come up with a recommendation that would take into consideration the views of the

military and civilian leadership in DOD, and hopefully we can arrive at a consensus.

Our next panel of witnesses today will be very adamant, understandably so, about their concern about the effect of this action taken by the Budget Committee on the morale and readiness and the ability of us to keep our promise to the men and women who have served and are serving.

I thank you, Mr. Chairman, for actually anticipating the fact that this issue has to be addressed, and I hope we will be able to convince all of the American people of the need to base what we do on the recommendations of the most highly qualified people we can find. I thank you, Mr. Chairman.

Chairman LEVIN. Thank you so much, Senator McCain.

Senator Donnelly.

Senator DONNELLY. Thank you, Mr. Chairman.

Admiral, as we look at this challenge and in light of our belief that these should be grandfathered, and we look at this $6 billion amount that we're looking at, are there things that you can sit with other folks at DOD and with the Joint Chiefs and such and say, are there areas where over a year's period in this budget we can try to find $500 million, putting it in your best judgment, as opposed to imposing something from top down here in regards to our retirees?

Admiral WINNEFELD. Senator, we've already accepted the need to do that with the piece of this that's already inside the DOD budget, where we pay into the accrual fund. That's a $500 million bill. When the legislation was passed, our accounts basically were credited that $500 million and we started to plan prudently to use it. We're going to have to backtrack on that if this proposal is repealed. But we're prepared to make those difficult decisions.

If we are asked to account for the money that's outside the DOD budget, the $6 billion that was in mandatory spending, that's a far more difficult problem for us. As Secretary Fox mentioned, there are really only two pots of money on the mandatory side that we can address and one is retirement, which we believe should be grandfathered, and the other is the TRICARE for Life piece, which is a difficult question as well.

Senator DONNELLY. Secretary Fox, would you like to respond?

Ms. FOX. Sir, Admiral Winnefeld said it exactly, our position. We are prepared to find the $500 million a year because we do believe grandfathering is the right thing for the people. It is another one of the reductions that DOD would seek to make that has backloaded savings and that is a challenge, as was shown in Senator Inhofe's chart. But we are prepared to address that challenge.

Senator DONNELLY. As we look at the future, and we have a commission coming up next year and we don't want to step in front of them or any of the decisions that are going to be made, what are some of the areas you think that we can take a real close look at and make a difference, while still saying to our prospective servicemembers this is a great place to be and this is a great opportunity to have in your life? Admiral?

Admiral WINNEFELD. I think that's a good question and I think it gets back to the variables that are inherent in any retirement plan. I think one that has been discussed the most is the vesting

time, the piece about you have to wait until 20 years before you receive any retirement benefits. That actually helps us a great deal right now in the profiling of our force. We want to have a young force that's going to stay to a certain point and then, frankly, we need a number of them to move on so that we can bring fresh new faces in.

So it would be very difficult to design a system that would give vesting before that, but it's not impossible. That's one of the things that the commission certainly ought to consider.

Senator DONNELLY. Secretary Fox?

Ms. FOX. Senator, I'd like to just share some advice I got from Secretary Gates when I was trying to look at some of these issues. He warned me, and I'll just share with you what he said. He said: "the Department of Defense is like a dinosaur—little teeny brain and very poor fine motor skills. If we start fiddling with these retirement benefits, we have a chance of messing it up."

This is why it's so important that the Commission do this thoughtful work, looking at all the analyses, because as Admiral Winnefeld has said, it's very important that we understand changes in vesting, what that does to the shaping of our force. The needs of our force are changing, though, as we look into the future. Technology changes, expertise changes. We need some of our people with important expertise to stay longer and we need others to move through faster and be young and bring in new ideas. How do we get that exactly right? It's a very difficult challenge and we are working with the Commission and we look forward to continuing to do so.

Senator DONNELLY. Admiral, as we look at the Commission and, as you indicated, the challenge you have of saying, we want that mix to also change at the end where some decide on other career choices and stuff, is it pretty much an art? You're really going to have to dig deep to try to figure out how do we set this up so at 6, 7 years we don't lose people we want to keep for 20 or whatever and the skills that we want? On the flip side of that, that folks who may choose to move on, that they have that choice. Is it going to be a major consideration of the Commission when you look at this as to how to get the mix right for the future?

Admiral WINNEFELD. Yes, sir, I think it is. We have pretty good models and the like under our current system for retention behavior. We understand that fairly well. There are always unknown variables out there. The number of variables is dizzying—national employment, the propensity to serve on the part of the population, whether we're at war or not. Believe it or not, even family income, as to how quickly a person graduating from high school needs to get into a job. Number of recruiters, the amount of pay we give, bonuses, the retirement program, and the like.

So it's a big soup of variables in there, and the Commission's going to have to consider that very, very carefully. When you open up, release the glue, and introduce a new framework that could potentially allow people to retire earlier, those models are going to be upset, and we'll have to determine how to modify them so we can understand the behavior. I think that's part of the challenge for the Commission, to understand whether we have a model that can accurately predict behavior so we can profile our force correctly.

Senator DONNELLY. Thank you very much.

Thank you, Mr. Chairman.

Chairman LEVIN. Thank you, Senator Donnelly.

Senator Wicker.

Senator WICKER. Thank you, Mr. Chairman. A real important hearing and I appreciate your calling it, Mr. Chairman. I appreciate your starting out at the outset saying that this CPI-Minus-1 was wrong and it needs to be fixed.

As a matter of fact, not a single voice has been raised on either side of the dais today in support of what this Congress enacted and what was signed into law. I appreciate this. I also want us to appreciate the seriousness of this hit to the military retirees that are affected. It hasn't been mentioned yet today. If either witness wants to challenge me on this, now's the time to do it.

But for the typical enlisted military person who retires below the age of 62, this is going to mean a lifetime hit of somewhere between $70,000 and $80,000 or more lifetime to that military member. Correct me if I'm wrong there, but that's been substantiated over and over. It depends on exactly when the enlisted person retires and exactly what their rank was at the time. For officers it's even more. It's over $100,000 out of their pockets over a lifetime.

So this is a serious matter. CPI-Minus-1 sometimes can appear to diminish the profound effect this has.

Let me ask you, Secretary Fox—and let me acknowledge also to both of you, I understand the problems that you're facing and the daunting task that you have in making the numbers come out. We want to work with you on that. That's why we established the commission with certain parameters.

As I understand it, Secretary Fox, you're sorry this was enacted, you're glad it's been corrected with regard to disabled military retirees, and you want to fix it, but you want us to wait 13 months to fix it for everyone else; is that correct?

Ms. FOX. Yes, sir. We want it be informed by the results of the commission.

Senator WICKER. Now, why was it a good idea to fix it—it wasn't going to go into effect until December 2015 for the disabled retirees. Why was it a good idea to go ahead and fix it for them?

Ms. FOX. Sir, I think that the disabled retirees' cases is very clear. I think that whether to do anything with disabled retirees is just not a part of any——

Senator WICKER. I think it was clear. I think it's clear on the rest of them, too. It seems to be clear up and down the aisle. So if it was clear for them and if we're unanimous in this room and unanimous at the witness table that this is a wrong that should be fixed, it seems to me it ought to be made clear.

Admiral Winnefeld, you mentioned predictability. We have an opportunity. We have pay-fors proposed on both sides of the aisle to do this. It seems to me it doesn't make any sense, if we're all in agreement on this, to wait, unless you want to hold out the possibility that we may stick with this. Now, if you want to send that signal then waiting for a commission report or waiting 18 months might be a good idea. But if we're all agreed this is wrong, shouldn't have been done, we can pay for it elsewhere, it seems to

me that it makes no more sense to postpone this for 13 months than it did for the other clear case.

It reminds me of sequestration. Mr. Chairman, we had witness after witness appear before this committee and other committees: We're not going to have sequestration in the United States of America. We had witnesses from agencies tell committee after committee: We're not even making plans for sequestration because it is so unthinkable, it is so heinous, that we know this is not going to happen. The President of the United States said in a debate: Not going to be any sequestration.

We hoped that was true, but it wasn't true. Sequestration did happen. To me to say we know this should be fixed, we know it's wrong, we know it was the wrong approach, we regret it, but let's wait, to me it holds out the potential that it'll be like sequestration and go into effect despite everyone's protestations to the contrary.

We said there's not going to be sequestration. There was sequestration. We were told in this city repeatedly if you like your health care plan you get to keep it, period. It turns out that that wasn't the case. We've told military members: You do your side of the bargain, you signed up for worldwide duty, you place yourself in an assignment to regions where you're in harm's way, and we're going to keep our promise to you. Last month we broke that promise, and now we're being told, let's just wait 13 months before we fix that.

I really, I can't go along with that. I would say to my colleagues, this is about a promise that everybody says we need to keep, and it's also about the process. My friend from Arizona said this came out of the Budget Committee. This didn't come out of the Budget Committee. It came from behind closed doors and was authored by two individuals and presented to us as a package, take it or leave it.

If we would start following the process in this Congress, if the budget conference had been allowed to vote on it, to debate it, to hear amendments, we might have adopted Senator Ayotte's offsets. We could have come up with these savings elsewhere. If we had had an amendment process like the rules call for in the budget bill, we would have had opportunities on a bipartisan basis to pay for this elsewhere, to have these savings elsewhere, to keep our promise to the people who fulfilled their promise to the security of the United States of America. If we had had this in the omnibus bill.

We need to get back to following the rules around this Congress. If this had seen the light of day, the elected representatives of the American people, the 100 Senators, the 435 Members of Congress, would never have stood for this broken promise. I think this ought to be a lesson to us. Let's keep promises, but there's a reason we have rules around here. It's not to waive and it's not to get around them, because generally it ends up with bad policy.

I thank you. I want to work with you, but I have to say we need to go ahead and act. Everyone acknowledges this was wrong and if it was wrong we need to go ahead and send the signal that we're going to make it right.

Chairman LEVIN. Thank you, Senator Wicker.

Senator Kaine.

Senator KAINE. Thank you, Mr. Chairman.

I want to maybe take a little different tone than my friend the Senator from Mississippi on this one. I agree completely that this is a provision that needs to be changed and I think we will change it. I agree that we should change it immediately, because it seems like the thrust of your testimony is why not return to the status quo pending the 2015 report, and we need to change this just to return to the status quo so that we don't send a wrong signal. Whether it's with a pay-for or not, I think we should return to the status quo.

But I do want to take on the bigger picture issue of, instead of kicking ourselves around because we made a mistake, we haven't done a budget in 4 years. We haven't done a budget in 4 years. A divided Congress hasn't done a budget conference since 1986. So we did a budget and the Senate budget did not include this provision. There are at least four members of this committee who are on the Senate Budget Committee. This was not in the Senate budget.

It did come up during the course of the budget conference in the negotiations between the two chairs. I don't want to trash the chairs for coming up with a budget deal that we had to vote on, because no budget has been hurting our military and hurting our veterans. Sequester, which is what we did when there was no budget deal, has been hurting the military and hurting veterans. Continuing Resolutions (CR) instead of appropriations bills have been hurting the military and hurting veterans.

So we did in December what legislative bodies do all the time, which is there was a budget deal that was a compromise, that had things in it that I loved, that had things in it that I hated, and that didn't have things in it that I wished were in it. That's what doing a budget deal is.

This is an example of something that we didn't put in the Senate budget deal because we didn't like it. We like the grandfathering notion, I think all of us embrace. But the vote that we cast on this—I know it's good to put this to a whole vote, as we were breaking a promise. We were trying to do a budget for the United States of America in a Congress that hadn't done a budget for 4 years, and doing it with the knowledge that there were some pieces that we didn't like and felt like we could fix.

So I think that there's a tendency up here to kick each other around or for one house to kick the other house around or for the executive branch to kick the legislative branch around or the legislative branch to kick the executive branch around. Talking each other down is no way out of any of the challenges that we have.

I think the budget deal that we reached in December—I'll just ask you: Are you glad that we have a 2-year budget? Is that a good thing for the military?

Ms. FOX. DOD has been very clear, we needed the stability and we appreciate the stability.

Senator KAINE. Are you glad that we were able to get an omnibus appropriations bill for the full year instead of gimmicks like a CR?

Ms. FOX. Yes, sir, of course. An appropriation gives us a lot of opportunities to do what we need to do without the CR, which just ties our hands, as you well appreciate.

Senator KAINE. So to me, a standard feature of this budget deal—the best part about the deal is that there was a deal, and a standard feature of a budget compromise is that there are some pieces that I don't like and I hope to fix. I wish unemployment insurance extension had been part of this budget deal. It wasn't. We're trying to figure out a way to fix that.

But the fact that there are pieces of the deal that we don't like I don't think should obscure the issue that when we together passed a budget deal and an omnibus, we did something really good for veterans, we did something good for the military. I live in a State that I'm sure has the most direct military connection in terms of the number of veterans per capita, Active Duty military, Reserve, DOD civilians, DOD contractors, military installations. We're the most connected State to the military, I believe, of any in the country. Overwhelmingly, even though there are aspects of this deal that we don't like and want to fix, the fact of the deal is something that I think House, Senate, Democrats, Republicans, inside, outside Capitol Hill, should be glad that we've finally shown we can get it. Not that we can't make improvements, and this is one that I share with everyone around the table that we ought to fix this, and I'm actually very confident we will.

For purposes of those who are watching this who weren't in on the earlier discussion about the composition of the panel, I think it's important and I would like to ask you to describe who it is that's around the table coming up with the recommendations that you're intending to make back to Congress in February 2015, because I think it's important to know. Are all viewpoints, enlisted and officer and active and veteran, are all viewpoints being represented?

I'm not talking about the names, but I'm talking about is it a good collection of stakeholders who are making these recommendations, who will look at these issues from a variety of different angles?

Ms. FOX. Senator, just for clarity, are you asking about the process we've used inside DOD, not the composition of the Commission? Is that correct?

Senator KAINE. I would actually like to know within the DOD and then composition of the Commission. This is more to explain for those who are watching this.

Admiral WINNEFELD. Sir, for the Commission, I don't have the actual composition of the commission memorized or with me, but I do recall having looked at it and that it was a good representative commission, panel, that will have a good opportunity to look fairly and thoroughly at retirement, in particular. We have confidence in this panel. We've had good cooperation with them and they're working hard. I think they're going to come up with some pretty good information for us.

Inside DOD, we've had a number of meetings of the Joint Chiefs with the senior enlisted advisers in the room, and we have talked about this for months on specifically the compensation pieces. We're still working through it. We haven't made a budget submission yet, but there's been a thorough vetting with our senior officer and enlisted leadership of the proposals that we might present.

Ms. FOX. Then on top of that, the senior officer, enlisted, as brought through the Joint Chiefs, has come to DOD's leadership right up to the Secretary, spent a lot of time with him, with the military, the civilian, our personnel experts, our Comptroller, our analysts, all in the room together going through these proposed options for change, how we might think about it. That's the process we've done pretty much every year that we've proposed any changes to Congress for our compensation.

Senator KAINE. Thank you, Mr. Chairman.

Chairman LEVIN. Thank you, Senator Kaine.

Senator Ayotte.

Senator AYOTTE. Thank you, Mr. Chairman. Thanks so much for this hearing. It's a very important topic.

Let me just ask you, Admiral Winnefeld and Secretary Fox. I think it's been clear not one DOD official was consulted on this cost-of-living increase cut, were they?

Admiral WINNEFELD. To my knowledge, there were no DOD officials consulted. We heard about it in the end game, as other people did.

Senator AYOTTE. Just to be clear, the way this went down is that many of us sitting around this table actually also serve on the Budget Committee, and as a member of the Budget Committee and a member of the Armed Services Committee we weren't consulted about this cut to the cost-of-living increase.

As far as I know, the chairman of the Armed Services Committee was not consulted on this cost-of-living increase cut. In fact, the cut actually violated the principles in our own law that we passed that said that if there are going to be any changes to retirement that they would be grandfathered. Isn't that right?

Ms. FOX. That's correct.

Senator AYOTTE. Wonderful that we can reach a 2-year budget agreement. But you know what was astounding to me is once this became public that people from both sides of the aisle said this is wrong. Before we even voted on it, people on both sides of the aisle had ideas on how to fix it, but we couldn't get it fixed then before we inked this deal. That would have been the right thing to do.

Now, the right thing to do is to fix it now, not to leave this hanging over our men and women's heads in terms of the unfair cuts here. I hope that we can agree to fix this now, not to delay it.

But this is a lesson. To not consult our men and women in uniform is outrageous. To not include people who serve on the Armed Services Committee to make cuts to military retirees—only in Washington. I think that we should commit ourselves around this table to find a fix for this. We can pay for it. Many people, including myself, have ideas on how to do it, not taking further from the military budget, so that we don't have a further impact on sequestration and the service to our men and women in uniform, making sure they have the equipment that they need.

Let me just ask you, Admiral. A sergeant first class—the chairman used an example of you enlist at 18, you put 20 years in, you retire at 38. Someone who has done that in the last 20 years, how likely is it that that individual has done multiple tours in Iraq and Afghanistan?

Admiral WINNEFELD. Certainly it depends on the branch of Service, but no question that if you're a soldier or a marine or someone in the other Services who serves on the ground, you've probably done more than one tour.

Senator AYOTTE. When you do a tour in Iraq or Afghanistan, do you have a chance to put roots down in a place, so that when you do retire that you already have roots there, that you can establish a career? Is that so easy?

Admiral WINNEFELD. I'd say regardless of whether you're serving in Afghanistan or Iraq or around the world——

Senator AYOTTE. Or anywhere.

Admiral WINNEFELD.—that one of the facets of our life in the military that we accept is that we don't have the opportunity necessarily to set some roots down. As the son of a naval officer, I don't even know what roots are.

Senator AYOTTE. Right.

Admiral WINNEFELD. But there are a number of people who come into the service from States all around the country who might have residual roots there. But you're absolutely right, for 20 years you're moving around.

Senator AYOTTE. Isn't that different from your average individual in terms of the ability to establish a career even post-20 years in the military?

Admiral WINNEFELD. Senator, it's even more than that. It affects the spouse's employment. Many of them face severe disruptions as they move from place to place. We've gotten some help from Congress on that, frankly, but it's still very hard for a spouse to move from one place to another and jump right into the same job.

Senator AYOTTE. So often for a family now you need a two-income household. So when your spouse is moving around all the time, he or she can't have a situation where they can establish their career also. So you're losing income there as well, aren't you?

Admiral WINNEFELD. It's income, and I think there's a frustration and an anxiety level of, "next time we move, am I going to be able to find a job?"

Senator AYOTTE. So let's be clear. A military retirement is very different in terms of the sacrifices that are made than your average civilian retirement; do you agree?

Admiral WINNEFELD. Yes.

Senator AYOTTE. In terms of the sacrifices made by your family, in terms of the opportunities that you lose to earn income, in terms of the opportunities that you lose to put roots down because of the sacrifices you have made for our Nation; is that right?

Admiral WINNEFELD. I absolutely agree, and that's why we tend to not try to make direct comparisons between civilian and military retirement.

Senator AYOTTE. In fact, when you retire from the military you can be recalled, can't you? As far as I know, in a civilian retirement generally you aren't mandatorily recalled back to your job, are you?

Admiral WINNEFELD. It's unusual, but in the event of a crisis, a national emergency, absolutely, you can be recalled.

Senator AYOTTE. In fact, we've been informed since September 11 about 3,400 retirees were actually recalled back to Active Duty service. Does that sound about right?

Admiral WINNEFELD. I don't have the numbers, but I wouldn't be a bit surprised if they were accurate. There are some who come in voluntarily, but others are recalled, yes, ma'am.

Senator AYOTTE. So that's another huge difference and I think a disconnect with what happened in this budget agreement.

I want to ask you about an issue that was brought to our attention that involves general officer retirement pay, both you, Admiral and Secretary Fox. As we looked, I saw a report that said that 2007 legislation provided incentives for senior officers to continue serving by extending the basic pay table from a cap of 26 years to provide increase in longevity to pay out for 40 years of service. According to one press report in USA Today, using 2011 numbers, this could result in a four-star officer retiring with 38 years of experience receiving $84,000 more in retirement than previously allowed.

Now, I understand why these changes were made, because we were in wartime and I assume the purpose was to encourage combat-experienced one- and two-star admirals and generals to continue serving during the war. However, now we're in a situation where Congress has made cuts to—and I want to say these cuts, by the way, are a penalty. It's a 1 percent decrease in your cost-of-living increase. It's a penalty.

We haven't even looked at issues like do we need to continue the increases to the generals and admirals that they've received now that we are winding down in Iraq and Afghanistan. Could you comment on that? Think about the impact on a sergeant first class losing $80,000. That is a huge impact.

Admiral WINNEFELD. Senator, we think the commission should look at all elements of retirement, all pay grades, and all of the many variables that I listed earlier. So we look forward to what the commission has to say on that and other issues.

Senator AYOTTE. Also, looking as well at, obviously, admirals, generals, and seeing what is fair in terms of their compensation as well, because it seems to me that the people that took the biggest hit under this—the officers take a big hit under this as well and I don't diminish that. But your average enlisted person, from what they take as a hit, basically as I understand it their average retirement is about $25,000 a year and, with moving around and everything like that, they have to try to find another job just to feed their family. Do you agree with that?

Admiral WINNEFELD. I do. We are looking at all of the proposals we are considering under the budget submission that we'll make this year. Flag and general officer pay is one of them.

Senator AYOTTE. I appreciate that. I just hope that we can fix this wrong and right it now and not wait, Secretary Fox. I don't think we should wait.

Thank you.

Chairman LEVIN. Thank you, Senator Ayotte.

Senator Reed.

Senator REED. Thank you, Mr. Chairman.

I think there's two clear issues emerging with broad consensus. One is we have to correct this issue, and my sense is that has to be done very quickly, immediately, for many reasons. One is the issue of what signal we're sending to the forces in the field. I un-

derstand—and the chairman may correct me or respond—that we could move such a bill through this committee without a pay-for, because we're not responsible for the pay-for. Is that accurate?

Chairman LEVIN. That is accurate. I think that the one bill which has been referred to the committee—we're doublechecking this, however—is the bill of Senators Hagan and Pryor, I believe, that does not have a pay-for. If there's a pay-for, an offset in other words, then that, I believe, would be referred to a different committee.

But this committee, I believe, will have the ability to act promptly on a bill, and I hope that we will and not wait for the Commission because there is a clear consensus we should clear the air on this issue.

Senator REED. Thank you, Mr. Chairman. I appreciate that clarification. Again, I do sense that this is a consensus across the whole spectrum of the committee.

That does still leave open the question of the role of this commission, which is absolutely critical. We can anticipate—I'll ask you, Admiral Winnefeld, and then Secretary Fox—next year when the Commission reports that there will be proposals to us, and we can deliberate upon them thoughtfully and publicly, that will deal with the spectrum of pensions, compensation, benefits, et cetera. That's necessary because you're reaching a situation where maintaining the operational readiness of the existing force is being squeezed, for want of a better term, because of the obligations of these costs that are building up and have been building up because of congressional action.

Can you comment on that, Admiral?

Admiral WINNEFELD. The Commission will certainly offer its recommendations to Congress and certainly to this committee on how both pay and compensation and retirement should be structured. So we believe that we should wait until they—I'm not necessarily saying we should wait until we repeal this because that's a different question. But we do need to look at what they come up with, the various variables on retirement.

On the compensation piece, it's possible that the Commission could come up with some structural recommendations to compensation. Any recommendations we would make for the fiscal year 2015 budget would not be structural. They would be fine-tuning the existing system to recruit and retain the best while getting the best value for the taxpayers.

Senator REED. Before I ask the Secretary, the presumption I think within the Commission is not only will their recommendations allow us to deliberate and make thoughtful decisions based upon inputs from everywhere, but also in basic fairness that they will be implemented on a basis so that people will not be prejudiced. There will be grandfathered provisions, because without that you have people who served with distinction and with great courage, who their expectations could be radically changed. Is that the presumption?

Admiral WINNEFELD. I would have to doublecheck, but I'm almost certain that the law itself, the legislation that established the Commission, directs them to not consider anything other than something that's grandfathered. We support that.

Senator REED. Secretary Fox, your comment?

Ms. FOX. Yes, sir, Admiral Winnefeld is correct. I actually brought that section with me. The law specifies that any changes be grandfathered. That was as guidance to the Commission. We do want to see the Commission's results and they would be brought forward and debated and we look forward to that.

This point about timing. I hear the consensus. We agree, CPI-Minus-1 in the provision is not grandfathered and that's not what we seek. We want any change to retirement, whatever it ends up being, grandfathered. The only point is that it doesn't happen until December 2015. We believe that two things must happen. It needs to change before it's implemented and we need to give space to this commission to allow it to be effective. If that space is repeal and then do something, so be it. If that space is wait and we'll see what the Commission has to say and then do it one time, a one-time change, so be it.

But those are the parameters of our consideration.

Senator REED. So your point is that at present, because the effective date is not until December 2015, there is no one who is actually being denied the full benefits that were promised, et cetera. The other point I think you make is that it is entirely possible that the Commission could propose some retirement arrangement, maybe not this one identically, but some arrangement, however that would have to be debated by us, it would have to be grandfathered to protect people, which this provision isn't. So that would provide a much better approach to dealing with the issue of retirement. Is that fair?

Ms. FOX. Yes, sir, that's exactly our position. The Commission now will report out in February 2015.

Senator REED. But it doesn't preclude us and it shouldn't preclude us from taking the action to correct it and then wait for the commission's deliberations.

Just one other point. What is driving this, not entirely, but is the need not only to keep our promises to the retired community, which should be considered invulnerable in my view, but also everyone's commitment to people on Active Duty that they have the best training, the best equipment, that their families have the best opportunities while they serve. That's one of the fundamental tensions we're trying to deal with. Is that accurate, Admiral?

Admiral WINNEFELD. Yes, sir, it is. I would add if I could, the only real interest that I have in deliberately doing this is simply to make sure that if it's repealed it's repealed in a way that doesn't take it off the table in some form of accounting for cost-of-living, whatever it is, so that this is not taken off the table permanently for the commission. The Commission ought to be able to look at all the variables.

If it's repealed in a manner that doesn't mess with that, if you will, the timing is completely up to Congress, obviously.

Senator REED. Thank you, Mr. Chairman. Thank you.

Chairman LEVIN. Thank you very much, Senator Reed.

Senator Fischer.

Senator FISCHER. Thank you, Mr. Chairman.

Thank you both for being here today. You've presented us with a lot of interesting information. In discussing the conclusions of the

SCMR, Secretary Hagel said that Chairman Dempsey would lead an effort to find $50 billion in savings through changes to compensation. Now, today you've said that retirement changes won't be part of the coming budget request. But can you tell me what the status is of General Dempsey's review on the compensation part?

Admiral WINNEFELD. We were challenged as a stretch goal to try to find—I don't think it was $50 billion; I thought it was less than that, something like $40 billion—but a decent sized number for compensation savings. Other areas of DOD, by the way, were equally challenged in other ways to find savings.

We worked very hard to do that. We actually came up with the set of proposals that would be required to make that mark, and we found them too severe. So we have been working on a set of less severe proposals that we will consider submitting as part of the President's budget request. We're not ready to talk about those because they're not final, but we're not going to make the $40 billion or $50 billion or whatever it was. But it was a very good exercise for us and a stretch goal to try to see where we could find savings.

Senator FISCHER. Thank you.

Senator Kaine raised an issue earlier and I'd like to follow up on it if I could for a minute. Is DOD including outside groups in its review of the compensation? Have you reached out to veterans groups?

Admiral WINNEFELD. We are still in the process of deliberating over these things and we're not ready to show whatever proposals might be submitted. But we do look forward to consulting with the veterans groups, because it's important that they understand them. We'd like to have their support. We know that will be difficult. Any time you're talking about slowing a growth rate of compensation—we're not taking anybody's pay away—and we understand that. That's what veterans groups are for. We love them. They do a very important service for our people. But I think in due course we will definitely consult with them.

Senator FISCHER. So am I understanding you correctly in that you're coming up with proposals inside DOD, then you're presenting it to stakeholder groups looking for input? Or are you including the stakeholders, veterans groups for example, in providing you with suggestions and input?

Admiral WINNEFELD. We've listened to, certainly listened to the veterans support organizations. They're very vocal, understandably, and we appreciate that. We understand what they're telling us. I think that at various levels there have been discussions with members of the veterans groups, round tables, and things. But we have not presented any specific proposals to them because we can't get out in front of the Secretary or the President in submitting a budget.

Senator FISCHER. I go back to this. You're presenting your proposals to these groups. You're not asking them to present proposals to you with ideas for changes?

Admiral WINNEFELD. No, we have not brought them in and asked for their proposals on how to change compensation. We're certainly open to that. We listen to what they say. We read what they write and we take that into account as we deliberate over these things. I don't know whether they would come in with a pro-

posal at all to change the glide slope of compensation, but I would be interested in that if they did.

Ms. FOX. May I just add that Secretary Hagel does meet with the veterans. So certainly there is a dialogue. As Admiral Winnefeld has said, we have not concluded anything about specifics of our compensation proposals. But he meets with them and listens and they have a general dialogue about far-ranging issues. I have not been privy to them, but if you would like, I'd be happy to take for the record some report back on the kinds of topics that they discuss.

[The information referred to follows:]

Please see the attached documents, which include:

A. A list of MSOs/VSOs/Military-Supporting Nonprofits who participated in the Secretary of Defense roundtables.
B. The agenda for three roundtables which took place on March 21, 2013, June 13, 2013, and September 19, 2013.
C. OASD(PA) Hosted Conference Calls Outreach to MSOs, VSOs, and Military-Supporting Nonprofits from April 2013–February 2014.

27 Key NGO Organizations

MSOs / VSOs / Military-Supporting Nonprofits

1. Air Force Association
2. The American Legion
3. American Red Cross, Service to the Armed Forces
4. AMVETS (American Veterans)
5. Armed Services YMCA
6. Association of the United States Army
7. Blue Star Families
8. Disabled American Veterans
9. Fisher House Foundation, Inc.
10. Iraq and Afghanistan Veterans of America
11. Institute for Veterans and Military Families
12. Marine Corps League
13. Military Child Education Coalition
14. Military Officers Association of America
15. Military Order of the Purple Heart
16. National Guard Association of the United States
17. National Military Family Association
18. Navy League of the United States
19. Operation Homefront
20. Reserve Officers Association
21. Student Veterans of America
22. Tragedy Assistance Program for Survivors
23. U.S. Chamber of Commerce Foundation (Hiring Our Heroes Program)
24. USO, Inc.
25. Veterans of Foreign Wars of the United States
26. Vietnam Veterans of America
27. Wounded Warrior Project

UNCLASSIFIED

SECRETARY OF DEFENSE ROUNDTABLE
March 21-22, 2013
SD Conference Room (3E863)

AGENDA

DAY 1 – Thursday, March 21

9:00 a.m.	**Welcome and Introductions** Ms. René Bardorf, Deputy Assistant Secretary of Defense for Public Affairs, Community and Public Outreach
9:15 a.m.	**Opening Remarks** Mr. George Little, Assistant to the Secretary of Defense for Public Affairs
9:30 a.m.	**Joint Staff Briefing** Lieutenant General Curtis "Mike" Scaparrotti, Director of Staff, Joint Chiefs of Staff
10:30 a.m.	**Break**
10:45 a.m.	**Department of Defense Budget Briefing** The Honorable Robert F. Hale, Under Secretary of Defense, Comptroller, and Chief Financial Officer
11:45 a.m.	**Break and lunch set-up**
12:00 p.m.	**Working Lunch**
12:50 p.m.	**Break and clear lunch**
1:00 p.m.	**Department of Defense Personnel and Readiness Briefing** Ms. Jessica Wright, Acting Undersecretary of Defense for Personnel and Readiness
1:45 p.m.	**Break and Room preparation** Secretary of Defense Protocol

DAY 1 (continued)

2:00 p.m.	**Department of Defense Briefing** **The Honorable Chuck Hagel, Secretary of Defense**
3:00 p.m.	**Service Briefings** Lieutenant General William Troy, USA, Director of the Army Staff Lieutenant General William M. Faulkner, USMC, Deputy Commandant for Installations and Logistics Lieutenant General Burton M. Field, USAF, Deputy Chief of Staff for Operations, Plans and Requirements Rear Admiral Bruce Grooms, USN, Assistant Deputy Chief of Naval Operations for Plans and Strategy
4:00 p.m.	**Break**
4:15 p.m.	**Working Discussion** Ms. René Bardorf, Deputy Assistant Secretary of Defense for Public Affairs, Community and Public Outreach
5:15 p.m.	**Concluding Remarks** Ms. René Bardorf, Deputy Assistant Secretary of Defense for Public Affairs, Community and Public Outreach
5:30 p.m.	**Day 1 Events End**

UNCLASSIFIED

DAY 2 – Friday, March 22

9:00 a.m.	**Welcome and Introductions** Ms. René Bardorf, Deputy Assistant Secretary of Defense for Public Affairs, Community and Public Outreach
9:10 a.m.	**Follow-on Discussion – Sexual Assault Prevention** Maj. Gen. Gary S. Patton, Director, DOD Sexual Assault Prevention and Response Office
9:40 a.m.	**Follow-on Comptroller Discussion – Impact of Sequestration** The Honorable Mike McCord, Principal Deputy Under Secretary of Defense, Comptroller
10:10 a.m.	**Break**
10:20 a.m.	**Follow-on Discussion – Transition Assistance Programs** Dr. Susan Kelly, Director, Transition to Veterans Program Office Mr. Frank DiGiovanni, Director, Training Readiness and Strategy
10:50 a.m.	**Follow-on Discussion – Military Community & Family Policy** Mr. Charles Milam, Acting Deputy Assistant Secretary of Defense for Military Community & Family Policy
11:20 a.m.	**Follow-on Discussion – Military Health System, Veterans Health Care, and Suicide Prevention** Ms. Jackie Garrick, Acting Director, Defense Suicide Prevention Office Dr. Karen Guice, Principal Deputy Assistant Secretary of Defense, Health Affairs

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DAY 2 (continued)

12:10 p.m.	**Concluding remarks** Ms. René Bardorf, Deputy Assistant Secretary of Defense for Public Affairs, Community and Public Outreach
12:20 p.m.	**Formal Event Ends**
12:30 p.m.	**Optional No-Host Lunch at Pentagon Dining Room**

UNCLASSIFIED

SECRETARY OF DEFENSE ROUNDTABLE
Thursday, June 13
11:00 a.m. – 3:00 p.m.
SD Conference Room (3E863)

AGENDA

11:00 a.m.	**Welcome and Introductions**
	Ms. René Bardorf, Deputy Assistant Secretary of Defense for Public Affairs, Community and Public Outreach
	Mr. George Little, Assistant to the Secretary of Defense for Public Affairs
	Mr. Pat Tamburrino, Jr., Chief of Staff to the Under Secretary of Defense for Personnel and Readiness
11:15 a.m.	**Health Affairs Update and Overview**
	Dr. Jonathan Woodson, Assistant Secretary of Defense, for Health Affairs and Director, TRICARE Management Activity
11:45 a.m.	**Defense Health Agency Transition Update**
	Mr. Allen Middleton, Acting Deputy Director, TRICARE Management Activity
12:05 p.m.	**Informal Engagement / Unstructured Discussion** *(Opportunity for lunch and restroom break)*
12:35 p.m.	**Sexual Assault Prevention and Response Update**
	Colonel Alan Metzler, Deputy Director, DoD Sexual Assault Prevention and Response Office
1:00 p.m.	**Recap of Recent Engagement Topics** ***(WISR; Furloughs; Distinguishing Device)***
	Ms. René Bardorf, Deputy Assistant Secretary of Defense for Public Affairs, Community and Public Outreach
1:30 p.m.	**Break and Room preparation**
1:50 p.m.	**Secretary of Defense Briefing**
	Honorable Chuck Hagel, Secretary of Defense

2:35 p.m.	**DoD/VA Collaboration Update** *(prepared to discuss VA disability claims backlog)* Mr. James Neighbors, Executive Director, DoD VA Collaboration Office
2:50 p.m.	**Concluding remarks** Ms. René Bardorf, Deputy Assistant Secretary of Defense for Public Affairs, Community and Public Outreach Mrs. Jessica Wright, Acting Under Secretary of Defense for Personnel and Readiness
3:00 p.m.	**Formal Event Ends**

UNCLASSIFIED

SECRETARY OF DEFENSE ROUNDTABLE
September 19, 2013
9:00 a.m. – 5:00 p.m.
SD Conference Room (3E863)

AGENDA

9:00 a.m.	**Welcome and Introductions**
	Ms. René Bardorf, Deputy Assistant Secretary of Defense for Public Affairs, Community and Public Outreach
	Mr. George Little, Assistant to the Secretary of Defense for Public Affairs
9:15 a.m.	**Personnel & Readiness Update**
	Lieutenant General Michael Linnington, USA, Military Deputy
	Ms. Rosemary Williams, Deputy Assistant Secretary of Defense for Military Community and Family Policy
10:00 a.m.	**Legal and Ethics Issues Affecting DoD-NGO Interactions**
	Mr. Robert Taylor, Acting DoD General Counsel
	Ms. Leigh Bradley, Director, DoD Standards of Conduct Office
10:45 a.m.	**Break**
11:00 a.m.	**DoD Fiscal Environment** *FY14 Budget / Sequestration / SCMR*
	Hon. Mike McCord, Principal Deputy Under Secretary of Defense, Comptroller
	Dr. Matthew J. Schaffer, Deputy Director, Analysis and Integration, Office of Cost Assessment and Program Evaluation
11:45 a.m.	**Break (set up for lunch)**
12:00 p.m.	**Lunch** *(Informal Networking Opportunity)*
12:45 p.m.	**Break (clear lunch)**

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1:00 p.m.	**DoD Legislative Priorities and Process** Hon. Elizabeth King, Assistant Secretary of Defense for Legislative Affairs
1:45 p.m.	**NGO Collaboration** Ms. René Bardorf, Deputy Assistant Secretary of Defense for Public Affairs, Community and Public Outreach
2:05 p.m.	**Quick Break (as needed)**
2:15 p.m.	**Military Services Update (rotating): U.S. Army** Hon. John McHugh, Secretary of the Army
3:00 p.m.	**Military Compensation** Hon. Robert Hale, Under Secretary of Defense, Comptroller Ms. Virginia (Vee) Penrod, Deputy Assistant Secretary of Defense for Military Personnel Policy Rear Admiral Peter Fanta, Deputy Director for Resources and Acquisition, Joint Staff, J8
3:45 p.m.	**Concluding remarks** Ms. René Bardorf, Deputy Assistant Secretary of Defense for Public Affairs, Community and Public Outreach
4:10 p.m.	**Break (protocol set up for SD briefing)**
4:30 p.m.	**Secretary of Defense Briefing** Hon. Chuck Hagel, Secretary of Defense
5:15 p.m.	**Formal Event Ends** *(transition to reception location)*
5:30-6:30 p.m.	**Secretary of Defense Hosted Reception for Attendees** *Secretary of Defense Dining Room*

OASD(PA) HOSTED CONFERENCE CALLS
OUTREACH TO MSOs, VSOs, AND MILITARY-SUPPORTING NONPROFITS
April 2013 – February 2014

1. **April 8, 2013: Proposed Changed to Article 60 of the UCMJ** [1.]

   SMEs:

   - Mr. Robert S. Taylor, Principal Deputy General Counsel of the Department of Defense
   - Major General Gary Patton

     Director of the Department of Defense Sexual Assault Prevention and Response Office (SAPRO)
   - Brigadier General Richard C. Gross, Legal Counsel to the Chairman of the Joint Chiefs of Staff

2. **April 11, 2013: Rollout of the FY2014 Defense Budget**

   SMEs:

   - Mr. Mike McCord, Principal Deputy Under Secretary of Defense (Comptroller)
   - Lieutenant General Mark Ramsay, Director, Force Structure, Resources and Assessment, Joint Staff
   - Mr. Pat Tamburrino, Chief of Staff for the Under Secretary of Defense for Personnel and Readiness

3. **April 15, 2013: Proposal for a Distinguishing Device for Existing Medals to Recognize Remote Impacts**

   SMEs:

   - Ms. Juliet Beyler, Acting Director, Officer and Enlisted Personnel Management, Under Secretary of Defense for Personnel and Readiness
   - Colonel David Lapan, Director, Special Assistant to the Chairman of the Joint Chiefs of Staff for Public Affairs

4. **May 7, 2013: DoD Sexual Assault Prevention and Response Efforts & Annual Report on Sexual Assault in the Military for Fiscal Year 2012** [1.]

   SME:
   - Major General Gary Patton, Director of the Department of Defense Sexual Assault Prevention and Response Office (SAPRO)

5. **May 14, 2013: DoD Civilian Employee Furlough Implementation Plan**

   SMEs
   - Mr. Mike McCord, Principal Deputy Undersecretary of Defense, Comptroller
   - Mr. Pat Tamburrino, Chief of Staff to the Under Secretary of Defense for Personnel and Readiness

6. **May 22, 2013: Electronic Health Record and Healthcare Management Software**

   SME:
   - Honorable Frank Kendall, Under Secretary of Defense for Acquisition, Technology & Logistics

7. **June 18, 2013: Women In Service Review – Implementation Plan Roll-Out** [2.]

   SMEs:
   - Ms. Juliet Beyler, OSD, Director, Officer Enlisted Personnel Management
   - Major General Thomas Seamands, Director, Military Personnel Management, Office of the Deputy Chief of Staff, Army G-1
   - Colonel Jon Aytes, U.S. Marine Corps, Head, Military Policy Branch
   - Major General Bennet Sacolick, U.S. Special Operations Command, Director Force Management and Development
   - Rear Admiral Barbara Sweredoski, U.S. Navy, Reserve Deputy, Military Personnel Plans & Policy
   - Brigadier General Gina Grosso, U.S. Air Force, Director of Force Management Policy, Deputy Chief of Staff for Manpower, Personnel and Services

8. July 10, 2013: Concerns Regarding the Joint POW/MIA Accounting Command [3.]

SME:

- Ms. Alisa Stack, Principal Deputy, Defense POW/Missing Personnel Office

9: August 1, 2013: Strategic Choices and Management Review Results Roll-Out

SME:

- Dr. Matthew J. Schaffer, Deputy Director, Analysis and Integration, Office of Cost Assessment and Program Evaluation

10: August 15, 2013: SD-Directed Actions on Sexual Assault Response & Prevention [1.]

SMEs:

- Colonel Alan Metzler, Deputy Director, DoD Sexual Assault Prevention and Response Office
- Ms. Alissa Starzak, DoD Deputy General Counsel
- Mr. Dwight Sullivan, Office of General Counsel

11: August 27, 2013: DoD Planning for the Potential of a Government Shutdown

SME:

- Hon. Robert Hale, Under Secretary of Defense, Comptroller

12: January 10, 2014: Report on Sexual Harassment and Violence at the Military Service Academies [1.]

SME:

- Major General Jeffery Snow Director, DoD Sexual Assault Prevention and Response Office

13: January, 28, 2014MV Cape Ray Mission to Neutralize and Destroy Syria's Chemical Weapons

SMEs:
Primary Briefers

- Colonel Patrick Terrell, ODASD(Combatting WMD), WMD Military Advisor and Deputy Director for CBRN Defense Policy
- Dr. Julia Brown, Defense Threat Reduction Agency (DTRA), Physical Scientist
- Ms. Chelsea Goldstein, DTRA, Combatting WMD Planner
- CAPT Rich Dromerhauser, USN, Mission Commander
- Col Rafael De Jesus, USA, Joint Staff, J4 - Health Services Division, Joint Operations Environmental Health Officer

SMEs for Q&A

- Mr. Bob Taylor, Principal Deputy General Counsel of the Department of Defense
- Brigadier General Richard Gross, USA, Legal Counsel to the Chairman Joint Chiefs of Staff
- Colonel Sean Gainey, USA, Joint Staff/J3(Operations)
- Lieutenant Colonel Ryan Reilly, USMC, Joint Staff/J1 (Manpower and Personnel)
- Major Chet Bryant, USAF, Joint Staff, J4 - Health Services Division, Joint Operations Environmental Health Officer

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[1.] Calls discussing DoD Sexual Assault and Prevention topics included policy and advocacy groups: Protect our Defenders, SWAN, National Women's Law Center.

[2.] Women-In Service rollout call included policy think tanks and women's interest groups: Women in Military Service for America, Brookings Institution, National Women's Law Center, Center for American Progress, Center for a New American Security, American Enterprise Institute.

[3.] JPAC call included the National League of POW/MIA Families.

Senator FISCHER. That would be helpful, not just with veterans groups, but any stakeholders that are out there that could offer maybe valuable information as DOD moves forward in looking at compensation. I would think you would want to seek that.

Ms. FOX. May I also add, on the commission there has been a lot of back and forth with the commission sharing data, sharing analyses, and so forth. So there's been those kinds of discussions, again not our specific proposals because they're not done. But there's been a lot of engagement.

Senator FISCHER. Thank you, Dr. Fox. I appreciate that.

Secretary Hagel has also stated that DOD would begin implementing the package in the fiscal year 2015 budget. Is that still the plan? Are you going to include any of those changes in the budget?

Ms. FOX. We are still looking at our budget deliberations, but we are seriously considering proposing additional changes to compensation, not retirement. Again, let me be clear. Retirement is the commission and we need all the help because it's so hard. But some modest proposals on other parts of compensation, following onto the very large effort that the Joint Staff and Admiral Winnefeld has been leading over the past 6 to 9 months.

Senator FISCHER. I would appreciate it. I know that other members of this committee would too, if we could get that information. I would think the earlier we could get that information, the better, so that we can make decisions that hopefully will be helpful to DOD as well.

If you could tell me, have either of you seen any impact that these recent COLA changes have had with regards to recruiting and retention? Has there been any impact to date on that?

Admiral WINNEFELD. It's a little soon for us to directly measure impact. Generally, we find that retirement benefits play a less than 1 percent accounting in a potential recruit's deliberation as to whether he or she is going to enlist in the U.S. military. But it does, of course, impact our retention. In particular, it doesn't really, we find, affect the retention for our first and second termers, but it very much affects the retention for our third and career termers.

So we haven't seen any behavior changes yet, but we do know that they're very nervous about this. They don't like it. If you have 17 or 18 years in the military and you're thinking of retiring at 20, now if the CPI-Minus-1 provision is memorialized you may consider having to stay longer in the military in order to accrue more of the benefit so that your retirement would not be impacted as much. So I think that's the calculus that they're doing. I don't think anybody's going to quit the military because of it, but they are nervous about it and they're again doing the calculation on how long they have to wait until they can retire.

Senator FISCHER. You had mentioned that earlier, that it may not have that big of an effect on recruitment. But I can certainly see that it would with retention. I would imagine that the sooner that we can provide certainty to the members of our military, the better. Would you agree with that?

Ms. FOX. Certainly I think this is an issue. One thing I would just throw in here is one of the retention concerns we are starting to feel is the concern about the quality of service: Will they have the training, will they have the equipment, will they have the op-

portunity to serve in a way that is as rewarding as they expected when they joined?

Senator FISCHER. Thank you so much.

Thank you, Mr. Chairman.

Chairman LEVIN. Thank you, Senator Fischer.

Senator Hagan.

Senator HAGAN. Thank you, Mr. Chairman.

Admiral Winnefeld and Secretary Fox, thank you for your service and for the jobs that you do. I supported the recent budget after I heard from top military leadership in North Carolina's military community about the urgent need to halt sequestration of our defense budget. We've had a number of hearings in this committee about the negative effects of sequestration, and I think we all agree that if allowed to continue, sequestration will drastically reduce future military readiness and actually jeopardize the national security of our country.

We're still at war in Afghanistan. It is essential that our servicemembers are fully paid, fully equipped, and receive the support and training that they need. However, I have strongly opposed the provision that was included in the Murray-Ryan agreement that cut the COLA, the COLA that we've been talking about, for our servicemembers. We've made a strong commitment to our brave men and women, many of whom in my State have deployed multiple times to combat overseas. It is my true belief that we have to keep our promise to our service men and women after they have sacrificed so much for all of us and our country.

While it's true that our country faces difficult fiscal challenges, we cannot balance the budget on the backs of those who have answered the call of duty. I know that there is strong bipartisan support to repeal this provision. Senator Pryor and I both have a bill that will do just that and I'm looking forward to bringing that onto the Senate floor.

My question is that, unlike the private sector, where most companies can easily recruit mid-level employees, the Armed Forces have no alternative but to build and develop their mid-grade officers and noncommissioned officers (NCO) from within. As servicemembers reach their 8- to 10-year service mark, many are making that critical decision, are they going to stay in the military, make it a career, or not.

My question is, most of these officers and NCOs are battle-hardened leaders with multiple deployments to Iraq and Afghanistan. Do you believe that the COLA cuts will cause our mid-grade officers and NCOs to leave the service prematurely, and how do you believe they view these recent COLA cuts as well as the broader debate about military compensation reform? If both of you would take a minute to answer.

Admiral WINNEFELD. I think that retirement is part of the calculus of anybody when they're considering a retention decision, a reenlistment decision. The younger ones tend to think more in terms of pay. The mid-grade ones tend to think of the bonus, if they can get one to stay in. The more senior ones tend to think in terms of what's coming down the line in retirement.

So I don't have a metric that we can measure right now that indicates a change in behavior because of the COLA-Minus-1 provi-

sion because it's simply too soon. We do surveys. We can look at the numbers and the like. But again, we do believe, we have heard anecdotally, that people who are approaching retirement are doing the calculation that says, if I retired at 20 I was going to get this, under CPI-Minus-1 I would have to retire at X, 22, 23, in order to have the same benefit accrue over the course of my retirement.

So they're definitely thinking about this. There's a lot of information banging around out there. So it is a factor for sure, especially for the more senior members of the force.

Senator HAGAN. When you say senior, how many years are you talking about there?

Admiral WINNEFELD. We classify our senior folks as, I think, anywhere from 13, 14 years on. But it's most acute probably for those that are, I'd say, 16 years and beyond who are thinking about this.

Senator HAGAN. Thank you. Secretary Fox.

Ms. FOX. Yes, ma'am. I think that Admiral Winnefeld articulated nicely all of the factors that's at play. So I'm getting there; it's going to take me longer if it's CPI-Minus-1; maybe I should stay longer to get at that level. That's exactly the kind of thing we need the help with the commission and the studies that they're looking at—force-shaping tools. Maybe that's okay. We need expertise to stay longer. In other cases we don't and we can't have that, and we need to incentivize people to stay. Maybe they'll say it's not worth it and they'll want to leave in 10 years instead.

All of those factors affect the expertise we have in the force to do the things we're asked to do. Sometimes you can compensate with bonuses, sometimes with special pays. Of course, that takes away from savings. So it's a big stew of calculation and complexity that we need to sort through, and that's the challenge.

Senator HAGAN. What are the percentage of the bonuses to salary?

Admiral WINNEFELD. That varies dramatically. I can tell you, somebody who's a nuclear welder in the United States Navy probably gets a pretty substantial bonus compared to somebody who might be in a lesser skilled position in the Navy or another Service. So it really varies dramatically.

Senator HAGAN. It's interesting. The welding profession is one that is in high demand all over the country. I'm sure nuclear welders even more so.

I feel strongly that the recent COLA cuts need to be repealed, as I said earlier. But one of the elements that concerns me most is that current retirees and servicemembers were not grandfathered. If after careful consideration there are future changes to the military compensation and retirement, how important is it to exempt those that have or are currently serving, and what would be the impact of certainly failing to do so?

Admiral WINNEFELD. We've been very clear that we believe that any changes to the structure of the retirement plan should be grandfathered. Chairman Dempsey has said that in several different testimonies. I'm saying it now. All of the Joint Chiefs are unanimous and the senior enlisted leaders. We all believe that any changes to the retirement system should be grandfathered.

Ms. FOX. When Secretary Panetta was with us and was involved in standing up the Commission, he was very clear on grandfathering. I've spoken with Secretary Hagel, and he also supports grandfathering. I think there's unanimous consensus between the military leadership and the civilian leadership of DOD that grandfathering has to be a part of anything we do going forward that changes retirement.

Senator HAGAN. When will the Commission's report come forward?

Ms. FOX. In February 2015.

Senator HAGAN. Thank you.

Thank you, Mr. Chairman.

Chairman LEVIN. Thank you very much, Senator Hagan.

Senator Graham.

Senator GRAHAM. Thank you, Mr. Chairman. Thank you for having this hearing and all the things you've done over the years to keep us focused in Congress about what's the right thing to do for our military. I really appreciate your leadership.

It seems to me, as Senator Reed said, we've all reached a consensus that we would like to undo what we all consider to be an unfairness here. As far as timing, I think the sooner, the better. I'll just make this observation. Senator Wicker expressed the idea that nobody thought we would engage in sequestration, but here we are. So I just think the sooner we can go back to the status quo, the better. There's enough anxiety among our military personnel now. We don't need to add any more. That would just be one thing off their plate. So that's why I would advocate doing it now.

I'd also like to associate myself with Senator Kaine. It's good to have a budget. You make mistakes in the budget process, but, quite frankly, I'm very pleased with my colleagues. We raised this early on with Senators Wicker and Ayotte and myself, and the way Congress has responded to looking at this with an open mind and trying to fix it in a bipartisan way—I think this is a good thing. Everybody makes mistakes, but you really judge people by their willingness to right wrongs. It seems like we're on a good glide path to find $6 billion, hopefully, to set aside what we've done with the CPI-Minus-1 percent.

On the idea of reforming compensation, count me in. I just think the time has come prospectively to look at the sustainability. Now, there's a difference, Admiral, between what you're saying about the overall cost of personnel within the military budget and what some of our veterans' organizations are saying. What percentage of DOD's budget is personnel-related?

Admiral WINNEFELD. The military compensation by itself is about a third, and overall compensation, to include civilians, is about half of the budget. But I'd hasten to add that the more I've dug into this and the more we as a body deliberating this have dug into it, the less sophisticated that metric sounds, because there are so many variables that go into it. How big is our top line? How many people do we have? What is the cost of health care? Do you include overseas contingency operations (OCO) funding or not?

It's just a squishy number, and you wouldn't want to pin, here's the goal, it should be 32.5 percent, because if that changed it would

disrupt things. So we really want to find out what it takes to recruit and retain the best and pay them fairly.

Senator GRAHAM. One thing I would suggest is to get with some of our veterans groups here that have a different view of what the personnel costs are. I remember Chairman Dempsey talked about 54, 50 percent of the current budget is absorbed in personnel costs. When you look in the out-years, the growth of TRICARE, where are we headed in terms of personnel costs inside the budget over a 15- or 20-year period?

Admiral WINNEFELD. I think when Chairman Dempsey was referring to the 50 percent he was including civilian compensation.

Senator GRAHAM. Right.

Admiral WINNEFELD. You also have to ask, do you include indirect benefits that are provided as well as direct pay.

Frankly, it's probably going to stay stable. There was some initial information—and the information's all over the place——

Senator GRAHAM. Even if you don't do reforms, it will stay stable?

Admiral WINNEFELD. If we do reforms, the percentage would probably stay stable.

Senator GRAHAM. Without reform?

Admiral WINNEFELD. Without reform—without reform it might go up a little bit. With reforms, it's going to go down a little bit. But again, the more sophisticated, we believe, way to look at it is what is the best way to recruit and retain the best America has to offer, take the best possible care we can of them, and get the best value for the American taxpayer? That's an isolated look. It's not a "what's the right share of the budget?"

You can imagine, if you picked a budget share and the budget went down, does that mean we reduce pay? We wouldn't want to do that.

Senator GRAHAM. No, I understand what you're saying.

Secretary Fox, I guess the point I'm trying to make is that if about half the budget is going to be personnel costs, direct or indirect, the other half will be spent on readiness, modernization, being able to actually go to the fight. The reason we're looking at reforming compensation is because over time we think it's unsustainable; am I right or wrong?

Ms. FOX. Yes, sir, you're correct. These statistics—this budget share includes the number of people we have and the amount they are compensated. So if compensation costs were allowed to grow unsustained, we'd just take it out of the people. We'd have fewer and fewer people.

Senator GRAHAM. You'd have fewer and fewer people with less equipment to fight with.

Ms. FOX. Yes, sir.

Senator GRAHAM. The goal is to have a well-paid, well-trained military that can win the war, right?

Ms. FOX. And come home safely, yes, sir.

Senator GRAHAM. Come home safely, and not have a fair fight. We're not looking for a fair fight in the future, right? We want overwhelming force on the battlefield so the war ends as quickly as possible, with the least amount of casualties. That means we

have to have the equipment and the training. Is that right, Admiral?

Admiral WINNEFELD. You're absolutely right, Senator. We want to win 100 to nothing.

Senator GRAHAM. One hundred to nothing. We don't want to go to war because those who go to war have to believe they will lose, and those dumb enough to go to war will lose. It's just that simple. But you have to keep the people around to make sure you win the war.

Now, gross domestic product (GDP) on defense. Historically, in a time of peace, what's been the historical average, say since World War I, GDP spent on defense?

Ms. FOX. Sir, I don't remember. I'll have to take that for the record.

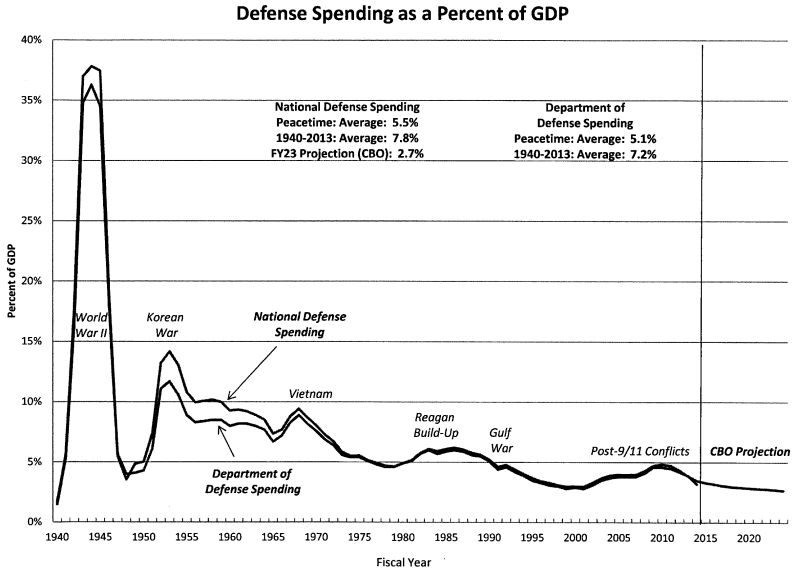
[The information referred to follows:]

Since 1940, in times of peace the outlays of the Department of Defense (DOD) averaged 5.1 percent of the Gross Domestic Product (GDP). The data is referenced from fiscal year 1940 instead of World War I due to availability of verifiable data. DOD, the Office of Management and Budget, and the Congressional Budget Office (CBO) did not publish data on defense outlays prior to 1940.

When preparing the Future Years Defense Program, DOD only programs future resources over a 5-year period. To answer what the spending as a percent of GDP will be at the end of the BCA (fiscal year 2023), DOD is relying on projections of the CBO for both GDP and national defense spending. Since 1940, national defense spending, which includes defense-related activities outside of DOD, averaged 5.5 percent of GDP in times of peace. The CBO projects national defense spending to be 2.7 percent of GDP by fiscal year 2023. The chart below shows how closely national defense spending and DOD spending track over the last 40 years.

Sources:

- Office of the Under Secretary of Defense (Comptroller), "National Defense Budget Estimates for Fiscal Year 2014" (Green Book), May 2013, Table 7–7.
- Congressional Budget Office, "The Budget and Economic Outlook, 2014 to 2024," February 2014, pg 50.



Admiral WINNEFELD. I know you have very good command of those numbers, sir. I don't have them memorized. But I think it has changed over time, as you well know.

Senator GRAHAM. Does 5 percent sound about right? Okay.

Where will we be at the end of sequestration, even with the relief we have provided, in terms of GDP spent on defense?

Ms. FOX. Senator, I think you know the answer to that question, sir, and I think it is less than 5 percent.

Senator GRAHAM. Yes, but I'm not in DOD. I need somebody in DOD to tell me this.

Ms. FOX. I'll have to take that for the record to get you a precise number.

Senator GRAHAM. The reason I want you to find out, because we need to make an intelligent decision about sustainability of benefits prospectively, telling people if you sign up in the future you may not be able to retire at 38 and you may have to wait a few years. We're going to tell the retired community we're not going to dump on you, we're going to do this prospectively. But somebody has to have a vision of where we will be as a Nation at 10 years from now in terms of budgeting.

That takes me back to sequestration. It's my belief that we're going to be dramatically under 3 percent of GDP if we keep this glide path intact.

In 15 seconds, what are our allies doing in the North Atlantic Treaty Organization? Are the people we fight with spending more or less in the next 10 years on defense?

Admiral WINNEFELD. In 7 seconds, less.

Senator GRAHAM. So our allies are spending less. If we leave sequestration intact we could be well below what we spent in time of peace. What's the likelihood the war on terror will be over in the next decade, Admiral?

Admiral WINNEFELD. We think that we're going to have to continue to suppress, contain, and defeat al Qaeda until it collapses of its own internal contradictions, and that's going to take some time, absolutely.

Senator GRAHAM. Likely not to occur in 10 years?

Admiral WINNEFELD. We would love for it to occur within 10 years, but I don't think we can count on that.

Senator GRAHAM. So, let's plan for the worst, right?

Admiral WINNEFELD. Yes.

Senator GRAHAM. Thank you.

Chairman LEVIN. Thank you, Senator Graham.

Senator Blumenthal.

Senator BLUMENTHAL. Thank you, Mr. Chairman.

Thank you both for being here today. Thank you both for your extraordinary service to our Nation.

I would agree with my good friend Senator Graham in his assessment that we are on a path to repeal the very unfortunate and unwise COLA cuts in retiree pensions that were a flaw in the budget agreement. I would disagree with him only on his reference to "glide path," which implies an ease and unimpeded track that is rarely found in Congress. I think it will take some doing to have that path achieved.

But I think that the debate and the discussion here this morning and your testimony have been very helpful to reaching that path, which I think we have an obligation to do. I voted for the budget agreement. Like so many of my colleagues, I did so with the understanding that that flaw would be corrected and that it would be corrected before the next NDAA, as soon as possible, right away, for all the reasons that you've outlined so well: the effect on the morale and really the dedication of our Armed Forces and the brave men and women who serve us. They deserve better than this kind of cut without any provision for grandfathering, but the cut itself, in my view, is offensive.

I want to deal with the broader issue that has been referenced here this morning as well, which is how we attract, recruit, and retain not only the new, best, and brightest of their generation, but also the mid-level officer and noncommissioned leadership that is battle-hardened and perhaps battle-weary, but one of our greatest assets in the country, because at the end of the day—and I would hope that you agree—they are as important as any weapons systems, any platform that we have.

I know that you've outlined well the impact that retirement and other benefits may have, but if you could please give me, give the committee, a broader assessment, Admiral Winnefeld, if you could begin, and then I'd be interested, Secretary Fox, as well. What are the incentives we need to offer? How do we change, if we need to change? Because we need to do it before 2015 when this commission reports back. I think we need to do it now, right away.

Admiral WINNEFELD. A very good question, Senator. I'd address recruiting and retention separately. On recruiting, we take surveys of people who have decided to raise their right hand and put on the cloth of their Nation. Why did you do this? Why did you come in?

It's interesting that the number one reason that we are hearing back right now is pride, self-esteem, and honor. The number two reason is to better their life. The number three reason is duty and obligation. The number four through eight reasons are travel, future education, experience, and they want to be challenged. Next comes pay, more discipline in their life, adventure, and helping others.

So that actually makes me feel pretty good, that our young men and women are coming into the Services for the right reasons.

Senator BLUMENTHAL. Very encouraging.

Admiral WINNEFELD. In terms of retention, particularly for those mid-grade officers and NCOs that you're talking about, there really are two variables, I think, that are fundamentally—they have all kinds of sub-variables, but the two most important variables are quality of life and quality of service. Retirement, of course, is something that the senior folks look forward to.

But in terms of quality of life, as we adjust the glide slope of compensation, we're going to tune it very carefully. We have to be watchful of that. There are so many other things that go into what quality of life really means: How often do you move and can your spouse get a job, that sort of thing.

In terms of quality of service, we're hearing more and more from our people that they're surprised by all of this. What really matters to them more than keeping this high rate of growth is they want

to fight in a modern and ready force. They want to go to work every day and they want to have parts in the bin where they can repair the thing that they are entrusted with. They want to be able to drive it or fly it or sail it, and they want to feel confident that they are on a winning team.

That matters. It's an intangible, but it makes a tremendous difference for our people, and we have to look after that as well as the quality of life piece.

Senator BLUMENTHAL. Secretary Fox.

Ms. FOX. Senator, I would just add that I think Admiral Winnefeld laid it out beautifully. These intangibles, I think, are important as we look at any changes to retirement, for example, going forward. I do believe we have really excellent—I've dug into them—models of the broad economics. I am pretty convinced that, whatever we do, we can find ways to tweak it with pays and incentives and so forth.

It's very hard for those models to account for the intangibles and the individuals' views of what they are there to do and what they're able to do, given the way we support them in this broad term that's overused, "readiness." But that means the things that Admiral Winnefeld outlined about their ability to operate it, their ability to have parts to fix it, their ability to show up for duty on a ship and have other people there. They're not trying to do three or four jobs—all of the things that I think are eroding the morale of our force right now.

Senator BLUMENTHAL. Another way of putting it might be the sense that the country appreciates what they're doing as well, that they're not only on a winning team, the best team, the gold medal team, but that the country appreciates the work that they're doing.

Admiral WINNEFELD. You can't even begin to understand how important it is to our young soldiers, sailors, airmen, marines, and coastguardsmen as they walk through airports, train stations, you name it, when ordinary Americans come up to them and thank them for their service. It's huge.

Senator BLUMENTHAL. One other question in the limited time I have left. I know that you do surveys, that you try to apply some scientific method to assess the incentives and so forth that you've just described. Of course, we all have our personal experiences. Senator Kaine has a son who is serving. I have two. We know friends and so forth.

I wonder how well you think those surveys, the scientific effort, are doing in measuring the kinds of incentives and so forth that are at play here?

Admiral WINNEFELD. That's a good question. You always have to take any kind of survey or data with a grain of salt. If you're not listening to the drumbeat that you're hearing from people anecdotally, what they're saying to you, what your senior enlisted leaders, who are terribly important to this process, are saying to you, then you don't get it.

So we have to temper anything we hear in the surveys. I don't have a crisp answer for you on whether there's a dichotomy there. But I think, in general, it's what we're hearing, that they're both reflecting the same thing.

Ms. FOX. I do think we're very aware surveys can lag. I do think that's why our Service Chiefs and our Secretary spend so much time out there talking to the force, to the men and women in uniform.

Senator BLUMENTHAL. Thank you. Thank you for your excellent testimony this morning.

Thank you, Mr. Chairman.

Chairman LEVIN. Thank you, Senator Blumenthal.

Senator Vitter.

Senator VITTER. Thank you, Mr. Chairman.

Thank you both for your service. Certainly, I want to express strong support for fixing this problem absolutely as soon as possible as well. I voted against the budget deal in December and this issue was the single biggest reason why. So we need to get it fixed.

I want to express strong support for fixing it in a way that doesn't increase the deficit in any way. That would be doing through two steps what the huge majority of us vowed absolutely not to do. So that would be a failure as well. So I'm very hopeful we'll get this done.

I just have one question for both of you. This provision essentially treated folks in uniform fundamentally differently and worse than Federal civilian employees, all other Federal civilian employees. It penalized them, if you will, retroactively on this issue, while the changes made for all other Federal employees was prospectively only. Do you think there is any justification for that different treatment?

Admiral WINNEFELD. I think it was surprising. I don't think that the vast majority of our force actually thought that through. They weren't aware, I think. It was really just the CPI-Minus-1 piece itself that registered with them. But it is definitely a difference.

Ms. FOX. Sir, I think again that's why we support grandfathering and believe that you have to look forward. Maybe there's a change; whatever change that is, it's for new people coming in.

Senator VITTER. Well, great. I'm glad most of them don't realize it. But my description, unfortunately, is accurate and it's the fact of it, and I just want to underscore that I think that's fundamentally wrong and inappropriate.

Thank you.

Chairman LEVIN. Thank you, Senator Vitter.

Senator King.

Senator KING. Thank you, Mr. Chairman. In light of the fact that we have a second panel, I think I'll submit my questions for the record. I just have one observation in light of Senator Kaine's comments. I always thought that the passing of the first budget out of a divided Congress in 28 years was somewhat miraculous, but I think today we've established that this provision, this CPI-Minus-1 provision, confirms that, because we can't find parenthood, it was an immaculate conception, I think, this provision. Immaculate misconception might be a better term for it.

I appreciate your testimony and I'm going to have some questions for the other panel. I associate myself with everyone else here. I don't think we should wait until the commission. I think we should fix this. It's not a huge item. It should be fixed, and I think our veterans and people that are receiving pensions for some odd

reason may not fully trust us to resolve this in 2015. So I think we should take care of it as soon as we can.

Thank you, Mr. Chairman.

Chairman LEVIN. Thank you very much.

That will complete the questions for our first panel and we will now call up our second panel. Thank you so much, both of you, for your testimony. [Pause.]

We now welcome our second panel of four outside witnesses: retired Army General John Tilelli, Jr., the Chairman of the Board of the Military Officers Association of America; retired Army General Gordon R. Sullivan, President and Chief Executive Officer of the Association of the United States Army; retired Air Force Master Sergeant Richard Delaney, National President of The Retired Enlisted Association; and Dr. David Chu, President and Chief Executive Officer of the Institute for Defense Analyses. Dr. Chu served as Under Secretary of Defense for Personnel and Readiness under President Bush from 2001 to 2009.

Now, we also want to note in our audience that we have with us a number of veterans. We welcome veterans from all our conflicts, and that would obviously include a special group that are veterans of our wars in Iraq and Afghanistan.

We also have statements that will be entered into the reocrd, submitted by the following five groups and one individual:

- The Fleet Reserve Association;
- Iraq and Afghanistan Veterans of America;
- American Legion;
- Veterans of Foreign Wars;
- National Military Family Association; and
- Lieutenant Colonel Michael Parker, USA (Retired) who is a wounded warrior advocate.

[The prepared statement of the Fleet Reserve Association follows:]

PREPARED STATEMENT BY THE FLEET RESERVE ASSOCIATION

INTRODUCTION

Mr. Chairman, The Fleet Reserve Association (FRA) salutes you, the ranking member and all members of the committee, and your staff for the strong and unwavering support of programs essential to Active Duty, Reserve component, and retired members of the uniformed services, their families, and survivors. The committee's work has significantly improved military pay, and other benefits. This support is critical in maintaining readiness and is invaluable to our uniformed services engaged throughout the world fighting terrorism around the world, sustaining other operational requirements and fulfilling commitments to those who've served in the past.

The current All-Volunteer Force (AVF) has been through a dozen years of wartime sacrifices never envisioned by those who designed a voluntary military force. The U.S. military is a stressed force with many serving multiple deployments in Iraq and Afghanistan. The current compensation package is the glue that holds the All-Volunteer Force together, and any budget-driven cuts in pay and benefits could have adverse impact on recruitment and retention, and ultimately threaten the very foundation of the AVF.

"MODERNIZATION" COMMISSION

The National Defense Authorization Act for Fiscal Year 2013 (H.R. 4310, P.L. 112–239) establishes the Military Compensation and Retirement Modernization Commission, but limits its recommendations from being base realignment and closure (BRAC)-like in its review of the current compensation and military retirement

system. FRA believes it's important that this distinguished committee, its House counterpart and personnel subcommittees maintain oversight over commission recommendations. President Obama has charged the commission to review "the full breadth of the systems," including healthcare, military family support, and any Federal programs that could influence the decision of current or future servicemembers to stay in uniform or leave the Service. Before making their final recommendations, the commission must examine the impacts of proposed recommendations on currently serving members, retirees, spouses, children and survivors. The commission has also been instructed not to alter the current retirement system for those already serving, retired or in the process of retiring. Along with a review of military compensation, the president asked that the commission look at the "interrelationship of the military's current promotion system."

In 1986, Congress passed, over the objection of then Secretary of Defense Casper Wienberger, major retirement changes, known as "REDUX," that significantly reduced retirement compensation for those joining the military after 1986. FRA led efforts to repeal the act in 1999 after the military experienced retention and recruitment problems. The Association continues to monitor the take rate for personnel choosing between remaining on the High 3 program, or the REDUX program at 15 years of service.

Maintaining a highly-motivated, well-trained, and professional All-Volunteer Career Military Force requires an adequate pay and benefit package. Military service is unlike any other career or occupation, and requires adequate compensation and a unique retirement system. Career senior noncommissioned officers are the backbone of our military and their leadership and guidance are invaluable and a result of specialized years of training and experience.

SEQUESTRATION, THE BUDGET AGREEMENT, AND COST-OF-LIVING ADJUSTMENT CUTS

For past several years, now top military officials have claimed that personnel costs are out of control and are consuming an ever-larger percentage of the Pentagon budget. "In fact military personnel costs are shrinking in terms as a percentage of the overall Defense budget. Military personnel costs in 2012 were 24.16 percent of the Defense budget, in 2001 these costs were 24.13 percent of the Defense budget, and in 1991 were 30.5 percent of the budget."[1] The recently enacted budget agreement (H. J. Res. 59, P.L. 113–67) mandates an annual 1 percent reduction in military retired pay cost-of-living adjustment (COLA) for those under age 62 who served 20 or more years, which takes effect December 1, 2015. While portrayed as a minor change in retired pay, it is actually a substantial cut in benefits over the long term and an egregious breach of faith.

The Association strongly opposes efforts to reduce military retired pay and wants to ensure equitable COLAs for all military retirees commensurate with their service and sacrifices. FRA believes that military service is unlike any other occupation, and the benefits should reflect that reality. Roughly 1 percent of the population has volunteered to shoulder 100 percent of the responsibility for our national security. FRA was thankful that the recently passed fiscal year 2014 omnibus spending bill (H.R. 3547) excludes disabled retirees and widows receiving Survivor Benefit Program (SBP) benefits from the 1 percent COLA cut. Although this is a step in the right direction, the FRA supports an amendment to repeal the COLA cut for all retirees under age 62. That is why the Association is supporting the "Comprehensive Veterans Health and Benefits and Military Retirement Pay Restoration Act" (S. 1950), sponsored by Bernie Sanders (VT), that among its many other provisions would repeal section 403 of the "Bipartisan Budget Act" (H.J. Res 59). The Association believes that retired benefits and pay have been earned through 20 or more years of arduous military service.

The budget agreement goes outside the so-called "regular order" and bypassed this distinguished committee, its House counterpart and subcommittees with jurisdiction and, more importantly, expertise on military retirement benefits. This agreement decreases the magnitude of the automatic sequestration cuts in the Defense budget. Sequestration is a blunt instrument to reduce huge annual budget deficit, which is a serious problem, but total defense spending as a percentage of Gross Domestic Product (GDP) is significantly below past wartime periods and projected to go lower. Reducing the harmful effects of sequestration cuts should be a top priority to ensure the Nation's security and military readiness, but to penalize the very men and women who have sacrificed and served more than others is simply unfair. FRA's February 2013 on-line survey indicated that 90 percent of retirees were "very con-

[1] Army Times, 11/25/13 "Top Brass Claims Personnel Costs are Swamping Department of Defense (DOD), but Budget Figures say Otherwise" by Andrew Tilghman

cerned" about sequestration. Former Secretary of Defense Leon Panetta stated that sequestration cuts "would do catastrophic damage to our military, hollowing out the force and degrading its ability to protect the country." It is significant that defense spending totals 17 percent of the Federal budget, yet 50 percent of the sequestration cuts are targeted for the Department of Defense (DOD). Operations are winding down in Afghanistan, however, the Nation is still at war and slashing DOD's budget further will not reduce the national security threats.

FRA also supports the "Down Payment to Protect National Security Act" (S. 263), sponsored by Sen. Kelly Ayotte (NH) and its House companion bill (H.R. 593) sponsored by House Armed Services Committee Chairman Rep. Howard "Buck" McKeon, (CA) that would amend the Budget Control Act (BCA) by excluding the DOD budget from the next round of sequestration cuts mandated by the BCA.

Additionally, the Association supports a Defense budget of at least 5 percent of GDP that will adequately fund both people and weapons programs. FRA is concerned that the administration's spending plan is not enough to sufficiently support both.

Another serious threat to retirement compensation is to calculate future COLAs for inflation-adjusted benefits by using the chained Consumer Price Index (CPI) in lieu of the current CPI, which was included in the administration's fiscal year 2014 budget request. The so-called "chained CPI" takes into account the effect of substitutions consumers make in response to changes in prices. FRA believes that change over time would have a significant cumulative impact on the annual COLAs for military retirees and personnel receiving veterans' benefits—particularly if it is implemented with the 1 percent reduction already enacted.

Personnel expenditures are directly related to defense readiness and reneging on past commitments by cutting retirement benefits and other quality-of-life programs are major concerns within the Active and Reserve military communities and are viewed as a devaluation of military service.

TRICARE FEE INCREASES

Many retirees feel financially threatened by the possibility of budget-driven drastic increases in TRICARE fees and view such threats as an attack on their earned income. FRA's membership appreciates the following Sense of Congress provisions in the National Defense Authorization Act for Fiscal Year 2013: (1) DOD and the Nation have a committed health benefit obligation to retired military personnel that exceeds the obligation of corporate employers to civilian employees; (2) DOD has many additional options to constrain the growth of health care spending in ways that do not disadvantage beneficiaries; and (3) DOD should first pursue all options rather than seeking large fee increases or marginalize the benefit for beneficiaries.

Health care dominated priorities for military retirees responding to FRA's 2013 on-line survey, with quality of health care benefits rated as "very important" by over 95 percent of respondents. Access to the benefit followed in importance as indicated by over 94 percent of those participating in the survey.

It should be remembered that TRICARE Prime beneficiaries experienced a 13-percent fee increase 3 years ago and these fees and now pharmacy co-pays increase the same percentage as the annual COLA increases. These limits were established to ensure that TRICARE fee increases would not erode retirement compensation.

MILITARY COMPENSATION CAPPED

The Association is troubled by recent efforts by the current administration to limit annual increases in military compensation to only 1 percent. FRA strongly supports annual pay increases that are at least equal to the Employment Cost Index (ECI) to ensure that military pay keeps pace with civilian compensation.

The Rand Corporation released a study in 2012 recommending smaller military pay increases. The study is one of many recent reports echoing the same tired refrain that military pay and benefits are too generous. This study and other recent studies have been quoted extensively in recent news accounts on military pay and benefits. The study indicates that military pay increased faster than civilian pay since 2000, but ignores the fact that military pay increases lagged behind civilian pay increases (ECI) during the 1990s, resulting in a 1999 pay gap of 13.5 percent, which contributed to major recruitment and retention problems. From fiscal year 1999–fiscal year 2011 Congress provided pay increases 0.5 percent above the ECI (except for fiscal year 2007, when the increase was equal to the ECI) in an effort to close the pay gap.

The RAND study counterintuitively suggests that smaller pay increases will not significantly impact retention and recruitment. The study claims that relatively high unemployment rates throughout the economy will stabilize retention and re-

cruitment. FRA disagrees and believes the current high rate of unemployment will not continue indefinitely, and that pay for the All-Volunteer military should accurately reflect service and the sacrifices borne by those who serve and their families.

FRA stands foursquare in support of the Nation's reservists and wants to streamline the complex Reserve duty status system without reducing compensation. The Association also supports making early retirement credit retroactive to September 11, 2001, after which the Reserve component changed from a strategic reserve to an operational Reserve.

CONCURRENT RECEIPT

FRA continues its advocacy for legislation authorizing the immediate payment of concurrent receipt of full military retired pay and veterans' disability compensation for all disabled retirees. The Association appreciates the progress that has been made on this issue that includes a recently enacted provision fixing the Combat Related Special Compensation glitch that caused some beneficiaries to lose compensation when their disability rating was increased. There are still many Chapter 61 retirees receiving Concurrent Retirement and Disability Pay (CRDP) and CRDP retirees with 20 or more years of service with less than 50 percent disability rating that should receive full military retired pay and Department of Veterans Affairs (VA) disability compensation without any offset.

The Association strongly supports pending legislation to authorize additional improvements that include Senate Majority Leader Harry Reid's legislation (S. 234), Rep. Sanford Bishop's "Disabled Veterans Tax Termination Act" (H.R. 333) and Rep. Gus Bilirakis' "Retired Pay Restoration Act" (H.R. 303).

SBP/DIC OFFSET REPEAL

FRA supports the "Military Surviving Equity Act" (S. 734), sponsored by Sen. Bill Nelson (FL) and its House companion bill (H.R. 32), sponsored by Rep. Joe Wilson (SC), to eliminate the Survivor Benefit Plan (SBP)/Dependency and Indemnity Compensation (DIC) offset for widows and widowers of servicemembers. These bills would eliminate the offset, also known as the "widow's tax," on approximately 60,000 widows and widowers of our Armed Forces.

SBP and DIC payments are paid for different reasons. SBP is purchased by the retiree and is intended to provide a portion of retired pay to the survivor. DIC is a special indemnity compensation paid to the survivor when a member's service causes his or her premature death. In such cases, the VA indemnity compensation should be added to the SBP the retiree paid for, not substituted for it. It should be noted as a matter of equity that surviving spouses of Federal civilian retirees who are disabled veterans and die of military-service-connected causes can receive DIC without losing any of their Federal civilian SBP benefits.

RETENTION OF FINAL FULL MONTH'S RETIRED PAY

FRA urges the committee to authorize the retention of the full final month's retired pay by the surviving spouse (or other designated survivor) of a military retiree for the month in which the member was alive for at least 24 hours. FRA strongly supports "The Military Retiree Survivor Comfort Act" (H.R. 1360) introduced by Rep. Walter Jones (NC), that achieves this goal.

Current regulations require survivors of deceased military retirees to return any retirement payment received in the month the retiree passes away or any subsequent month thereafter. Upon the demise of a retired servicemember in receipt of military retired pay, the surviving spouse is to notify DOD of the death. The Department's financial arm (DFAS) then stops payment on the retirement account, recalculates the final payment to cover only the days in the month the retiree was alive, forwards a check for those days to the surviving spouse (beneficiary). If the death is not reported in a timely manner, DFAS recoups any payment(s) made covering periods subsequent to the retiree's death, without notice or consideration of the survivor's financial status.

The measure is related to a similar pay policy enacted by the VA. Congress passed a law in 1996 that allows a surviving spouse to retain the veteran's disability and VA pension payments issued for the month of the veteran's death. FRA believes military retired pay should be no different.

KEEP BASE ALLOWANCE FOR HOUSING

An important part of military compensation is the Base Allowance for Housing (BAH). The Association cannot stress enough the importance of providing servicemembers and their families the means to live in suitable, affordable, and safe

housing. This critical quality-of-life benefit is of paramount concern for servicemembers deployed far home who take comfort knowing that their family is in an appropriate living environment. That is why FRA is distressed by discussions of eliminating BAH and Base Allowance for Subsistence (BAS) in lieu of a combined tax-free stipend without allowances for dependents. In the FRA February 2013 online survey, 95 percent of active duty survey respondents rated BAH as "Very important" (the highest rating). FRA is concerned that these proposed changes by the Pentagon are primarily budget driven.

Eliminating BAH could have a negative impact on retention for junior enlisted personnel. BAH for junior enlisted troops can amount to as much as 50 percent of total monthly compensation. Instead of eliminating BAH, the program should be reformed to update housing standards. For example, only 1 percent of the enlisted force (E–9) is eligible for a BAH sufficient to pay for a three-bedroom, single-family detached house, even though thousands of enlisted below the rank of E–9, in fact, reside in detached homes. Enlisted housing standards should allow for E–7s and above reside in single-family homes. FRA also wants to ensure that BAH rates are commensurate with actual housing costs, ensure adequate housing inventory and that housing privatization programs are beneficial to servicemembers and their families.

FRA notes that the recently passed budget agreement (H.R. 3547) provides $27 million less than requested for fiscal year 2014 for constructing, operating, and maintaining family housing. It is said that the individual enlists, but it is the family that re-enlists, and housing is a major consideration in retention decisions.

PROTECT THE COMMISSARY AND EXCHANGE SYSTEMS

Military commissaries and exchanges are essential parts of the military compensation package and FRA's on-line survey, completed in February 2013, indicates that nearly 61 percent of retirees rated Commissary/Exchange privileges as "very important." FRA is a member of the recently established Coalition to Save Our Military Shopping Benefits. The Coalition now has 13 member organizations representing 1.5 million servicemembers, retirees, veterans, and their families, many of which are authorized patrons of the resale system.

A study by the Resale and MWR Center for Research, entitled "Costs and Benefits of the DOD Resale System," indicates that these programs provide military members, retirees and their families with shopping discounts worth $4.5 billion annually. These stores are the biggest employers of military family members with 50,000 spouses, dependent children, retirees and veterans on the payrolls, adding $884 million a year to military household incomes. The Association notes with concern DOD's plans to soon issue furlough notices to the Defense Commissary Agency employees and close commissaries on Mondays for the remainder of the fiscal year due to sequestration-related cuts to operating accounts of 9.2 percent.

The report also indicates that approximately $545 million a year from store operations is reinvested in base infrastructure. This is from profits of military exchanges and from a 5-percent surcharge collected at cash registers in commissaries. These facilities and capital improvements become assets on the balance sheet of the Federal Government. Exchange profits also fund important base morale, welfare, and recreation programs that contribute to an enhanced quality of life for military beneficiaries.

UNIFORMED SERVICES FORMER SPOUSES PROTECTION ACT

The antiquated Uniform Services Former Spouse Protection Act (USFSPA) has had a significant impact on some current and former servicemembers' pay. According to Military.com writer Amy Bushatz, "The military divorce rate went down slightly in 2012, settling at 3.5 percent from the record high of 3.7 percent in 2011. Military officials and divorce experts are hopeful that the overall rate, which had crept slowly up from 2.6 percent in 2001 to 3.7 percent in 2011, is starting to move downward." Female enlisted soldiers and marines, however, continue to experience the highest rate of divorce—9.4 percent and 9.3 percent respectively. In the Army, the female enlisted divorce rate is more than triple that of enlisted males."

Related to these statistics, FRA urges Congress to review the USFSPA with the intent to amend the language so that the Federal Government is required to protect its servicemembers against State courts that ignore the act.

The USFSPA was enacted 30 years ago; the result of congressional maneuvering that denied the opposition an opportunity to express its position in open public hearings. The last hearing, in 1999, was conducted by the House Veterans' Affairs Committee rather than the House Armed Services Committee, which has oversight authority for USFSPA.

Few provisions of the USFSPA protect the rights of the servicemember, and none are enforceable by the Department of Justice or DOD. If a State court violates the right of the servicemember under the provisions of USFSPA, the Solicitor General will make no move to reverse the error. Why? Because the act fails to have the enforceable language required for Justice or the Defense Department to react. The only recourse is for the servicemember to appeal to the court, which in many cases gives that court jurisdiction over the member. Another infraction is committed by some State courts awarding a percentage of veterans' compensation to ex-spouses, a clear violation of U.S. law; yet, the Federal Government does nothing to stop this transgression.

There are other provisions that weigh heavily in favor of former spouses. For example, when a divorce is granted and the former spouse is awarded a percentage of the servicemember's retired pay, the amount should be based on the member's pay grade at the time of the divorce and not at a higher grade that may be held upon retirement.

FRA believes that the Pentagon's USFSPA study recommendations are a good starting point for reform. This study includes improvements for both former spouse and the servicemember.

[The prepared statement of the Iraq and Afghanistan Veterans of America follows:]

PREPARED STATEMENT BY THE IRAQ AND AFGHANISTAN VETERANS OF AMERICA

Chairman Levin, Ranking Member Inhofe, and distinguished members of the committee:

On behalf of Iraq and Afghanistan Veterans of America (IAVA), I would like to extend our gratitude for being given the opportunity to share with you our views and regarding this important issue that affects the lives of thousands of servicemembers and veterans.

IAVA is the Nation's first and largest nonprofit, nonpartisan organization for veterans of the wars in Iraq and Afghanistan and their supporters. Founded in 2004, our mission is critically important but simple—to improve the lives of Iraq and Afghanistan veterans and their families. With a steadily growing base of nearly 270,000 members and supporters, we strive to help create a society that honors and supports veterans of all generations.

Last month, Congress overwhelmingly passed the Bipartisan Budget Act of 2013, a critical step and much-needed effort to move beyond the unpredictability and lack of fiscal clarity that has been the norm on Capitol Hill for the past few years. The Act was widely praised by lawmakers and pundits alike, and was deemed a dramatic improvement over the status quo.[1] The architects of the agreement champion that this bill will save "$20 billion over the next 10 years and bring much-needed relief to our already strained defense budget."[2] IAVA is well aware of the fiscal issues that this nation faces and is supportive of responsible efforts to provide relief from sequestration, but cannot stand behind efforts that try to balance the budget on the backs of those who have sacrificed the most for more than 2 decades.

As much praise as the deal received following its passage in the House and Senate, the truth of the matter is the budget deal was a backroom agreement that was presented to Congress right before the holiday recess, bypassing the committees of jurisdiction and was never subjected to the rigorous scrutiny and debate that such an important bill warrants. Once again, Congress had to pass a bill for the American public, specifically servicemembers and veterans, to find out what was in it. Even Department of Defense (DOD) leadership remarked in 2011 that they were "adamantly opposed to changing retirement benefits for those that are currently on active duty" and that "we cannot break faith with those that have served and deployed time and time again and were promised the benefits of this retirement program."[3] Even President Obama has declared that "We also owe our veterans the care they were promised and the benefits that they have earned. We have a sacred trust with those who wear the uniform of the United States of America. It's a com-

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[1] http://www.murray.senate.gov/public/index.cfm/newsreleases?ID=d26a049f–8049–45a7–9519–4d6b597dc96c

[2] http://paulryan.house.gov/news/documentsingle.aspx?DocumentID=365156#.Uua5ANlo5dg

[3] http://armedservices.house.gov/index.cfm/hearings-display?ContentRecord—id=D2EB48AD–AC15–4E3A–A7B7–C5EC2FA0EB73&ContentType—id=14F995B9–DFA5–407A–9D35–56CC7152A7ED&Group—id=41030bc2–0d05–4138–841f–90b0fbaa0f88&MonthDisplay=10&YearDisplay=2011

mitment that begins at enlistment, and it must never end."[4] With one quick glance at the pension cuts, military retirees and their families are left to wonder when DOD leadership and President Obama will speak out against these cuts and work to quickly overturn them.

In this particular instance, the budget agreement reduced the annual cost-of-living adjustment (COLA) for military retirees and survivors by 1 percent until they reach the age of 62. For some retirees this could lead to a 20-percent cut to retirement benefits over the course of their lives. The budget agreement was yet another example of political abuse of career servicemembers and veteran retirees. It attempts to balance the budget on the backs of those who have already sacrificed the most, and it sends a message to those currently serving and who have served that the promises made to them and their families when they volunteered to serve are retroactively renegotiable. In 2012, Congress established the Military Compensation and Retirement Modernization Commission to examine the entire military-compensation system. At the time the Commission was established, it was promised that none of the changes would affect currently serving members and retirees. It would be a proposal only for future military members. The new budget deal essentially hamstrings and circumnavigates the Commission before it finishes its work and makes its recommendations.

Those that have attempted to justify COLA reductions continually highlight so-called exploding personnel growth[5] which has spurred some lawmakers to propose significant changes to the military benefits, compensation, and retirement system in the name of fiscal responsibility. These initiatives continue to demonstrate the lack of understanding Congress has when making personnel changes within the military. The COLA provision that brings us together today was made without fully understanding the unintended consequences, as well as its adverse impact on retention and morale.

Defenders of the COLA provision have argued that military pensions are "wildly out of line with most Americans' experience."[6] Sentiments such as this strike at the crux of the issue: military service is unique and difficult. The hard truth is that spending more than 20 years in uniform has required servicemembers to endure multiple deployments to Iraq and Afghanistan, spend countless days away from loved ones, and move to a new installation every few years with the full knowledge that your family can never quite settle in. All of these issues undoubtedly place a massive burden on our military families. This is a reality that simply does not exist in the civilian sector and yet, Congress failed to take this into account when drafting and passing the budget agreement last month. Equating 20-plus years of military service to 20-plus years in the civilian workforce is woefully off-target and serves to belittle a career in uniform.

Congress broke its promise to veterans by agreeing to cuts to military retirees and is crossing a line in the sand by failing to fully protect veterans benefits. IAVA is hearing from veterans nationwide that continue to ask Congress listen to them and repeal cuts to all military retirees as quickly as possible. Although the Consolidated Appropriations Act of 2014 restored full pension benefits for working-age disabled military retirees and survivors of deceased servicemembers, IAVA continues to call for a full repeal of the cuts to all military retirees. We simply ask Congress to stand behind the benefits promised and stand up for those who have served. We again appreciate the opportunity to offer our views on this important topic, and we look forward to continuing to work with each of you, your staff, and this committee to improve the lives of veterans and their families. Thank you for your time and attention.

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[4] http://www.whitehouse.gov/sites/default/files/docs/veterans—and—wounded—warriors—record—0.pdf

[5] http://www.usatoday.com/story/opinion/2013/12/22/veterans-retirement-paul-ryan-budget-deal-column/4164713/

[6] http://www.usatoday.com/story/opinion/2014/01/01/military-pensions-paul-ryan-budget-deal-cola-editorials-debates/4280837/

[The prepared statement of the American Legion follows:]

PREPARED STATEMENT BY THE AMERICAN LEGION

"I want to be absolutely clear: we cannot, we must not, and we will not balance the budget on the backs of our veterans, and as Commander in Chief, I won't allow it."

President Barack Obama,
The American Legion National Convention
August 2011

The Congressional Budget Office projects the Department of Defense to save almost $6 billion over the next 10 years by reducing the cost-of-living adjustments for all military retirees not medically retired who are below the age of 62.[1] According to the most recent Department of Defense[2] Actuary, this new law will affect just under 1 million military retirees who have dedicated 20 years or more defending the United States while wearing the uniform of this country. In short, each retiree is expected to return an average of $600 per year of their retirement dollars to the treasury so that Congress can continue to wring their hands over sequestration—a provision they promised would never actually go into effect.

As the largest Veteran Service Organization in the United States, The American Legion would like to thank this committee for holding this hearing, and for inviting The American Legion to share its views on the recent changes to the U.S. military retirement system. At its August 2012 national convention in Indianapolis, The American Legion passed a resolution that specifically opposes any changes to the current military retirement system because it would reduce incentives for enlistment and/or re-enlistment.[3] The American Legion recognizes, as does this committee, that without highly qualified, dedicated men and women, even the most sophisticated weaponry will not provide the deterrent force necessary for this Nation to remain at peace. We also understand that preserving an attractive retirement system for the Active and Reserve components is critical to maintaining an effective All-Volunteer Force. The Department of Defense has on several occasions conducted studies to change, modify, and update the military retirement system, and recommendations from those studies have been repeatedly found to be unsatisfactory. In July 2011 the Defense Business Board study[4] recommended significant changes in the current military retirement system, and these recommendations were many of the same recommendations made by the 1978 Presidential Commission on Military Compensation. The 1978 report from the Congressional Budget Office goes on to address the significant risk to maintaining a viable volunteer force if dramatic changes to the current system are made. Further, any changes to the existing military retirement system may violate contracts made with military retirees and currently serving military personnel, and would undermine morale and readiness.

In January 2013, Congress established the Military Compensation and Retirement Modernization Commission.[5] Specifically, this commission was established to examine the current compensation and retirement system, and render to Congress proposals for recommended changes that could be made to the existing system—for future military members. In September 2013, members of the commission attended a Benefits Summit hosted by The American Legion and reinforced to our members that any recommendations made by the commission were to be targeted at future enlistees and retirees, and that all current retirees and members would be grandfathered in their current programs.

In December 2013, Congress passed the Bipartisan Budget Agreement (BBA) of 2013. It was signed by President Obama on December 26 as Public Law 113–67.

The BBA, in relevant part states;

"Sec. 403. Annual adjustment of retired pay and retainer pay amounts for retired members of the Armed Forces under age 62.

Generally, servicemembers who have completed 20 years of service, regardless of age, are eligible for non-disability retirement with immediate commencement of retired pay. For most retirees, pay is a percentage of the

[1] http://budget.house.gov/uploadedfiles/bba2013—cbo.pdf
[2] http://actuary.defense.gov/Portals/15/Documents/statbook12.pdf
[3] http://archive.legion.org/bitstream/handle/123456789/2219/2012N058.pdf?sequence=1
[4] http://dbb.defense.gov/Portals/35/Documents/Reports/2011/fiscal year 2011–5—Modernizing—The—Military—Retirement—System—2011–7.pdf
[5] http://www.mcrmc.gov/public/docs/statutory/PLAW–112publ239—1.pdf

highest 36 months of the servicemember's Basic Pay. A servicemember who retires after 20 years of service receives 50 percent of his or her high 36 month basic pay with the percentage increasing in 2.5 percent increments for each year above 20. Because servicemembers can retire well before the normal retirement age in the private sector, most servicemembers begin a second career after leaving the military. Section 403 would provide for an annual cost-of-living adjustment (COLA) of inflation (measured by the Consumer Price Index) less one percentage point for adjustments starting on December 1, 2015 until the retiree reaches age 62. There would be no alteration to the 2014 COLA. At age 62, the retired pay would be adjusted as if the COLA had been the full CPI adjustment in all previous years. Annual COLAs for servicemembers after age 62 would be at the full CPI."

In support of this act, Members of Congress have pointed to military retirees younger than 62 who said that they can still work, yet according to the U.S. Census Bureau the average military retirement check would place most military retiree families at or below the national poverty level.[6] Also, The American Legion has found that military members who spend a career in the U.S. military and are able to retire young enough to begin a second career, often transition with no civilian equivalent skillset, making the average transition take between 2 and 5 years before the retired military member is able to find comparable second career to begin.

Since most of the affected retirees are 1980s-era enlisted, their retirement pay was based on pre-2005 military pay and benefits increase, and as a result are already thousands of dollars less than their current day equivalents. For example, an E–8 with 22 years of service in 2002 made $3,573 per month. At 50 percent of pay, that E–8 today receives a retirement, with all COLA included of $2,407 per month before taxes. Monthly pay for an E–8 today is $5,115.30 which puts their retirement compensation at $2,558—more than $1,800 a year greater than retirees who will be asked to forfeit another $600 per year.

The American Legion adamantly opposes the COLA reduction in section 403 of the 2013 BBA and formally supports bills to repeal this provision. Further, we cannot understand why Congress would seek to offset the effects of sequestration by targeting less than one quarter of 1 percent of the American population—that same one quarter of 1 percent who chose to dedicate nearly a quarter of a century of their lives to the rigors of military service which involved: moving their families every 3 to 5 years, enduring multiple deployments, living on an income that was far less than their civilian peers, enduring physical and emotional stressors unlike any in the civilian sector, and swearing an oath to uphold and defend the Constitution of The United States, against all enemies—without any question or mental reservation—even if it meant, their life. Really?

The American Legion appreciates the opportunity to submit this written testimony for the record and looks forward to working with the committee to find cost saving measures that both benefit our economic recovery, our national defense, and our military and veteran population.

Questions concerning this testimony can be directed to Mr. Louis J. Celli Jr., National Legislative Director, The American Legion, LCelli@Legion.org (202) 263–2981.

January 28, 2014

The Honorable Senator CARL LEVIN,
The Honorable JAMES INHOFE,
Senate Committee on Armed Services,
228 Russell Senate Building,
Washington, DC.

DEAR CHAIRMAN LEVIN AND RANKING MEMBER INHOFE: The American Legion has not received any Federal grants or contracts, during this year or in the last 2 years, from any agency or program relevant to the January 28, 2014, Senate Committee on Armed Services hearing on "Recent Changes to the U.S. Military Retirement System."

Sincerely,

LOUIS J. CELLI JR.

[The prepared statement of the Veterans of Foreign Wars follows:]

[6] http://www.census.gov/how/infographics/poverty—measure-how.html

PREPARED STATEMENT BY THE VETERANS OF FOREIGN WARS

Chairman Levin, Ranking Member Inhofe, and members of this committee:

On behalf of nearly 2 million members of the Veterans of Foreign Wars (VFW) of the United States and our Auxiliaries, thank you for the opportunity to present our views regarding recent changes to the Military Retirement System.

The VFW is against any changes to the current military retirement system, to include the backroom decision to penalize working-age military retirees with reduced cost-of-living adjustments. The penalty violates the intent of President Obama's promise that all retirees and those currently serving would be grandfathered under the existing system, and the penalty undercuts the mission of the Military Compensation and Retirement Modernization Commission.

It is not the VFW's place to suggest where the government could save money, but penalizing military retirees for serving too well and for too long is not a solution. It sends a clear signal to the troops and their families that the budget is more important than the people who execute the mission.

A secure America requires a strong military, and whether someone serves for 4 years or 40, changing military pay and benefits could jeopardize the integrity and viability of the All-Volunteer Force, which is a cost this Nation cannot afford.

[The prepared statement of the National Military Family Association follows:]

PREPARED STATEMENT BY THE NATIONAL MILITARY FAMILY ASSOCIATION

The National Military Family Association thanks you for the opportunity to present this statement regarding recent changes to the U.S. military retirement system. Our Association strenuously opposes the provisions in the Bipartisan Budget Act capping the cost-of-living allowances (COLAs) for military retirees under age 62. While it may be necessary to find savings in this time of fiscal austerity, it is unconscionable to balance the budget on the backs of those who have already sacrificed so much. We appreciate that Congress has acted to repeal this provision for medically retired servicemembers and surviving family members who receive survivor benefit plan annuity payments. We ask you to act to restore COLA for all military retirees.

The pension received by military retirees is an essential part of the military compensation package. It is a mistake to view retirement pay as a benefit or an entitlement; rather, it is deferred compensation. It is a key consideration for servicemembers and families when they are deciding whether they will make the military a career. Reducing the purchasing power of retiree pay will significantly impact the financial well-being of retiree families and make it harder for families to justify the sacrifices a military career entails.

The National Defense Authorization Act (NDAA) for Fiscal Year 2013 called for the creation of a Military Compensation and Retirement Modernization Commission (MCRMC). The MCRMC was tasked with reviewing all aspects of military compensation, with the caveat that none of its recommendations would affect currently serving military members or retirees. The COLA caps contained in the Bipartisan Budget Act undercut the mandate of the MCRMC and betray the promise that compensation for current military members and retirees would be protected.

The COLA cuts are just one of a host of threats to military compensation that have come forward in recent months. The NDAA for Fiscal Year 2014 authorized only a 1 percent pay increase for servicemembers—the lowest pay raise since the creation of the All-Volunteer Force and lower than the 1.8 percent it should have been under the law. This lower pay scale will further reduce the pensions military families can expect to receive upon retirement, since retirement pay is based on base pay.

Another looming threat to military compensation is the proposed closure of stateside commissaries. Recent reports indicate that the Pentagon has drafted a budget plan that would reduce the commissary budget of $1.4 billion by 1 billion by the year 2017, essentially eliminating stateside commissaries in all but rural, isolated areas. This is yet another blow to compensation and benefits for the currently serving and those who have earned the right to shop at the commissary as deferred compensation. The loss of the 30 percent savings military families receive by shopping at the commissary would be a severe blow to many families.

Retirement pay is especially important to military families because the military lifestyle forces families to make significant financial sacrifices. Most civilian families rely on two incomes in order to make ends meet. However, the frequent moves and

other disruptions associated with life in the military often compromise the military spouse's ability find a job or pursue a rewarding career. In fact, 1 in every 4 military spouses is unemployed and looking for work. A military move often forces a spouse to shift to a more portable career or begin again at the bottom of the ladder. Thanks to these challenges, studies show that on average military spouses earn 25 percent less than their civilian counterparts—when they are able to find a job at all.

These obstacles to military spouse employment present both short- and long-term financial challenges to military families. In the short term, families face the loss of income that a spouse might have received if he or she could pursue a career without frequent moves and disruptions. Over the long term, frequent unemployment and reduced earnings lower the military spouse's Social Security and other retirement benefits. Because the average military spouse can expect to receive little in the way of retirement benefits, the servicemember's retirement pay takes on even greater importance.

Another source of wealth for most Americans is home ownership, and here too military families are at a disadvantage. Because military families move on average every 2 to 3 years, they do not have the opportunity to build equity in a home as their civilian counterparts do. One spouse of a Navy officer has this to say:

> "Every 5 years, my husband has to update his security clearance. This involves providing contact information for friends and family members who can vouch for him. When we completed the process 4 years ago, we noticed that all four of his siblings—all civilians—were at the same addresses where they were living the last time we updated his clearance. None of them have moved in the 4 years since then. In fact, all of them have lived in the same houses for at least 15 years. Meanwhile, my address book is filled with scratched out addresses and multiple entries for our military friends."

Many military families never purchase a home, choosing instead to rent or live on the installation. Others buy a home and are faced with having to sell it—often at a loss—when they receive orders to a new location. Regardless, military families have little opportunity over a 20 year career to build wealth through equity in a home. Once again, this loss serves to increase the importance of the servicemember's retirement compensation.

Military families have sacrificed greatly over the past 12 years of war. Although the war in Afghanistan may be coming to a close, there is no doubt that military families will continue to be called on to serve and sacrifice. Our servicemembers and families never fail to answer the call, and in return our government has promised to provide them with resources to keep them ready. Now it seems those promises are falling by the wayside. We urge Congress to honor the Nation's commitments, restore the damaging COLA cuts, and protect the compensation package military families rely on. The compensation provided to servicemembers must reflect the service they provide to our Nation.

[The prepared statement of Colonel Parker follows:]

PREPARED STATEMENT BY LTC MICHAEL A. PARKER, USA (RETIRED)

Congress recently passed legislation exempting Chapter 61 disability retirees from military retirement cost-of-living adjustment (COLA) reductions. Some Chapter 61 retirees are indeed our Nation's most disabled veterans but this is not always the case. It is my position that there should not be any COLA reductions for military retirees. However, if there is to be an exemption for disabled retirees, such an exemption needs to be based on the actual degree of disability rather than Chapter 61 retirement status. Chapter 61 disability retirement is not designed to compensate for disability. Rather it compensates for a career lost due to disability. This is an important distinction Congress needs to understand. The Department of Veterans Affairs (VA) rating (or Social Security Disability Insurance (SSDI) eligibility) is a better barometer for current disability as opposed to Chapter 61 retirement status. A COLA reduction exemption that only protects Chapter 61 disability retirees is nonsensical for the following reasons:

- A fully employable Chapter 61 disability retiree, rated at 0 percent by DOD and the VA, is not be subject to the COLA reduction. (Per 10 U.S.C. 1201, a military member with 20+ years of service, deemed unfit and rated 20 percent or less, becomes a disability retiree.)

• An unemployable length of service retiree rated 100 percent P&T by the VA, effective the date of retirement, is still be subject to the COLA reduction.
• An unemployable length of service retiree who sustains a non service connected disability post retirement (e.g. paralyzed from the neck down in a car accident) will still be subject to the COLA reduction.
• Once a Chapter 61 retiree is placed on the Permanent Disability Retirement List, they are a Chapter 61 retiree for life, even if they are completely cured of their disability. If a member is permanently retired for cancer and that cancer is cured, the member remains a chapter 61 retiree for life and is exempt from the COLA reduction. However, a length of service retiree who develops service connected cancer post retirement (e.g. from Agent Orange) is subject to the COLA reduction.
• Many servicemembers found unfit by a Physical Evaluation Board (PEB) and rated less than 30 percent disabled were given the option of receiving a Temporary Early Retirement Authority (TERA) retirement in lieu of disability severance pay. A TERA retirement is a length of service retirement. These disabled retirees, whom a PEB deemed too disabled to continue military service became length of service retirees and will be subject to the COLA reduction.
• An unfit member who is eligible for disability retirement under the Disability Evaluation System (DES) can waive DES processing because they are already eligible for length of service retirement. Many unfit wounded warriors have waived DES processing because they wanted to move on with life and did not want to clog the already stressed DES timeline given they receive the same level of benefits by becoming a length of service retiree. These disabled retirees will not be protected from COLA reduction.
• Military members are not medically retired (Chapter 61) unless they are deemed unfit by a PEB. Fitness is individualized based on the member's rank and duties. A PEB can deem an infantryman unfit for a relatively low impact knee injury (that makes him unfit to be an infantryman) and yet the injury has minimal impact on civilian employment. Conversely, a PEB can deem an admin clerk fit who has a very serious condition that has huge impacts on civilian employment. This disabled retiree, who does not meet military retention standards but nonetheless a PEB deemed fit, will not be protected from the COLA reductions even ifrated 100 percent P&T by the VA and granted SSDI.
• Consider the scenario of two servicemembers. one with 14 years of service and one with 20 years of service. Both have the exact same level of service connected disability and impact to their fitness. The member with 14 years of service receives a chapter 61 disability retirement and is protected from the COLA reduction. The member with 20 years of service is deemed fit by presumption, reverts to a length of service retirement, and is subject to the COLA reduction. (See the presumption of fitness rules in DODI 1332.38.)

History has shown there are huge inequities with the military's DES. Chapter 61 retiree status simply cannot be the barometer of the level of disability worthy of protection from COLA reduction. The DES timeline is unacceptable long. As a wounded warrior advocate, I (and other advocates) often advise wounded warriors eligible for length of service retirement to forego DES (MEB/PEB) processing because they would receive the same level of DOD/VA compensation as a length of service retiree. Now, because only Chapter 61 retirees are protected from COLA reductions, the truth has changed. I will now be advising such members to insist on DES processing to gain disability retiree status to protect their retirement from COLA reduction. This will put an additional burden on the already overburdened DES.

Chairman LEVIN. We are now going to start with General Tilelli, and by the way, this is a reunion of a sort. We want to tell you that we're delighted to see you all here and we of course very much treasure the relationships which have been established between this committee and all of you and treasure the service which you have performed for our country. We thank you.

General Tilelli.

STATEMENT OF GEN JOHN H. TILELLI, JR., USA [RET.], CHAIRMAN OF THE BOARD, MILITARY OFFICERS ASSOCIATION OF AMERICA

General TILELLI. Chairman Levin, Senator Inhofe, members of the Senate Armed Services Committee: Thank you for the opportunity to appear before you today. I've also submitted a statement for the record. It's an honor for me to speak today to you on behalf of those who serve and have served and their families. On behalf of the 380,000 members of the Military Officers Association of America, I have the honor and privilege of serving as the Chairman for the rest of this year.

We thank the Senate Armed Services Committee for holding this hearing on the military retirement program. The purpose of our retirement program is to offset the extraordinary demands and sacrifices inherent in a service career. Retirement benefits are a powerful incentive, as we've heard today, for those who serve 20 or 30 years in uniform, despite the sacrifices that they and their families have to endure over the period.

The critical element to sustaining a high-quality career military force lies with establishing a strong reciprocal commitment between the servicemember and the government and the people that they serve. If that reciprocity is not fulfilled, if we break faith with those that serve, retention and readiness will inevitably suffer.

The COLA cut to servicemembers' retirement pay in the BBA is a clear breach of that reciprocal commitment. Although the recently passed omnibus exempted chapter 61 retirees and survivors from the COLA cut, we believe that the partial deal breaks the sacred trust with the rest of the entire retiree community and their families. We believe it should be repealed now.

The financial impact has been called in various quarters as "teensy-weensy" and "small." For example—and we've heard it today—a NCO in the grade of E–7 retiring this year with 20 years of service would see a cumulative loss of $83,000 by the time he or she reaches the age of 62, more than 3 years of his original retirement pay of $23,000 a year annually.

The ongoing rhetoric about spiraling out-of-control personnel costs has emboldened some to propose drastic changes to military benefits and compensation in the name of fiscal responsibility, without fully understanding the unintended consequences of their action. Suggested cost-cutting proposals are gaining traction because critics continue to cite personnel cost growth since 2000 as a motive to gut pay and benefits. When we think about that, we need to think about it in the context of people, soldiers, sailors, airmen, and marines, who are serving in harm's way every day, rather than look at it in a budget context.

We believe it's important to put the growth since 2000 in context. Have costs grown since 2000? Yes. But using the 2000 baseline without an historical context is grossly misleading. First, it implies that 2000 was an appropriate benchmark for estimating what reasonable personnel and health care spending should be. We don't believe that's correct. At that time, years of budget cutbacks had depressed military pay, cut retirement value by 25 percent for post-1986 entrants, and booted other beneficiaries out of the military health care system. Retention was on the ropes, if we recall, and

at the urging of the Joint Chiefs of Staff, Congress fixed the problems to prevent a readiness crisis.

Congress worked diligently over the next decade to restore military pay comparability, repeal the retirement cuts, and restore promised health care coverage for older retirees. In other words, the cost growth was essential to keep the previous cutbacks from breaking the career force. Now many express shock that these fixes actually cost money. They forgot that Congress deemed that these changes were less costly than continued erosion of our defense capability.

Moreover, military compensation studies have erroneously concluded that the cost trends of the last decade will continue indefinitely. We do not believe that's correct. Now that pay comparability has been restored, there won't be any further need for extra pay plus-ups above private sector pay growth, which is in the law. Similarly, Congress won't have to approve another TRICARE for Life program or repeal REDUX, which we had to do in order to maintain the readiness, accession, and retention of the current force. Those were one-time fixes that won't be repeated, hopefully, and won't need to be repeated.

Yet, we continue to focus on recent growth trajectory and have adopted a new budget-cutting phrase, which is "Slow the Growth." We believe the math doesn't add up. Military personnel costs which have been derived from the Office of Management and Budget data, which include military personnel and the defense health program, continue to consume the same amount of DOD's budget for the past 30 years, about one-third. That's hardly spiraling out of control. Even so, we're asking for deeper cuts.

Leveraging our people program versus readiness is simply a false choice of what this Nation should be able to afford for its defense. The key to a ready force is and has been sustaining a top-notch servicemember, mid-level NCOs, and officers for another 10 years. Without existing military career incentives over the past 10 years of this protracted warfare, the All-Volunteer Force would have been placed at serious risk.

So in conclusion, first, we believe that the COLA cut needs to be fully repealed now and not wait until the retirement commission. Second, we believe that any changes to today's retirement program need to be grandfathered to existing retirees in the current force. Third, any further changes recommended by the commission must be fully vetted through this committee to determine what impact it will have on our world-class All-Volunteer Force.

Our obligation is clear and that's protecting national security, and as it always has been, the most key element to our national security are the men and women who serve and the family members who serve also.

Thank you again for the opportunity to appear before the committee. I look forward to your questions. Thank you very much.

[The prepared statement of General Tilelli follows:]

PREPARED STATEMENT BY THE MILITARY OFFICERS ASSOCIATION OF AMERICA

Mr. Chairman and Ranking Member Inhofe. On behalf of over 380,000 members of the Military Officers Association of America (MOAA), we are grateful for this opportunity to express our views and appreciate the full Senate Armed Services Committee hosting this hearing on the uniformed retirement system and the recent cost-

of-living adjustment cut for working age retirees included in the Bipartisan Budget Act or BBA of 2013.

MOAA does not receive any grants or contracts from the Federal Government.

THE UNIFORMED SERVICES RETIREMENT SYSTEM

The entire military compensation system, to include the retirement benefit, is based on principles outlined in the DOD's Military Compensation Background Papers and "should be designed to foster and maintain the concept of the profession of arms as a dignified, respected, sought after, and honorable career."

The whole purpose of the unique military retirement package is to offset the extraordinary demands and sacrifices inherent in a service career. Benefits provide a powerful incentive for top-quality people to serve 20–30 years in uniform, despite the cumulative burden of sacrifices over that extended period, as eloquently articulated by the Secretary of the Air Force during his January 18, 1978, testimony before the President's Commission on Military Compensation:

> "The military services are unique callings. The demands we place on our military men and women are unlike those of any other country. Our worldwide interests and commitments place heavy burdens and responsibilities on their shoulders. They must be prepared to live anywhere, fight anywhere, and maintain high morale and combat efficiency under frequently adverse and uncomfortable conditions. They are asked to undergo frequent exposure to risk, long hours, periodic relocation and family separation. They accept abridgement of freedom of speech, political and organizational activity, and control over living and working conditions. They are all part of the very personal price our military people pay.
>
> "Yet all of this must be done in the light of—and in comparison to—a civilian sector that is considerably different. We ask military people to be highly disciplined when society places a heavy premium on individual freedom, to maintain a steady and acute sense of purpose when some in society question the value of our institutions and debate our national goals. In short, we ask them to surrender elements of their freedom in order to serve and defend a society that has the highest degree of liberty and independence in the world. I might add, a society with the highest standard of living and an unmatched quality of life.
>
> "Implicit in this concept of military service must be long-term security and a system of institutional supports for the serviceman and his family which are beyond the level of compensation commonly offered in the private, industrial sector."

There is no better illustration of that reality than the experience of the past 12 years of war. Absent the career drawing power of the current 20-year retirement system and its promised benefits, MOAA asserts that sustaining anything approaching needed retention rates over such an extended period of constant combat deployments would have been impossible.

The crucial element to sustaining a high-quality, career military force is establishing a strong bond of reciprocal commitment between the servicemember and the government. If that reciprocity is not fulfilled, if we "break faith" with those that serve, retention and readiness will inevitably suffer.

We believe the government has a unique responsibility to the small segment of Americans it actively induces to subordinate their interests for 20 to 30 years that goes far beyond any civilian employer's obligation to its employees.

The uniformed services retirement system has had its critics since the 1970s and even earlier.

In the 1980s, budget pressures led to amending retirement rules twice for new service entrants with the implementation of the high 36 month average system and subsequently the REDUX system.

At the time the REDUX plan was being considered, then-Secretary of Defense Caspar Weinberger strongly (but unsuccessfully) opposed it (see attached letter), arguing the change would harm retention and degrade readiness. "It says in absolute terms," said Weinberger, "that the unique, dangerous, and vital sacrifices they routinely make are not worth the taxpayer dollars they receive. I do not believe the majority of the American people support this view and ask that you consider this in your deliberations on this very critical issue to our national security."

When his prediction of adverse retention consequences proved all too accurate in the 1990s, Congress had to repeal REDUX in 1999 at the urging of the Joint Chiefs of Staff.

Subsequently, innumerable studies and task forces have recommended further dramatic changes, usually either to save money, to make the system more like those offered under civilian programs, or both.

Most recently, groups such as the 10th Quadrennial Review of Military Compensation, National Commission on Fiscal Responsibility and Reform, the Debt Reduction Task Force, the Sustainable Defense Task Force, and the Defense Business Board's "Modernizing the Military Retirement" Task Group have all recommended dramatically revamping the system more on civilian lines, with significantly reduced and delayed military retirement compensation.

All too aware of the lessons of REDUX, Congress has wisely ignored and dismissed these unwise recommendations, which propose far greater retirement cuts than REDUX entailed.

MILITARY RETIREMENT: "INFLEXIBLE AND UNAFFORDABLE"

The existing retirement system is often characterized as "inflexible," limiting the ability of Service personnel managers to more precisely and effectively manage the force. We strongly disagree.

The Services already have substantial authority to adjust high-year-of-tenure limits to enforce the unique military "up-or-out" promotion system. Other authorities exist, and the Services are currently exercising them, to incentivize voluntary separations and voluntary or mandatory early retirements.

The Services routinely tighten retention and reenlistment incentives and other restrictions when budget or other considerations create a need for additional separations and retirements. When necessary, Congress has provided additional special drawdown authorities.

But the practical reality is that precisely planned force management initiatives are regularly tossed aside in the wake of world events which force dramatic reversals of those planned actions.

Plans which envision delaying retirement eligibility until age 57 or 60 contradict the reality that the Services don't want the vast majority of members to stay in uniform that long.

Service desires for unlimited flexibility to shape the force may be appropriate for management of hardware and other non-sentient resources.

However, the Services are dependent upon attracting and retaining smart people who understand all too well when their leaders put no limits on the sacrifices that may be demanded of them, but also wish to reserve the right to kick them out at will ... even while building a system that assumes they will be willing to serve under these conditions until age 60.

Servicemembers from whom we demand so much deserve some stability of career expectations in return.

We believe that "civilianizing" the military benefit package would dramatically undermine the primary military career retention incentive particularly during wartime and would be disastrous for retention and readiness, as they increase the incentives to leave and reduce the incentives for career service.

Moreover, we believe it is irresponsible to focus on budget and "civilian equity" concerns while ignoring the primary purpose of the retirement system—to ensure a strong and top-quality career force in spite of arduous service conditions that no civilians experience and few are willing to accept.

Military retirement critics have claimed for decades that this unique plan is unaffordable and unsustainable.

Over 35 years ago, the 1978 report of the President's Commission on Military Compensation included this extract from the minority report of Commissioner Lt Gen Benjamin O. Davis (USAF, Retired):

> "Unfortunately, the Commission has embraced the myth that retirement costs will soon rise so high—from $10 billion this year to $30 billion in the year 2000—as to become an unacceptable and unfair burden on the American taxpayer.
>
> "Such assertions fail to point out that by using the same assumptions, today's average family income of $10,000 will be $36,000 in the year 2000. The average cost of a home will be $171,000; a compact automobile will cost $17,000; and the overall U.S. budget will have increased from $500 billion to some amount in the trillions."

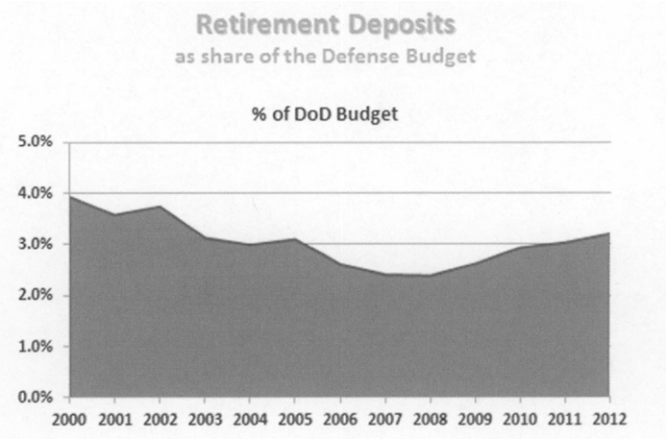
Such numbers seem quaint in retrospect, but they make two telling points.

First, long-term projections that appear dire today often prove far less so as years pass.

Second, after budget-driven retirement cuts actually were imposed in 1986, Congress deemed restoring the current system as more affordable than continued retention and readiness shortfalls.

During 2012 testimony before Congress, Defense witness Dr. Jo Ann Rooney, Principal Deputy Under Secretary of Defense for Personnel and Readiness, testified the current military retirement system is "neither unaffordable, nor spiraling out of control," noting retirement costs as a percentage of pay have remained reasonably constant.

The chart below demonstrates that fact. Extracted from the DOD Actuary Valuation report and the Office of Management and Budget historical table 5.1, the retirement deposits into the retirement accrual account have remained relatively steady over the past 12 years.



THE BIPARTISAN BUDGET ACT

The recent passage of the Bipartisan Budget Act (BBA) was trumpeted as a bipartisan, 2-year sequestration alleviating, budget deal. But in reality, the budget deal was a backroom, 11th hour pact that was rushed through both the House and Senate before the holidays, bypassing the committees of jurisdiction.

Even though the budget deal will help ease the harmful effects of sequestration for 2 years for the Department of Defense—something MOAA supports—doing so by breaking longstanding commitments to servicemembers who serve our Nation for over 20 years is incredibly short-sided and shameful.

MOAA recognizes the magnitude of the Nation's debt problem and agrees that solving this will require sacrifice from all sectors of the Federal Government—including the Pentagon.

However, the defense budget didn't cause this problem and it shouldn't carry the brunt of the solution—especially the one weapon system that has consistently answered the call regardless of the demands we have asked of them—those who serve and have served our Nation in uniform.

Hidden in the deal is a provision that the press has characterized as "modest," "tiny," or "teensy weensy."

The provision reduces the annual cost-of-living adjustment by 1 percent starting in December 2015 for working age retirees (under age 62).

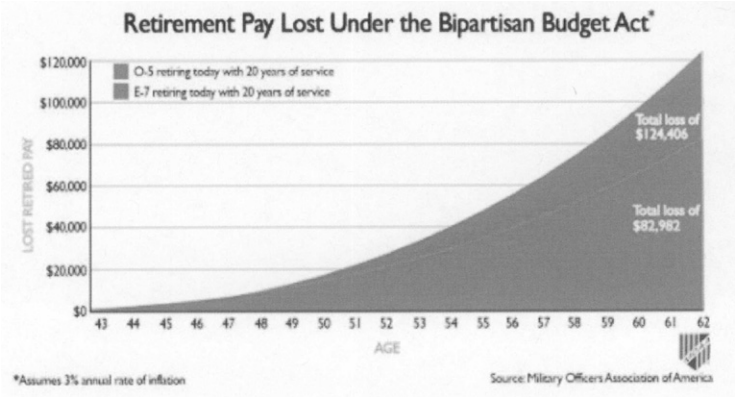
This "teensy weensy" provision affects over 700,000 retirees, 400,000 with post-9/11 service, and 73 percent enlisted.

The servicemembers who retire at the 20 year point will feel the full negative financial effects of the provision as it will reduce their retired pay by nearly 20 percent by the time they reach age 61. At age 62, a "catch-up" clause recalculates the retiree's annual pay base for the following year but the financial loss between retirement and age 62 is lost forever.

The recently passed fiscal year 2014 appropriations omnibus bill took the first step towards full repeal by exempting Chapter 61 retirees and survivors. However, this still breaks the retirement contract and it breaks faith with the currently serving and MOAA won't be satisfied with a partial deal.

Co-author of the BBA and Chairman of the House Budget Committee Representative Paul Ryan (R–WI) defended the cost-of-living adjustment (COLA) cut for working age retirees in a December 22, 2013, USA Today editorial stating, "All this reform does is make a small adjustment for those younger retirees."

The financial impact is anything but a "small" adjustment. For example, an E–7 retiring this year with 20 years of service would see an average loss of over $3,700 per year. By the time he/she reaches age 62, the cumulative loss is $83,000; more than 3 years' of his or hers original retired pay of $23,000 annually.



Chairman Ryan further stated, "To be clear, the money we save from this reform will go right back to the military. Veterans aren't Washington's piggy bank. They deserve fair compensation. We owe them a benefit structure they can count on."

What's appalling is that this change accomplishes the complete opposite . . . it creates an environment where those that serve or plan to serve over 20 years in uniform cannot count on their promised career benefits. This backroom deal broke faith with our currently serving and our working age retirees in order to fund other military spending priorities.

The 1 percent COLA reduction is a prime example of a hastily thrown together, short-sighted deal that completely bypassed the committees of jurisdiction and the appropriate due process.

It shifts funding obligations that are rightfully the government's onto the backs of those who already have sacrificed more for our country than any other Americans.

Had this provision been reviewed by the HASC and SASC, there would have been an educated, informed dialogue on its merits and the unintended consequences as well as the financial impact to uniformed members.

We recently surveyed our membership on this issue, and of the more than 15,000 respondents, nearly 95 percent of respondents indicated that they opposed the cut. They have voiced their concern with nearly 250,000 messages sent to their legislators urging repeal.

Fortunately, it's not just military and veteran associations that are upset about the BBA COLA provision, but also Members of Congress. Approximately 17 bills have been introduced and nearly half of Representatives and Senators have signed on. The hurdle, of course, is garnering a bipartisan offset to replace the revenue.

We've heard from the currently serving and their families and the negative impact to the morale of those in uniform is already surfacing.

MOAA's bottom line: A full repeal is needed immediately to keep from breaking faith with those currently serving and for those that have served over two decades in uniform.

THE PERFECT STORM

The question to ask is, "How did a proposal like this ever see the light of day?" The answer is depressingly simple. The Pentagon's uniformed and civilian leadership have created a perfect storm providing political top cover to slash pay and benefits with their repeated and alarming—and demonstrably false—statements on personnel cost growth.

The Pentagon's ongoing rhetoric about "spiraling out of control" personnel growth has emboldened some in Congress to not only consider, but to propose drastic changes to the military benefits, compensation, and the retirement system in the name of fiscal responsibility without fully understanding the unintended consequences of their actions nor the impact to morale and retention.

Many suggested cost cutting proposals are gaining traction simply because critics and the Pentagon continue to cite "personnel cost growth since 2000" as a motive to gut pay and benefits.

What concerns MOAA and should concern Members of Congress is that critics (and the Pentagon) narrowly use 2000 as a baseline for future growth, insisting compensation and health care costs are growing at rates that, as Chairman of the Joint Chiefs (CJCS) General Martin Dempsey said, " ... are unsustainable to the All-Volunteer Force."

MOAA believes it is important to put the "growth since 2000 argument" in the proper context to understand why military pay has risen faster than that of the average Americans from 2000 to 2010.

Have costs grown since then? Yes, certainly, but using the "2000" baseline without appropriate context is grossly misleading.

First, it implies the turn of the century was an appropriate benchmark for estimating what reasonable personnel and healthcare spending should be. Nothing could be further from the truth.

At that time, years of budget cutbacks had depressed military pay, cut retirement value by 25 percent for post-1986 entrants, and booted beneficiaries over 65 completely out of the military health care system.

As a result, retention was on the ropes, and the Joint Chiefs of Staff urged Congress to fix the problems to prevent a readiness crisis.

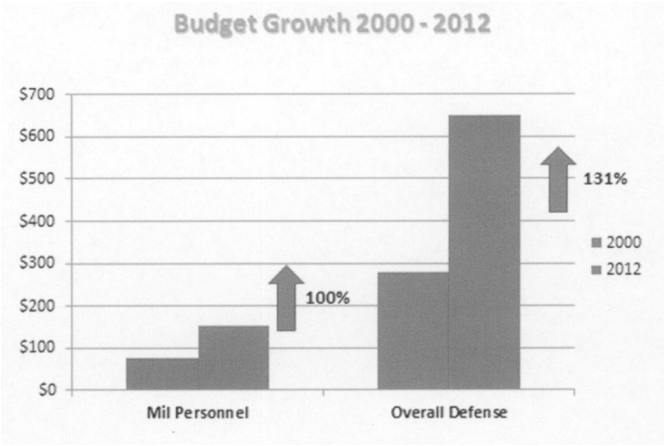
Congress worked diligently over the next decade to restore military pay comparability, repeal the retirement cuts and restore promised health coverage for older retirees. In other words, the cost growth was essential to keep the previous cutbacks from breaking the career force.

Now, more than a decade later, many of those same officials and their successors express shock that these fixes cost money. They find it convenient to forget that Congress deemed those changes less costly than the continued erosion of our defense capability.

Recent military compensation studies have leaped to the erroneous conclusion that the cost trends of the last decade will continue indefinitely.

Not so. Now that pay comparability has been restored, there won't be any further need for extra pay plus-ups above private sector pay growth. Similarly, Congress won't have to approve another TRICARE for Life program or repeal REDUX. Those were one-time fixes that won't be repeated.

Yet, Pentagon leadership continues to focus on "recent growth trajectory" and have adopted a new budget-cutting catch phrase: "Slow the growth."



For example, the military personnel account, according to Office of Management and Budget's historical table 3.2, has doubled between 2000 and 2012—from $76 billion to $152 billion.

What the Pentagon doesn't advertise is that the overall defense budget grew over the same period from $281 billion to $651 billion—a 131 percent increase. This alone shows personnel costs are consuming a smaller share of the budget. So if any costs are "spiraling out of control", they're not personnel costs.

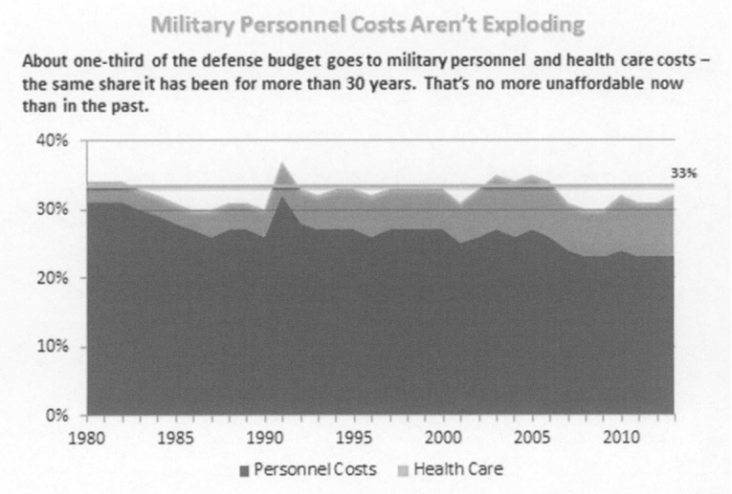
Additionally, hardware cost overruns have been left unchecked. A recent Government Accountability Office report issued in October 2013 highlighted that the Pentagon's 85 major acquisition programs were a collective $411 billion over their initial cost estimates in 2012—a sum that could wipe out the remaining years of the DOD sequestration budget cuts alone.

Some Members of Congress, think tanks, and many in the press have simply accepted the Pentagon's rhetoric without subjecting it to scrutiny.

MOAA believes that Congress, think tanks, the press, and the American people should be critical of the rhetoric and ask the hard question—have DOD show how they are forecasting future personnel growth instead of simply agreeing with the Pentagon.

The Pentagon's math simply does not add up.

Military personnel costs have continued to consume the same share of the Pentagon's budget for the past 30 years—about one third (hardly spiraling out of control).



Fortunately, we are not the only ones asking the Pentagon why and how. A recent Andrew Tilghman article, "Top brass claim personnel costs are swamping DOD, but budget figures say otherwise," in the November 24, 2013, Military Times, directly addresses the grossly exaggerated public statements being made by senior Pentagon leadership regarding military pay and benefits.

However, this one article will not preclude the Pentagon or the administration from asking for deeper cuts to personnel compensation and benefits in order to secure more funding for pet weapon programs.

Just this month in a National Public Radio interview, General Dempsey reemphasized this point by stating, "I have one sacred obligation to the young men and women who serve. And only one. If I ask them on behalf of the president to go to places like Afghanistan or some other conflict, they must be the best trained, best equipped and best led force on the planet. I don't want to win 5 to 4; I want to win 50 to nothing. To do that we have to make the appropriate investments in training, readiness, leader development, modernization and manpower. But I can't have the manpower account so out of proportion that it precludes me from making sure that if they go into harm's way they're ready to go."

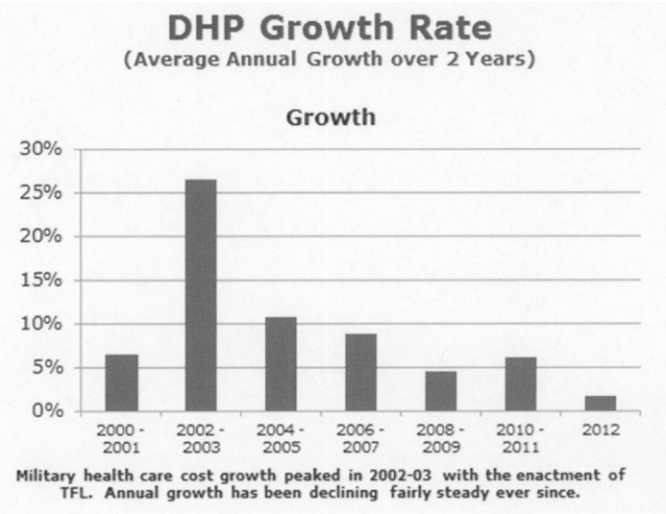
Leveraging people programs vs. readiness is simply a false choice. The key to a ready force is sustaining the top-notch, 10-year, mid-level noncommissioned officer and officer for another 10 years. Without existing military career incentives over the

past 12 years of protracted wartime conditions the sustainment of the All-Volunteer Force would have been placed at serious risk.

But because of the rhetoric, pay and benefit dominoes have already begun to fall—all of which have started to bend the curve on personnel costs.

Domino one

TRICARE Prime changes: Beneficiaries have already seen increases to TRICARE enrollment fees over the past several years and they will continue to rise at the rate of a retiree's cost-of-living adjustment. TRICARE Prime Service Area restrictions will shift nearly 200,000 beneficiaries to the less-expensive TRICARE Standard. TRICARE Service Center closures and the standup of the Defense Health Agency also will contribute to the large projected savings in this area.



We've already started to see slowing in the rate of growth in health care costs. The chart to the right shows the average annual growth rate has been declining steadily since enactment of TRICARE for Life (TFL) in 2003.

Domino two

Major changes have been enacted to double and triple pharmacy copays for military beneficiaries, and these will continue to increase in future years at the rate of inflation. TFL beneficiaries are being required to use the far-less-expensive mail-order system for refills of maintenance medications, which will dramatically reduce pharmacy costs.

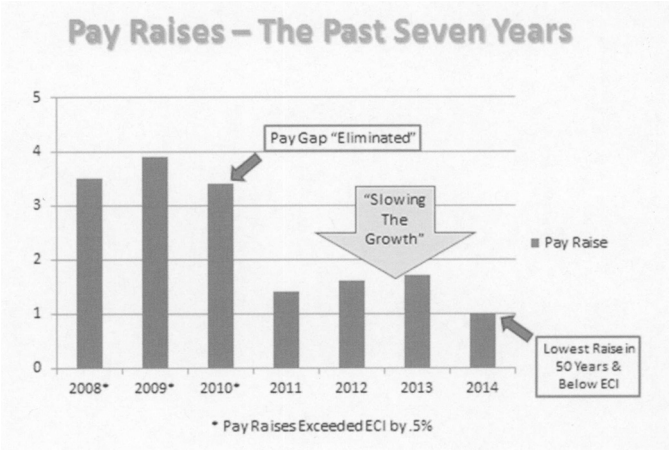
Domino three

End strength: Cuts to the tune of 124,000 servicemembers over 5 years are planned for the Active and Reserve Forces. These cuts will definitely bend the personnel cost growth curve.

Domino four

Pay: This year military members will see the lowest pay raise in over 50 years with their pay capped below private sector pay growth, and this may not be a one-time cap. In the fiscal year 2013 budget submission, the administration and the Pentagon rolled out a plan to cap pay raises for 3 years.

The chart to the right shows that after years of pay raises in excess of the Employment Cost Index (ECI), the pay gap was basically closed in 2010. To profess pay raises from 2000 through 2010 would be repeated in the next coming decade is a flawed assumption for predicting military personnel cost growth.



After the December 2013 roll-out of the budget deal Secretary of Defense Chuck Hagel stated, "The Department of Defense will need more flexibility, and we will continue to look to Congress as a vital partner in our efforts to realign priorities and address needed reforms in areas like military compensation in order to maximize our military's fighting strength."

Stating "everything is on the table," several options to cut pay and benefits have surfaced. The next salvo will be launched in February in the defense budget submission in February. Already being discussed:

- Capping pay raises or even freezing pay
- Additional end strength cuts
- Changing Basic Allowance for Housing to make members assume more of the costs
- Curtailing or eliminating the commissary benefit
- Limiting tuition assistance
- Means-testing TRICARE fees and establishing TFL/TRICARE Standard enrollment fees
- Restructuring the retirement benefit to resemble civilian-like plans (401K)

A deafening silence has come from DOD leadership regarding the COLA-cutting provision. Fortunately, not all the Joint Chiefs have remained silent.

Shortly after the BBA release, Army Chief of Staff General Ray Odierno expressed complete surprise and voiced his trepidation over the process stating, "It's concerning to us that they made a decision without actually consulting the Pentagon or anyone else. What's next? We wanted a total package that we'd be able to look at and agree to."

THE GRANDFATHER CLAUSE

For several years, the administration, the Pentagon, the Chairman of the Joint Chiefs of Staff (CJCS), and Members of Congress have stipulated that any change to the current retirement system should grandfather current retirees and currently serving members.

In October 2011, then Secretary of Defense Leon Panetta and CJCS General Dempsey reiterated in a hearing before the House Armed Services Committee that any changes to the military retirement program should not impact the current force in order to "keep faith" with them and their families, and that any changes should affect only future service entrants.

The administration made that same promise in its guiding principles to the Military Compensation and Retirement Modernization Commission (MCRMC), specifically including a grandfather clause to protect current retirees and currently serving members from any changes to their retirement.

This COLA—1 percent provision flies in the face of those promises and is a breach of faith with retirees under age 62 as well as those currently serving—many who have experienced over 12 years of combat.

Make no mistake; even grandfathering the current force is no protection against the adverse effects of military retirement cuts.

The last two major changes to military retirement, High-36 in 1980 and REDUX in 1986, grandfathered the existing force.

The REDUX experience taught that grandfathering the current force against significant changes does not avoid the negative retention and readiness consequences of those changes.

Grandfathering is designed simply to quell dissent and fear among the currently serving, as there is no constituency for future entrants.

In the end, troops and families affected by such decisions have little or no say in what Congress and the administration decide about their future compensation package.

Their only recourse is to "vote with their feet"—as they did in the 1970s and 1990s—when they believe erosion of their career compensation package has left it insufficient to offset the sacrifices of continued service.

At the urging of the Joint Chiefs of Staff at the time, Congress repealed REDUX in 2000 due to the harmful impact to retention and readiness.

It is imperative Congress repeal the BBA COLA cut that will impact the promised retirement benefit for those in uniform today.

THE MILITARY-CIVILIAN DIVIDE

As this BBA provision surfaced, members of the press called the cut exceedingly modest to "a [military] pension plan that is already far more generous than private-sector equivalents."

Congress and the American people should not take the sacrifice and service (and retention) of our All-Volunteer Force (AVF) for granted by equating it to civilian careers. Sustaining the AVF cannot be done "on the cheap" and comparing the benefit package to those in the civilian workplace fails to understand the very nature of a career of service in uniform.

The men and women in uniform cannot just say "no" when presented with orders they don't like. They are subject to the Uniformed Code of Military Justice, a reality civilians don't face. In order to earn the retirement benefit, servicemembers must make it through an up or out personnel system or face being separated or discharged.

The entire military family makes tremendous sacrifices on the road to retirement. Military spouses seldom establish their own careers because of frequent and involuntary separations and relocations. Due to frequent moves, military couples rarely spend enough time in one place to build equity in a home.

Military children, on average, attend 6–8 schools during grades K–12. Their young lives are also peppered with extended separations from their military parent. Along the road to retirement, many will decide the personal sacrifice is simply too great.

Critics are quick to point out that retirees who leave military service in their 40s or 50s find gainful civilian employment. But not all military skills translate well into civilian jobs regardless of what pundits say. The reality is that two incomes are necessary to maintain a standard of living and send their kids to college.

Most disconcerting, is equating military service to the civilian sector. The decades of sacrifices that career servicemembers and families endure (as particularly evidenced over the past 12 years) are far from civilian-like.

In a hearing before the House Armed Services Committee in October 2011, the Chairman of the Joint Chiefs General Martin Dempsey stated that the military retirement program "needs to be fundamentally different than anything you can find in the civilian sector."

MOAA wholeheartedly agrees. Until you can adjust the conditions of service for those in uniform to be more "civilian-like" (which can't and won't happen), we suggest the press, think tanks, and budget cutters stop trying to compare the two in order to garner support for enormous changes to pay and benefits.

Similarly, MOAA finds it extraordinarily perplexing when critics rationalize the COLA cut by noting that large numbers of veterans don't qualify for any retirement benefits and are thus unaffected by the budget bill's COLA reductions.

This kind of rationalization is particularly aggravating to career servicemembers.

The circumstances of people who didn't serve a career are irrelevant to the question of whether the government should keep its longstanding promises to those who did.

KEEPING FAITH WITH THE ALL-VOLUNTEER FORCE

The most important element of national security is sustainment of a dedicated, top-quality career military force. That reality is underscored by consistent surveys showing our Armed Forces are America's most-respected public institution.

Yet, budget critics persist in asserting military pay, retirement, and health care benefits are unsustainable and should be slashed to more closely resemble civilian benefit packages.

But decades of such dire predictions have proved to be consistently wrong. On the contrary, these crucial career incentives have sustained a strong national defense through more severe and protracted wartime conditions then even the strongest proponents of the All-Volunteer Force thought it could survive.

In fact, the only times it has been jeopardized were when budget concerns imposed significant cutbacks in the military compensation package.

Congress' consistent corrective actions in those cases recognized that the cost of sustaining the current career incentive package is far more acceptable and affordable than the alternative.

The hard fact is that military service conditions are far more arduous and career servicemembers' and their families' sacrifices are far greater today than at any time since the current pay, retirement and health care systems were created.

How ironic that, even while acknowledging this reality with every other breath, their own leaders simultaneously devalue their extraordinary service and sacrifice with a drumbeat of assertions that they aren't worth what we're paying them.

Any change to the retirement system should be vetted through the normal legislative process and be prospective in nature rather than violate the fundamental career promise made when men and women raised their hand to protect our Nation.

Those in uniform who are contemplating a career serving around the world to include Afghanistan should not be burdened with this broken promise.

THE SECRETARY OF DEFENSE

WASHINGTON, THE DISTRICT OF COLUMBIA

15 NOV 1985

Honorable Thomas P. O'Neill, Jr.
Speaker of the House of
Representatives
Washington, D.C. 20515

Dear Mr. Speaker:

The enclosed report complies with the requirements of section 667 of the Defense Authorization Act for fiscal year 1986.

Included in the report are drafts of the two pieces of legislation that would change the military non-disability retirement system. Each would result in a reduction in military retirement accrual funding of $2.9 billion in fiscal year 1986 as mandated by the Congress. This is a 16 percent reduction in military retired pay from the current system and is in addition to the 13 percent reduction that was imposed by the Congress in the high-three-year averaging adjustment in 1980.

Although the Department of Defense has prepared the draft legislation as required by the Congress, I want to make it absolutely clear that such action is not to be construed as support for either of the options for change. To the contrary, the Department of Defense is steadfastly opposed to the significant degradation in future combat readiness that would result from the changes required to achieve the mandated reduction. I am particularly concerned about the potential loss of mid-level officers, NCOs and Petty Officers who provide the first-line leadership and technical know-how so vital to the defense mission. Unless offsetting compensation is provided, our models conservatively indicate that our future manning levels in the 10 to 30 year portion of the force would drop below the dismal levels of the late 1970s when aviator shortages and shortfalls in Army NCO and Navy Petty Officer leadership seriously degraded our national security posture.

While the changes we have been required to submit technically affect only future entrants, we expect an insidious and immediate effect on the morale of the current force. No matter how the reduction is packaged, it communicates the same message, i.e., the perception that there is an erosion in support from the American people for the Service men and women whom we call upon to ensure our safety. It says in absolute terms that the unique, dangerous and vital sacrifices they routinely make are not worth the taxpayers' dollars they receive, which is not overly generous. I do not believe the majority of the American people support this view and ask that you consider this in your deliberations on this very crucial issue to our national security.

Sincerely,

Caspar W. Weinberger

Enclosure

Chairman LEVIN. Thank you so much, General.

General Sullivan.

STATEMENT OF GEN GORDON R. SULLIVAN, USA [RET.], PRESIDENT AND CHIEF EXECUTIVE OFFICER, ASSOCIATION OF THE U.S. ARMY

General SULLIVAN. Mr. Chairman, Senator Inhofe, distinguished members of the panel: Thank you for the opportunity to speak with you today as the President of the Association of the U.S. Army and as a former Chief of Staff of the U.S. Army.

The Association of the U.S. Army represents hundreds of thousands of members of the Active Army, Army National Guard, Army Reserve, the retired community, civilians, and the Army families. We have 121 chapters worldwide. Our members and I are very well aware of the fact that much of the good done for soldiers over the last few years would have been impossible without the commitment of this committee. We are indebted to each and every one of you and your predecessors. Your tireless and selfless personal staffs and professional staffs, we appreciate their efforts. We understand that in these fiscal times, these are very challenging times for our Nation, and certain things need to be done.

Now, before I continue, I want to acknowledge the bipartisan bill. I've never been sure what it was called, so let's say the Murray-Ryan bill or the Ryan-Murray bill. But whatever it was, the chips in the sequestration have been very important for all of the Services, and I just want to add my voice to the thanks for everybody who made that bipartisan bill and the budgets and the return to somewhat normal order which is taking place here. I remain hopeful that these chips into the walls that surround money known as sequestration will end permanently.

Now, in many ways, as has been stated by countless people and here this morning, the budget deal was good news. Unfortunately, included in it was a broken promise, and the broken promise has been talked about repeatedly. In spite of the fact that the President, the chairman of this committee, several Secretaries of Defense, the Chiefs of the Services, and the senior civilians in DOD—and you heard it here this morning on the first panel—have stated repeatedly that any changes to the military compensation and benefits package would be grandfathered for the currently serving force and for current retirees would be grandfathered, yet it was changed.

Now, this one line in the budget act has created doubt in the minds of the very people who do not need doubt created in their minds about the commitment of the American people for their well-being and their ability to fight and win the Nation's wars, where ever those wars may be. Frankly, we now have them worried about things I never worried about in my 36 years of Active Duty. I cannot imagine that at this point in our history we need to cause them to be worried about their well-being.

The congressionally-created Military Compensation and Retirement Modernization Commission that was tasked with reviewing potential changes to the military retirement system was directed to follow guidelines set by this committee and the President that included grandfathering the currently serving force and current retir-

ees. In my view, the Commission should be allowed to do its job, and I recommend strongly that this provision, which gets into the retired pay of those between retirement age and age 62, be taken off the table now and not passed to the Commission based on some hope that someone else some time down the road is going to change it. I don't think it's ever worked in the past and I doubt it would work now.

By the way, the longer it continues the more uncertainty will be created in the minds of the people. I think this will be a pay-now/pay-later. I don't think we understand the full impact of what we're doing here.

As the economy rights itself, this blow to an earned deferred compensation benefit will be an enormous disincentive for qualified, battle-tested military personnel to remain on Active Duty. Recruitment will also suffer because any decision to serve could be influenced by how the current force is treated. Today's soldiers are tomorrow's retirees, and they are watching and they will speak. The current retirees, may of whom are combat veterans themselves, will influence in some way recruits or potential recruits.

In the case of the Army, the Army is a family business and you will find a very high percentage of those serving on Active Duty today were influenced by either parents, grandparents, aunts, or uncles.

This cut in pay and benefits must be balanced against the long-term viability of the All-Volunteer Force. Recent history, which has been pointed out, from the 1980s and 1990s shows that precipitous pay cuts and benefit cuts have unintended detrimental consequences. The prime example is the ill-fated REDUX retirement adjustments. Actually, in just a few years we faced a recruiting challenge, which Congress wisely reinstated the old system.

The current COLA cut provision, which some say will help tame the "wildly out of line" military pensions, will hit hardest on the enlisted force. In most cases, I would point out that these people, grade staff sergeant E–6 or sergeant first class E–7, are not fully employed in lucrative retirement positions in today's economy. For many, their now-to-be-deflated retirement check is their main source of income. After decades of service, which I hasten to add could have involved repeated tours of duty in conflict areas, this puts them in a bad position employment-wise and so forth and so on, which I won't go into today.

The fact of the matter is, the compensation package in place today recognizes compensation which has been earned by over 20 years of arduous service. By the way, this compensation was designed to encourage careers of service in the All-Volunteer Force based on personal qualifications, and this force has performed magnificently over the last several decades and certainly the last 12 to 13 years in active combat.

Also, without the support of their families, the thing would have fallen like a deck of cards. I think we need to pay particular attention to their families and their role, in all of this and the children, who have seen their mothers and fathers come and go to serve this country, they need to be taken care of going forward.

In addition to patriotism, what has kept professional soldiers in the Army and professional sailors, airmen, or whatever the case

may be in their Service, has been the assurance that the benefits which they understood they received would be forthcoming. I will tell you, I never worried about retirement. It was just there, and somehow we have created doubt in their minds. The last people in the world you want worried about that kind of stuff are those who are out there climbing into helicopters and airplanes and ships and jumping out of airplanes in the middle of the night, and whether they and their families are going to be taken care of.

I am troubled when I hear we are paying the troops too much and that this is the reason we have to cut back on training, readiness, and modernization of the force. At the end of the day, the force is people. It is people. We're talking about high quality men and women, dedicated to their Nation, and they are not the problem. The message they hear, though, is that they are contributing to their own unreadiness by their mere presence. We must change this narrative.

America can afford the defense it needs. It is simply a question of priorities. Shifting the burden of the Nation's fiscal problems onto the backs of the troops is unnecessary and in my opinion, is wrong.

The instability caused by this cut will reverberate for years unless it's taken off the table. We're going to feel it, pay-now/pay-later.

I understand very clearly the concept of shared responsibility, but the Federal Government and all Americans must remain true to the promises made to her military personnel. We understand that military programs are not above review. I understand all of that. But always remember the Nation must be there for them, those who answered the Nation's call. There's only a handful, less than 1 percent, of the American people.

This committee, this committee right here, safeguards the welfare of America's military personnel on behalf of the Nation. I want each of you to know that we appreciate what this committee does. We also appreciate the fact that, as has been stated earlier—I think General Tilelli said it—you are the ones who will look at what the commission comes up with to ensure that it meets your goals of protecting the All-Volunteer Force.

I urge you to find a bipartisan solution that will remove the under-62 military retiree COLA provision and do it now. My recommendation is you take the issue off the table and send a signal out there to the force now, so that people sitting around a stove, in the middle of Afghanistan, in the middle of the night, will not be talking about this issue. This is not the kind of issue they need to be worried about.

This system was really created in the 1940s. It probably deserves to be looked at, there's no doubt about it. But they don't need to worry about it, and their well-being at this point—I think it has a hugely destabilizing effect on the force and I urge you to take it off the table now. I'll do whatever I can, and I'm sure these other people will too, to testify to that effect.

Thank you very much.

[The prepared statement of General Sullivan follows:]

PREPARED STATEMENT BY GEN GORDON R. SULLIVAN, USA (RETIRED)

Mr. Chairman and members of the committee: Thank you for the opportunity to present my views as president of the Association of the U.S. Army (AUSA) and as a former Chief of Staff of the Army concerning the provision in the Bipartisan Budget Act of 2013 that will require a 1 percent annual reduction to the uniformed service retired pay cost-of-living adjustment (COLA) until the retiree reaches age 62.

The Association of the United States Army is a non-profit educational association with a diverse membership—Active Duty, Army National Guard, Army Reserve, Department of the Army civilians, retirees, and family members in 121 chapters worldwide. This is not a faceless group. They are people and that's where our focus should be. People.

Our members and I are very aware that much of the good done for soldiers in the past would have been impossible without the commitment of those who serve on this committee and the tireless efforts of their professional and personal staff. Thank you. We also understand that these are fiscally challenging times for our Nation.

Before I continue I want to note that AUSA has been fighting for 2 years to get the yolk of sequestration off of the Defense Department and, specifically, the Army's, back. The new budget deal finally removes much of the burden of sequestration from the military for the next 2 years and I thank you and all those who worked together to make that happen. The agreement means there will be more money for training soldiers who will go into harm's way, more money for maintenance and for procurement and modernization. It also ends funding by continuing resolution for 2 years. That is hugely important for the Army because it allows the Army to move money among accounts, it allows new contract starts and it provides a way for appropriators to give the Army a real funding number to plan around for the next 2 years. We are hopeful that sequestration will end permanently.

In many ways the budget deal was very good news. Unfortunately, included in that good news was a broken promise. The President, several Secretaries of Defense, the Chiefs of the Military Services, and Congress have stated repeatedly that any changes to the military compensation and benefits package would be grandfathered for the currently-serving force and for current retirees. The under-62 retiree COLA cap embedded in the budget legislation flies in the face of that pledge and breaks faith with those who have served their nation for 20 years and with those who will retire in the future, who until now had the expectation that their retirement would keep pace with current economic conditions.

This one line in the Budget Act has created doubt in the minds of the people. They are worried about things I never worried about in my 36 years on active duty. There was a trust that if I worked hard and did my job, at the end of the day, I knew what my compensation would be.

The congressionally-created Military Compensation and Retirement Modernization Commission that was tasked with reviewing potential changes to the military retirement system was directed to follow guidelines set by this committee and the president that include grandfathering the currently-serving force and current retirees. In my view, the commission should be allowed to do its job and not be preempted by legislation that affects the current force and current retirees. Since the commission results will be reviewed by appropriate congressional committees such as this one, there are fail-safe mechanisms in place that will assess the impact of any recommendations on retention and readiness.

As the economy rights itself, this blow to an earned deferred compensation benefit will be an enormous disincentive for qualified, battle-tested military personnel to remain on active duty. Recruitment will also suffer because any decision to serve could be influenced by how the current force is treated. Today's soldiers are tomorrow's retirees, and they are watching.

This cut in pay and benefits must be balanced against the long-term viability of the All-Volunteer Force. Recent history from the 1980s and 1990s shows that precipitous cuts in pay and benefits can have unintended, detrimental, and lasting effects on the force. The prime example is the ill-fated REDUX retirement pension plan in which made no structural changes, but merely imposed a straight line reduction to retirees' pay. In just a few years the military faced a recruitment and retention crisis, so Congress wisely reinstated the previous system.

The current COLA-cut provision, which some say will help "tame" the "wildly out of line" military pensions, will hit hardest on retired enlisted soldiers who in most cases are not fully employed in lucrative post-retirement jobs. For many, their now-to-be deflated retirement check is their main source of income after decades of service and I hasten to add, that the average Army retiree is an enlisted soldier at the grade of Staff Sergeant or E–6 whose retired pay (which is based only on pay grade,

and does not include allowance and special pays) is about $1,800 per month before taxes. This does not include dollars taken out for health care or for survivor benefit plans.

Finally, the COLA-cut provision affects the less than 1 percent of the Nation's population that is currently serving, and I note for the record, many of this cohort could have served multiple tours of duty in combat from the late 1990s and into the early years of this century. The retirement compensation that comes from this service has been earned by 20 years or more of arduous service.

The fact of the matter is that the compensation package in place today was designed to encourage a career of service in the All-Volunteer Force—the force that has performed so magnificently over the past several decades. In addition to patriotism, what has kept professional soldiers in the Army during a period of repeated combat deployments, family separation, and frequent relocation has been the stability of a reassuring compensation package that, until now, Soldiers knew would not be changed. The grandfathering principle equals stability—a certainty that, like the Army's pledge to leave no one behind on the battlefield, what was agreed to upon enlistment will not be changed mid-career.

Finally, I am troubled when I hear arguments that "we are paying the troops too much" and that this is the reason we have to cut back on the training, readiness, and modernization of the force. At the end of the day "the force" is people—high quality, dedicated, and smart people. They are not the problem, but the message they hear is that they are somehow contributing to unreadiness just by their mere presence. We must change this narrative.

America can afford the defense it needs; it is simply a question of priorities. Shifting the burden of the Nation's fiscal troubles onto the backs those sworn to defend all of us—and their families—is unnecessary and, in my opinion, wrong. The instability caused by this cut will reverberate for years to come and will, in my view, cause unintended consequences.

I understand very clearly the concept of shared responsibility. But, the Federal Government and all Americans must remain true to the promises made to her military personnel. We understand that military programs are not above review, but always remember that the Nation must be there for the country's military personnel who answered the Nation's call.

This committee safeguards the welfare of America's military personnel on behalf of the Nation. Although your tenure is temporary, the impact of your actions lasts as long as this country survives and affects directly the lives of a precious American resource—her military. As you make your decisions, please do not forget the commitment made to America's military personnel when they accepted the challenges and answered the Nation's call to serve.

I urge you to find a bipartisan solution that will remove the under-62 military retiree COLA cut provision from the Bipartisan Budget Act of 2013. Thank you for the opportunity to submit testimony on behalf of the members of the Association of the U.S. Army, their families, and today's soldiers and retirees.

Chairman LEVIN. Thank you so much, General.

Next, we have Sergeant Delaney.

STATEMENT OF MASTER SERGEANT RICHARD J. DELANEY, USAF [RET.], NATIONAL PRESIDENT, THE RETIRED ENLISTED ASSOCIATION

Sergeant DELANEY. Chairman Levin, Ranking Member Inhofe, and members of the committee: Good morning. I'm the National President of The Retired Enlisted Association (TREA). TREA is the largest association that was created exclusively for enlisted personnel from all branches and components of the U.S. Armed Forces. I appreciate the opportunity today to address you concerning the issue of military compensation, specifically the COLA reduction for military careerists.

I am greatly concerned about the recent action this Congress has taken. "When you freeze salaries, eliminate bonuses, and change their health care benefits, it's folly to think that it's not going to have an impact on the workforce." That's a quote from Bradford Fitch, President and CEO of the Congressional Management Foun-

dation, not 2 weeks ago in Politico. He was not talking about military retirees, of course. He was speaking about the congressional staff and the effect that eliminating traditional health care is going to have on members of congressional staffs leaving and pursuing other opportunities.

According to a recent survey, 90 percent of staffers said they are concerned about the benefits changes under the new health care law. In that same survey, if asked if they would look for another job in the next 12 months, 4 in 10, 40 percent, of Chiefs of Staff and State and District Directors said yes. Quoting Mr. Fitch again, "If these predictions come to pass, it would likely be the largest brain drain of talent that Congress has ever seen."

What makes anyone think that reducing benefits for military careerists will not have the same effect on their decisions about whether to remain in the Service? Congressional staffers are dedicated, conscientious, hardworking professionals who care about this Nation and the institution they serve. The same is true of military careerists.

But unlike congressional staffers, military personnel sign an employment agreement that obligates them to serve for a specific amount of time. What's more, a military careerist can be sent to prison if he or she fails to go to work.

I believe the multitude of cuts in benefits for military careerists that are being urged by DOD, as well as the current COLA cut, will have a seriously negative impact on our Nation's defense posture. The senior staffers in your offices and the committees are critical to your being able to fulfill your duties and responsibilities as Members of Congress. Together, they hold the institutional memory as well as the subject matter expertise that are indispensable to the functioning of Congress. The same is true of military career personnel who the COLA cut has been aimed at. The largest single segment of retired personnel is E–7s, who make up 29 percent of all military retirees. The top enlisted grades, the senior NCOs, E–7 through E–9, make up 47 percent of all retired personnel. If you add in E–5s and E–6s, you have reached 73 percent of all military retirees made up of NCOs.

An E–7 receives retired pay of about $23,000 a year. The fact is there's no way to retire from the military and have the same standard of living that existed while on Active Duty without getting another full-time job, and to be hit with a COLA cut that works out to about $83,000, that equates to a loss of nearly 4 years of retirement pay.

The COLA cut will degrade the living standard of military retirees affected by it. Without the COLA, inflation would eat away nearly half of the retired pay value for a 20-year retiree at age 62.

Why, after doing a job that less than 1 percent of the entire population is willing to do, is Congress now going to punish military careerists? Why under this law were they singled out for immediate cuts? Why were they not grandfathered in, as Federal civilian employees were? What have they done to earn this slap in the face?

According to former Command Sergeant Major of the Army's Communications and Electronics Command, Miguel Buddle, "It is the NCOs who are the ones keeping up with the changing technology, then using their leadership capabilities to bring that tech-

nology to the soldier in the field." He also continues: "It is true, NCOs are the backbone of the Army. The NCO is the one who will either teach you how to do it right or teach you how to do it wrong."

For over a decade, we have heard American service men and women described by elected officials and others as the best-trained, best-led, and best-equipped force that our Nation has ever had. Who do you think trained and led those service men and women? It was the NCOs, the very people who are suffering the hardest blow because of the actions of Congress.

I confess, I'm beginning to think that much of the praise from some Members of Congress was self-serving and nothing more than lip service. So I ask those members who believe these COLA cuts are nothing more than a small adjustment and therefore refuse to rescind them: Please stop talking about how great you think our Armed Forces are. To the members who agree the COLA cuts should be stopped, I ask you to put aside partisan and ideological differences and agree on a way to pay for the COLAs. I know many ideas have been put forth by many members and the task now is to agree on one.

DOD is the only Federal department that is unable to be audited. We urge Congress, at a minimum, to suspend cuts in personnel benefits until DOD can audit its books and see where it's really spending its money.

The men and women who have served in our Armed Forces voluntarily agreed to shoulder the sacrifices they were asked to endure. Is it too much to ask our citizens and our government to now repay that debt? I pray it is not.

President Calvin Coolidge said: "The nation that forgets its defenders will be forgotten." Please, Members of Congress, don't forget our Nation's defenders.

Thank you.

[The prepared statement of Sergeant Delaney follows:]

PREPARED STATEMENT BY THE RETIRED ENLISTED ASSOCIATION

Chairman Levin, Ranking Member Inhofe, and members of the committee.

Good morning. My name is Rick Delaney. I am national president of The Retired Enlisted Association, known as TREA. TREA is the largest association in the Nation that was created exclusively for enlisted personnel from all branches of the U.S. Armed Forces. Last year, we celebrated our 50th anniversary.

I appreciate the opportunity today to address you concerning the issue of military compensation, specifically the cost-of-living adjustment (COLA) reduction, for military careerists—those who spend 20 years or more in uniform and who earn a retirement from the Armed Forces.

I am greatly concerned about recent actions this Congress has taken.

"When you freeze salaries, eliminate bonuses and change their health care benefits, it's folly to think that it's not going to have an impact on the workforce."

Now, that last sentence is a quote from Bradford Fitch, President and Chief Executive Officer of Congressional Management Foundation that was in the January 14 issue of Politico. He was not talking about military retirees, of course, he was speaking about congressional staff and the effect that eliminating traditional health care is going to have on members of congressional staffs leaving and pursuing other opportunities.

According to a survey conducted by the Congressional Management Foundation, 90 percent of staffers said they are concerned about benefit changes under the new health care law. In that same survey, when asked if they would look for another job in the next 12 months, 4 in 10 Chiefs of Staff and State/district directors said yes.

Quoting Mr. Fitch again in an opinion piece in the January 15 issue of Roll Call, "If these predictions come to pass, it would likely be the largest brain drain of talent Congress has ever seen."

I have no doubt the members of this committee are familiar with this survey and Mr. Fitch's comments.

But I ask you, what makes anyone think that reducing benefits that military careerists thought they had earned will not have the same effect on their decisions about whether to remain in the Service?

Congressional staffers are dedicated, conscientious, hard-working professionals who care about this nation and the institution they serve. The same is true of military careerists.

But unlike congressional staffers, military personnel sign an employment contract that obligates them to serve for a specific length of time.

What's more, a military careerist can be sent to prison if he or she fails to show up for work.

There is no other occupation in the country that I am aware of where that is the case.

But once their contractual obligation has been fulfilled, they face the decision about whether to stay in or leave and pursue a different career.

In his quote above, Mr. Fitch expressed his concern about the effect on Congress if there is a massive defection by congressional staffers. In the same way, I believe the multitude of cuts in benefits for military careerists that are being urged by the Department of Defense (DOD), including the current COLA cut, will have a seriously negative impact on our Nation's defense posture.

I believe you'll agree that senior staffers in your offices and in the committees are critical to your being able to fulfill your responsibilities as Members of Congress. Together they hold the institutional memory as well as the subject matter expertise that are indispensible to the functioning of Congress.

The same is true of the career military personnel who the COLA cut has been aimed at. Unbelievably, this COLA is the third penalty that has been levied on military careerists in the last 2 years and is only the start if the Pentagon gets its way. In fact, nearly every benefit that military careerists have earned is being considered for cuts by DOD.

We believe that, without a doubt, cutting promised and earned benefits and compensation will have a seriously negative effect on the Armed Services and the Nation's military readiness.

The fact is, the largest single segment of military retirees is E–7s who make up 29 percent of all military retirees. The top enlisted grades—the senior noncommissioned officers—E–7 through E–9 make up 47 percent of all military retirees. If you add in E6 noncommissioned officers you are talking about more than two-thirds of military retirees, and if you add in E–5 noncommissioned officers you have reached 73 percent of all military retirees.

Why is this important? Because so often in hearings and discussions of military retired pay the example used is of an O–5 or 6, as if somehow they are the average military retiree. As a result, the discussion is terribly skewed and we end up with a situation such as the one recently where the Chairman of the House Budget Committee described the COLA cut enacted by Congress as a "small adjustment for those younger retirees."

I'm sure an O–6 doesn't believe the COLA cut is just a "small adjustment," but I have no doubt an E–7 views it as having a major impact on the retirement pay she feels she was promised, she earned, and she is counting on.

An E–7 receives retired pay of about $23,000 per year. The fact is, there is no way to retire from the military and have the same living standards as existed while on active duty without getting another full-time job. To be hit with a COLA that will equate to about $83,000 results in the loss of over 3 years of retired pay.

The purpose of the COLA is to maintain the purchasing power of benefits already earned. The fact is, the COLA cut will degrade the living standard of the military retirees affected by it. Without the COLA, inflation would eat away nearly half of real retired pay value for a 20-year retiree by age 62.

Why, after doing a job that less than 1 percent of the entire population is willing to do, is Congress now going to punish military careerists?

Although we oppose any COLA cut for military retirees, why, under this law, were they singled out for immediate cuts? Why were they not grandfathered in, as Federal civilian employees were? What have they done to earn this slap in the face from Congress?

As I stated before, senior noncommissioned officers (NCOs) make up nearly half of all military retirees. It is widely recognized within the Armed Services that NCOs are the back-bone of the military.

According to the former Command Sergeant Major of the Army's Communication-Electronics Command, Miguel Buddle, "it is the non-commissioned officers who are the ones keeping up with changing technology and then using their leadership capabilities to bring that new technology to the soldier in the field." He continues, "It is true, NCOs are the backbone of the Army. The NCO is the one who will either teach you the right way or wrong way to do something."

The same thing is true for the Marine Corps, the Navy, the Coast Guard and my Service, the Air Force.

For over a decade we have heard American service men and women describe by elected officials and others as the best-trained, the best-led, and the best-equipped force our Nation has ever had.

Well who do you think trained and led those service men and women?

It was the NCOs—the very people who are suffering the hardest blow because of the actions of Congress.

Can we really afford to disrespect these leaders and tell them our government is going to take back some of the compensation they were promised if they would stay for a career in the military?

What incentive are military personnel going to have to stay in for a career if the COLA cut remains and the other cuts being discussed are enacted?

The reality is that most of the turn-over in the Active-Duty Forces occurs when people leave at the end of their contracts. A significant minority re-enlist for at least one more tour and a much smaller minority serve for a full career of 20 years or more.

The military encourages this high turnover with its up or out policy. If servicemembers fail to get promoted within a specified timeframe they usually must leave active duty. This policy is meant to maintain a young force and prevent a top-heavy rank structure.

Since the advent of the All-Volunteer Force the military has placed an increased emphasis on reducing turnover and retaining trained and experienced personnel. One way to do this is to provide an acceptable lifestyle and support for families to help compensate for the demands on servicemembers and their families. That's why there has been an increase in compensation and benefits.

When the All-Volunteer Force was instituted, the need for increased compensation and comprehensive improvements in the conditions of military service was recognized as necessary in order for the All-Volunteer Force to succeed by the President's Commission on an All-Volunteer Armed Force, otherwise known as the Gates Commission.

When Congress was faced with the problem of fixing the Hollow Force of the 1980s the Congressional Research Service reports that "To the extent concerns about the 'hollow force' at the end of the 1970s had to do with the quality of enlistments, however, revisions in military pay and benefits appear to have entailed dramatic improvements over a very short period of time."

In the 1990s, the Armed Forces experienced a looming crisis in the retention of personnel because of cuts that had been made in pay and benefits. Because of that the Pentagon urged Congress to fix retention before it mushroomed into a full-blown crisis by restoring military pay and promised health care coverage for older retirees, as well as repealing retirement cuts then in effect.

Again, it worked. It was not just the proverbial "throwing money at a problem." The additional expenditures solved the problem. As our forces fought two wars for over a decade, with many enduring two, three, or even four deployments, Congress showed its support by increasing benefits for those troops and resisting DOD's renewed calls for cutting benefits.

That brings us to today.

We are faced with an onslaught of proposals to slash the pay and benefits of military career personnel. I urge you to resist those siren calls and remember what history has demonstrated time and again when it comes to sustaining the All-Volunteer Force.

TREA believes this COLA cut is a breach of faith with the currently serving force. I can tell you that military retirees are watching this closely because they firmly and angrily believe it is a breach of faith. Congress would do well to remember that veterans are the best recruiters the Armed Forces have and if veterans believe they were cheated or that faith was broken with them they will stop urging their children and grandchildren to follow their footsteps into the military.

We believe this COLA cut breaks the promise made by the administration and leaders of the Defense Department that any changes in compensation and retirement would be grandfathered in.

We believe that, as our colleagues at the Military Officers Association of America have so ably shown, the real facts about spiraling costs are being misrepresented by Pentagon leaders.

We believe this is only the beginning of a sustained assault on the military compensation and benefits that have enabled our Nation to, in an unprecedented way, field and sustain an All-Volunteer Force in defense of our Nation.

I can tell you that our members are very alarmed and fearful that this is only the first shoe to drop and they already feel betrayed.

I have discussed the impact of the COLA cuts on enlisted military careerists. I do not want that to be construed in any way as an attempt to separate us from career officers. We are proud to stand shoulder-to-shoulder with our officer colleagues in this battle, just as we were proud to stand with them when we all wore the uniform of our Nation.

My only point has been to show that enlisted personnel make up the overwhelming majority of military retirees, and these COLA cuts are a major blow in the income they thought they had been promised and that they earned.

Only 4.7 percent of enlisted personnel have a college degree so they face a much greater challenge when they leave the military and try to start over in a new career. This compares with 82.5 percent of officers who have a bachelor's degree or more.

Enlisted retirees lack the seniority that their peers in the private sector have gained and their decades of military service often do not translate into the civilian workforce.

They have not been able to build equity in a home because of their constant moves. Their families have reached the point where it is time for their children to go to college and they have to find a way to pay for it.

Former Senator James Webb said, "I start from the presumption that lifetime health care for career military personnel is part of a moral contract between our government and those who have stepped forward to serve." This was when military health care was under sustained assault during his term of office. We agreed with him then, and we think it applies equally to the COLA that is designed to protect the earned retirement pay of military careerists.

Members of Congress, I must tell you that I have felt tremendous proud during the past decade when elected officials and others paid tribute to our servicemembers, spoke of them as "our heroes," and honored their service and sacrifice.

Yet today, I confess I'm beginning to think that much of that praise from some members was self-serving and nothing more than lip-service.

So I ask those members who believe these COLA cuts are nothing more than "small adjustments" and therefore refuse to rescind them to please stop talking about how great you think our Armed Forces are. Do you seriously believe our government cannot afford to keep its promise to those who have voluntarily served.

To members who agree that the COLA cuts should be stopped, I ask you to put aside partisan and ideological differences and agree on a way to pay for the COLAs. I know that many ideas have been put forth by many members and the task now is to agree upon one.

Please also remember that the only department of the Federal Government that is unable to be audited is the Department of Defense. DOD has consistently ignored Congress' instructions to get its books in order and it appears to us the department is not much closer to accomplishing that than it ever has been.

We must ask why, in a department that spends billions of dollars and in which cost overruns are scandalously frequent, it is the personnel who dedicate their careers in service to our Nation that DOD turns to for budget cuts when it gets into fiscal problems.

We urge Congress to, at a minimum, suspend personnel cuts until DOD can audit its books and see where it really spends its money.

The men and women who have served in our Armed Forces voluntarily agreed to shoulder the sacrifices they were asked to endure. Is it too much to ask our citizens and our government to now repay the debt that is owed them? I pray it is not.

President Calvin Coolidge said, "The nation that forgets its defenders will itself be forgotten."

Please, Members of Congress, don't forget our Nation's defenders.

TREA does not receive any grants or contracts from the Federal Government.

Chairman LEVIN. Thank you so much, Master Sergeant. We very much heed your testimony.

Next is Dr. David Chu. Welcome back.

STATEMENT OF DAVID S.C. CHU, PH.D., PRESIDENT AND CHIEF EXECUTIVE OFFICER, INSTITUTE FOR DEFENSE ANALYSES

Dr. CHU. Thank you, sir. Mr. Chairman, Senator Inhofe, members of the committee: It is indeed a privilege to appear before you again this morning. I should emphasize the views I offer are entirely my own. They do not necessarily reflect the research by the Institute for Defense Analyses nor the perspective of DOD.

I do have a formal statement which I hope might be made part of the record.

Your letter of invitation asked that I focus on the evolution, especially the recent evolution, of military compensation. Put differently, how did we get to where we now are? I would argue that three important forces have created the compensation system that is the subject of discussion this morning.

First, of course, is the longer history of military pay and benefits, that especially explains the fact that so much of military compensation is deferred and a substantial part of military compensation is offered in kind as opposed to in cash.

Second, there is the desire by the country to recognize and reward those who have served in the military. That explains the very substantial growth in a series of benefits in the last 15 years or so—the repeal of REDUX, the advent of TRICARE for Life, the expansion of the GI Bill and the decision to make some of its benefits transferable, and the substantial relaxation of the century-old ban on concurrent receipt of Federal annuities.

The third force, of course, as has been emphasized this morning, is the need to ensure that we have a high quality All-Volunteer Force. That was the source, as other witnesses have emphasized, of the targeted pay raises that Congress enacted at the end of the 20th and the beginning of the 21st century. It's also the source of expanded authority to pay bonus special incentive pays DOD used to ensure the All-Volunteer Force's success during the current conflicts. Those payments, of course, have been reduced as those conflicts have waned in importance.

The issue going forward, as we all know, is the question of change. I agree wholeheartedly with those who argue that we ought to use the commission and the Commission process to take a holistic view of change as opposed to piecemeal changes such as the one being discussed this morning. I do argue that a prior question in that debate over change ought to be, as some of the questions this morning have emphasized, what force does the country want in the future? What shape of experience, what level of quality, what differences in skill, background are essential to secure our national security in the years ahead?

You could obviously have different compensation systems than the present one. It might well be argued some of those would be more efficient than the present one. That is to say, they could sustain the same force at less total cost to the taxpayers. I do think two of the important issues in that regard are whether so much of the compensation should be deferred, particularly because from a fairness perspective for several benefits most military personnel never actually collect those payments; and also the issue of whether so much of the compensation should be offered in kind.

As those changes are contemplated, I do think, as Senator Ayotte's question and General Sullivan's testimony emphasized, it is critical to keep in mind that the circumstances of the military family are different from the circumstances of most American families. While we cannot change the reality of the burdens of deployment, I do think we have to be sensitive to the fact that the family circumstances will importantly affect the military person's decision to stay with the military over time.

Above all, as the various testimonies today have stressed, I do think it is critical to pay attention to the transition mechanism and to the question of the expectations of those who have served in the past and those who are serving now, and whether the changes that are proposed are consistent with our expectations or whether, put differently, those who are affected by them can accept the changes that we wish to make.

I look forward to your questions.

[The prepared statement of Dr. Chu follows:]

PREPARED STATEMENT BY DR. DAVID S.C. CHU

Note: The ideas advanced in this statement reflect solely the conclusions of the author, and should not be seen as representing the views of the Institute for Defense Analyses, nor those of its research sponsors.

Mr. Chairman and members of the committee: It is a privilege to participate in your panel on military compensation. I should stress that the views I express are entirely my own, based on my previous experience, and do not necessarily reflect research by the Institute for Defense Analyses, nor the views of the Department of Defense.

You asked that I especially address the evolution of military compensation since 2001. In my judgment, three important forces explain its present level and composition: the longer history of military pay and benefits, with its significant utilization of payments in kind, often deferred, and sometimes a function of family status; the Nation's desire to recognize and reward those who have already served; and the need to sustain the All-Volunteer Force that has served us so well, competing against others for the best talent in our society. Compensation decisions that respond to one of these forces will not necessarily serve the others.

Let me begin with the last: Sustaining the All-Volunteer Force. Based on concern with the quality of military recruits in the 1970s, Congress raised military "base pay" substantially and mandated minimum quality standards. In the 1990s, relying on a review by the National Academy of Sciences of the experience with varying quality levels, the Department of Defense adopted the higher quality goals that endure to this day: 90 percent of non-prior service enlistees should be High School Diploma Graduates, and 60 percent should score above average on the Armed Forces Qualification Test, with no more than 4 percent coming from the 10th to 30th percentile of that distribution (Mental Category IV). To meet that standard, and to sustain preferred retention patterns, the Ninth Quadrennial Review of Military Compensation recommended that "Regular Military Compensation" (base pay plus the taxable equivalent value of housing and subsistence allowances) be set at the 70th percentile of civilian earnings for those with comparable education and experience levels. Thanks to Congress adopting a series of targeted pay increases at the beginning of the last decade, and decisions on the housing allowance, Regular Military Compensation reached and now exceeds that level.

Ultimately, of course, the appropriate level of military compensation is determined by results in recruiting and retention. During the course of the conflicts in Iraq and Afghanistan, the Department expanded use of the authority Congress gave it much earlier to pay recruiting and retention bonuses, and Congress provided the Department with additional flexibility through Assignment Incentive Pay and the opportunity to revamp special pays and allowances. As the burden of those conflicts declined, the Department reduced the extent to which it uses these authorities, illustrating the value of their flexibility.

Taken collectively, the measures I've described allowed the United States to pursue its operations overseas for almost 15 years with an All-Volunteer Force of high quality, whose performance the country as a whole deeply admires, whatever the differing views of its citizens about the conflicts themselves. Quality standards for

those joining the military were largely met, and retention both active and Reserve paralleled peacetime outcomes. The professional performance of the American military sets an international standard—and even earlier its excellence convinced a number of nations that had traditionally relied on conscription to adopt the all-volunteer model. There are clearly elements of the current compensation system that have worked well, or that have been adapted effectively.

You asked in your letter of invitation, however, about the need for reform of that system. I believe the country has a special opportunity to consider reform, in the appropriate holistic manner, with the Military Compensation and Retirement Modernization Commission you created. Permit me to reiterate and expand briefly upon the testimony I offered the Commission, and in so doing to comment implicitly on the other two forces shaping the level and composition of military compensation: That is, the history of military pay and benefits, and the desire to recognize and reward those who have already served.

Perhaps most important, I believe that any changes to the military compensation system should derive from the desired shape and characteristics of the future military force. That force may share some of the characteristics of today's military, but it may also differ in important respects. It may place more emphasis on what some like to call "Phase 0" (shaping) and "Phase 4" (post-major conflict), with their attendant needs for greater linguistic and cultural knowledge. It may have more communities that overlap with skills best developed in the civil sector—think cyber. It may want a different experience profile from that created by the current retirement system's incentives, and the "norm" of a 20-year active duty career. It may be a force with very different needs for entering credentials and experience profiles, across skill and warfare communities: Today we implicitly assume that all will be the same, and thus all should have, in broad terms, approximately the same compensation. It may even be a force in which some individuals move back and forth between active military service and civil life—what would compensation need to look like to achieve that objective?

The society from which military personnel are drawn is also changing. Expectations about, interest in, and attitudes toward military service are different from those of earlier periods. (That is true, I expect, for parents and other "influencers", too.) Likewise, the outlook on career choices—even the notion of a career—clearly differs from an earlier generation. Our society now offers much improved opportunity for women and minorities than pertained in the mid-20th century, when so many of our military personnel policies were formed. There will likely be further important social changes in the years ahead, to which the military compensation system must be prepared to respond.

Perhaps the most important success of the current system was recognizing that in an All-Volunteer Force (presumptively still our national goal) the military compensation "package" must remain competitive for talent with what the civil sector offers. Since we anticipate real compensation in the civil sector will grow over time, so will military compensation. Those joining the military need to know that the political system will act consistently with that reality (for example, sustaining the competitive standard set out by the Ninth Quadrennial Review of Military Compensation), and forbear from making what appear to be arbitrary changes to the trajectory of military compensation as a source of near-term budget savings. Instead, "bending the cost curve" needs to look to the efficient use of personnel, and to how we best use our several personnel communities (Active, Reserve, Federal civilians, contractors) to keep military operating costs affordable. Managing the "demand side" well is just as important to compensation success, I would argue, as attending to issues on the "supply side".

It is nonetheless fair to ask whether the currently constituted military compensation package is best suited to the needs of the 21st century force at which we're aiming, particularly because its structure is so much shaped by the longer history of military pay and benefits, and because much of the total expense is driven by the desire to recognize and reward those who have already served (vice recruit and retain for today's force). There are at least seven major practices that might be reexamined:

- Should so much of the package be in deferred compensation—i.e., pay and benefits provided after military service concludes, whether after a relatively brief period (VA benefits, etc.) or after a career (retirement, et cetera)? As the Congressional Budget Office has pointed out, this is a very different balance from that in the civil sector. The behavior of the force would argue it is not optimal—and, as others have pointed out, there are distinct elements of unfairness in the way some parts of the package are conferred (e.g., the cliff vesting of retirement at 20 years of active service).

- Should so much of the package be in kind versus in cash or allowances? A well-established economic principle argues that you're usually better off providing cash that the individual can use at his or her discretion rather than trying to "guess" at what might be preferred. As one of my colleagues some years ago gibed about military compensation: "It's a system composed of what 40-year-olds believe 20-year-olds should want."
- To the extent that benefits are provided in kind, should the government be the provider? The Department has already moved away from this traditional model for residential construction, empowered and encouraged by Congress.
- Should so much of the package be determined by one's family status rather than one's contribution to the mission? This is particularly an issue for junior personnel.
- Should we move even further away from the theory that "one-size-fits-all" (i.e., that pay and allowances are importantly determined by grade and years of service)? Bonuses, special and incentive pays, gate pay and Assignment Incentive Pay already acknowledge that the package must differ by skill area and assignment.
- Should our approach to compensation take greater cognizance of individual preferences, capitalizing on self-selection? Implicit in the current approach, I fear, is still much of the directive management philosophy from the draft era. Could we channel the desires of individual military personnel in ways that better satisfy them, while meeting—perhaps in improved fashion—the needs of the institution? The Navy's use of Assignment Incentive Pay, the Army's pilot effort with "Green Pages", the Reserve components' use of volunteers for deployment, as well as earlier initiatives, point to how "all volunteer" might be even more ambitious than present policy.
- Should the mechanisms to compensate for risk be reconsidered, given that they may not be accomplishing their objectives well (e.g., the heavy reliance on the tax code to recognize those exposed to combat situations)?

Permit me to offer seven observations that may affect deliberations about these practices:

First, as my reference to VA already implies, parts of military compensation are paid by agencies other than DOD. The VA contribution, in particular, is very significant; it is also worth noting that military personnel have been part of the Social Security System since 1957. Further, military service may be counted toward Federal civil service retirement. Decisions about the use of military personnel and the compensation package should recognize its full range, not just those elements provided explicitly by DOD. Present practices do not meet this visibility standard. This contributes further to the repeated finding that military personnel underestimate, sometimes significantly, the full value of their compensation. It obscures the full cost from decisionmakers.

Second, while much of the public discussion of military compensation focuses on the Active-Duty Force, I believe it is equally important to consider whether Reserve component compensation meets the country's force needs efficiently, especially if the Reserve components are to play as significant a role in the years ahead as they played in the first decade of the 21st century. Again, it is important to keep in mind that part of Reserve component compensation comes from sources outside DOD—e.g., for the National Guard especially, from the States.

Third, since a military career imposes burdens on family members that are often quite different from those borne by other Americans, some attention to the family income situation is appropriate, especially the "tax" on spouses that is levied by frequent moves, resulting in lower lifetime earnings for those spouses who pursue work and careers. Nor should the disruption to the children's education be neglected.

Fourth, as I know you and your staff are aware, there is considerable empirical material with which to analyze some of the personnel supply issues any reform debate will want to consider, resident in the surveys conducted by the Department. Those data have been extensively used to answer some questions, but less so for others.

Fifth, important insights on the needs for personnel—the demand side—may also come from the combatant commands. My hazard is that their views will be much more variegated than those of the Service headquarters, and will underscore the value of flexibility in compensation mechanisms, to meet needs efficiently.

Sixth, as I suggested earlier, setting and honoring the expectations of those contemplating military service will be key to successful change. There is considerable evidence that unfulfilled expectations—which would result if the guideposts are set improperly or changed capriciously—can doom both policies and institutions.

Seventh, to the extent change is contemplated, consistent with the importance of expectations, attention to the transition mechanisms may be just as important as crafting the optimal course ahead. As I'm confident you'll recall, the change to the retirement program Congress enacted in the 1980s foundered on just this challenge.

I do hope that any debate of change can begin by outlining what the issues are, and what the Nation can gain if it deals well with those issues—and the price it will pay if it does not. This hearing certainly contributes to that objective. For me, apart from the specific points I've raised, the most important issue is the ability of the compensation system to provide the military force American needs—a force that may be importantly different in its shape and variety from the force we've needed in the past, or the magnificent force that we enjoy today.

Chairman LEVIN. Thank you so much, Dr. Chu.

We're going to have to have a short first round of questions here if we're going to be able to get to all of our Senators.

Let me ask about the commission which is going to be reporting to us and the connection of our service groups and our veterans groups to that commission. I think it's the intent of everybody that has spoken, all the Senators that have spoken, that in terms of this CPI-Minus-1 language, that it is our intention and belief that it should be immediately repealed, as soon as humanly possible, in a legislative body.

I don't think that, from anyone I've heard here today at least, that there's any intention to wait until the Military Compensation and Retirement Modernization Commission reports to clear the air on that or to remove that item at this time.

But my question then turns to the commission, as to whether or not your organizations feel that you will be contacted, that your advice will be solicited, whether, for instance, you've looked at the members of the commission and feel that it's a representative group. Why don't we start with you, General Tilelli.

General TILELLI. Mr. Chairman, first, the Military Officers Association of America has had one meeting with the commission. We think it's relatively representative of the force as determined by this committee. Whether or not we will be asked to go back again and discuss with them some of their final recommendations, I can't answer that. We have not yet been informed of any such opportunity.

Chairman LEVIN. If you feel—this goes for any of the organizations, the ones represented here today, but the others that are out there—that their advice is not being sought, that they're not having an opportunity to express their views, we would welcome hearing about that, because the commission should be soliciting the views of those organizations that represent our troops, our retirees, and our veterans.

Let me now ask you as well, General Sullivan.

General SULLIVAN. Senator, we've already been before the commission once at the national level. I believe some of my people out in the field have been doing some field interviews and some of our members have participated in those. So I think our views are well-represented with them, and I'm comfortable with the representation on the board.

Chairman LEVIN. Thank you.

Master Sergeant?

Sergeant DELANEY. Yes, sir. Our organization, The Retired Enlisted Association, has spoken twice to the commission and we're comfortable with the way it's operating and we're hopeful about an

outcome. Obviously, it's too early to tell yet what that outcome will be, but we'll just have to wait and see. But we're happy with the commission.

Chairman LEVIN. Thank you.

We are facing a real budget crunch, although it's been deferred for a year and a half or so. Nonetheless, the law requires that basically the sequestered approach be back in full blast starting in 2016 unless we act. We've acted the best we could in terms of 2015, but we're going to face the same kind of horrific problem through 2021 starting in 2016, unless we take steps to avoid it.

That means that we will have in place, if we don't act, roughly $1 trillion in cuts to the defense budget that were enacted as a part of the BCA 2 years ago. Half of those cuts have already been implemented. The other half are what we would face, basically.

So, I'm wondering if you have thoughts, not just about that subject—I think we can infer what your thoughts would be about trying to avoid sequestration and that approach in those years—but if these budget caps that are currently mandated by Congress continue, do you have any thoughts on any approach to how do we deal with the balance between pay and benefits, as well as the need to train and equip and so forth? Any of you have any thoughts on that?

Dr. Chu, let me start with you on this one, and then we'll quickly go to the others, if they have a comment.

Dr. CHU. Yes, sir. I think the key question in that regard is the mix of personnel that you believe are best-suited to the Nation's security needs, that is to say the balance among Active Duty personnel and Reserve component personnel, Federal civilians and contractor personnel. There may be more mileage long-term in getting that balance right than any of the other kinds of changes that might otherwise be discussed in terms of the compensation system. That's not to put the commission's work aside. It's very important and very significant, I would argue, in terms of looking at operating costs of military personnel, Active Duty, and also Reserve are considered, too. But I think this question of the demand side, so to speak, in other words what mix of personnel is best-suited to the security needs—could you, for example, make greater use of the Federal civilians than is true today—I think there's a number of pieces of evidence that suggest that that is the case—and Reserve military personnel billets for the truly military functions of DOD?

Chairman LEVIN. Do any of you want to add a comment to that before we turn it over to Senator Inhofe?

General SULLIVAN. Senator, I think it's a profound question, for which I'm not sure I have a profound answer. But it depends on how much risk you want to take, but until somebody comes up with a defense strategy and a national security strategy, I don't think you can weigh the equation. I think then you have to ask yourself, what kind of a prediction can we make about the distant future?

Right now I think we're out there, because in my view, it's always been hard to predict the future, but I think we're taking risks without understanding the future. I'll just leave it at that.

Chairman LEVIN. Let me turn to Senator Inhofe now. I won't call on the others because of the time limits. Thanks.

Senator INHOFE. I'm just going to ask one question, a hypothetical question, because I want to offset some of the accusations that you hear from people in service organizations. My feeling is that those of you heading up service organizations would fall down if you had to choose between an adequately strong national defense and a maintenance of the current military retirement compensation levels. Which would you choose if you had to, real quickly? That's an easy question.

General TILELLI. I would always vote on the side of a strong national defense.

Senator INHOFE. The other two of you would agree with that, I would assume?

General SULLIVAN. Yes. Look, we all took an oath to protect and defend the United States of America.

Senator INHOFE. Very good.

You too?

Sergeant DELANEY. That's what we do.

Senator INHOFE. The reason I say that—and I think you hit the nail on the head, General Sullivan, when you said America can afford the defense it needs; it's a matter of priorities. That's my whole position in a nutshell. That's something that we have—a lot of people don't believe that. There are people serving right now who think that we really don't believe in the strong national defense that all of us agree with.

Let me make sure that everyone understands there are 15 members who asked questions and made statements in this hearing, primarily on the first panel. You guys have won. You came here because you want the 1 percent corrected. We all agree. In fact, I made the statement that it is a moral issue, because during the years when I was in the Army and people would talk about reenlisting or something like that, commitments were made to them, and you can't come along later and change those.

Now, yes, we want comprehensive reform. We want to get into all of these things. But first, we want to make sure we correct it. As you said, General Sullivan, we want to correct it now. So do all of us want to correct it now. I just want to make sure that anyone, the three of you or anyone else who might be here from the military or representing or participating in one of the Services, understand that we agree with you. That's it.

General SULLIVAN. I do.

Chairman LEVIN. Thank you so much, Senator Inhofe.

Who will be next? I don't have much choice. Senator Kaine.

Senator KAINE. Thank you, Mr. Chairman.

Thank you all for your testimony. I believe we will fix this and fix it promptly. I really want to ask you a question about the next issue down the road, which is as we start to think about what we might hear back from the commission in early 2015, from conversations with primarily new people in the military—I have a youngster and his colleagues—the way they talk about compensation and benefits is that they have a feeling that some are promised, almost contracted—retirement after if you serve a full career, that's in the promise zone—some are reasonable expectations. If I'm in the military and I have an injury, there's going to be a Department of Veterans Affairs (VA) system there that will be functional and I have

a reasonable expectation, without knowing what the budgetary top line is, there's going to be a functioning VA system. Some are less than a promise or even a particular expectation, that there may be a hope or a desire. So, for example, what would the premium level be for a retirement health insurance policy that I would pay if I get to that. Most are not thinking about those issues. They're not really contracted for at a particular premium level.

So, obviously, the commission is going to come back with recommendations about all these kinds of things, about things that are in the promise zone—that might be prospective, not retroactive—things that are in the reasonable expectation zone, and things that frankly newcomers probably don't think about that much.

I just would be curious and the only question I have is, talk to us about how we ought to be thinking about these issues in preparation for getting that report and having to make some decisions a year or so from now.

General TILELLI. If I might, thank you for that question. First, I think what the commission proposes, I think we have to review every aspect of it in full and open review and vetting it. Second, as General Sullivan said, I think we have to look at it in the context of what we want the force to be in the future. We do want an All-Volunteer Force.

You've focused on an issue which is critical in the surveys that we do to military and military families, and that's health care. Military families and servicemembers believe that military health care or health care is a promise. They don't see that as optional. Certainly, when you're young and you believe that you're immortal, military health care is not as important as when you get to be older and you're looking at it from the family aspects.

So, in that context, I think we have to be very careful because it is a slippery slope. We have already cut military health care. We have already increased the co-pay. We have already increased the pharmacy fees. We've already done things that are detracting, if you will, from what servicemembers and their families perceive to be an earned benefit.

Senator KAINE. General, could I just follow up on that, because that really gets at the nub of my question. If there is a belief that health care is a promise—and I believe that it is, it is a promise—and those coming in believe, is there also an expectation from your surveys that that promise extends to a particular premium a month or a particular premium that's an annual one that wouldn't change over the course of retirement?

General TILELLI. I don't think we've ever gotten to that point. I do think that reasonableness is a variable that must be considered, and that variable must be considered in the context of retirement and what that individual is going to get in retirement. Think about the context that you've heard today: A sergeant first class, an E–7 who's getting a retirement of $23,000 a year and has a family of three or four, he's at the poverty level to start with. So to require him to pay an exorbitant health care fee, I think, is very problematic.

Senator KAINE. Other comments on my question?

General SULLIVAN. Thanks for the question, Senator. I think if you just take that last business about the medical, the young person who comes into service today, the concept of retirement might be different than the concept that we had, which was developed in the 1940s, after all. Life expectancy now is 77, I think, for males anyway.

So there is a model for retirement. Then there's a model for medical. Whatever the model is in my view—if there are increases, it should be stated right upfront. Those increases will be within the COLA—ahhh, the world-famous COLA—the CPI such that whatever increase you pay might be withinside that, as opposed to this wildly fluctuating medical inflation. Very quickly you could take an E–7 off the table if you go to medical inflation.

I think there has to be a model and a concept when they bring their system forward. As General Tilelli said, we didn't worry about that because it was retire at 50 percent at 20 plus, then after 20 years then it was tapped at 30. Medical, we just went and got an aspirin or whatever, a Tylenol. A couple of Tylenols and a cup of black coffee and you were golden.

Chairman LEVIN. That's making us all hungry for lunch. [Laughter.]

Thank you.

Senator Ayotte is next.

Senator AYOTTE. Thank you, Mr. Chairman.

I want to thank all of you for your leadership and for being here today on this incredibly important issue.

Here's what worries me as I think about how we ended up where we are. You have a budget agreement that the only group that really takes a hit right now are men and women in uniform. What worries me is that we grandfathered the Federal employees, meaning only new hires would get impacted by it. But our men and women in uniform, who have taken the bullets for us, they got the cuts right now to their cost-of-living increase.

Is it because only less than 1 percent of the population defends the rest of us? Is it because the Federal employees and other groups around here just have stronger lobbyists and voices: we're going to protect our people?

What worries me about this is that it was a huge disconnect from Washington in terms of those who have sacrificed the most, that they would be the one group targeted in all of this. I just wanted to get your thoughts on all of this as leaders of our military organizations, because as I think about the big picture on this, what is the lesson we need to learn from this? That just really worries me as I think about the big picture of the message that we are sending to our men and women in uniform when we have been at war—Iraq, Afghanistan. It's been a tough time for them.

Sergeant DELANEY. I think the problem we face is that a lot of people view the military as an easy target. We're a small group and they say, "okay, we'll take some money from them." It's over a 5- or 10-year period, rather than say, "okay, let's adjust this. If we're going to do it, let's grandfather it and wait a little longer to get a return on our money."

But when I reenlisted in 1972, which would take me over the halfway point, I believed, yes, I'm going to get medical care when

I retire. When I retired they said, "now, you may not be able to get into the base hospital here; they're there for the Active Duty." I said: "Fine, I can deal with that, but I still have my medical care off base." Now they're looking at ways to change all that.

There's a bunch of targets on our backs—commissaries, they're talking about closing those. They're looking at putting enrollment fees on TRICARE for Life. I have to pay for Medicare Part B to get TRICARE for Life. Now I have to pay for TRICARE for Life, too? Increasing co-pays on medical costs, co-pay raises, or even freezing the pay.

There's a lot of things. It just seems to me that we're an easy target, and that's what really bothers me.

Senator AYOTTE. General Sullivan, General Tilelli, what kind of message do we send with this? What do we need to learn from this?

General SULLIVAN. As I said in my remarks, we're causing our people in uniform to think about an issue which they don't understand. By the way, I don't want to ascribe any motives to anyone on whatever happens.

Senator AYOTTE. But did we forget? I'm worried. What are our priorities?

General SULLIVAN. I think that's it. You have to decide, how will we spend the national budget? Where will we spend it? Will we spend it on our security or on other things? I think that's a decision that has to be made. Right now it appears, I'm sure it appears to some of the troops and their families, that all of this is being placed on their backs. Go out here and fight for the last 25 years beginning in Panama, right through to this day when we're fighting in Afghanistan. By the way, now we change the formula. I don't get it.

General TILELLI. Senator, I think you make a great point. First of all, I think we all have to understand that our service men and women and their families are getting a message and the message is being sent every day. You can read it every day in any number of periodicals, starting with the COLA-Minus-1, the co-pays, the commissaries, the TRICARE. They see that there is a devolution, if you will, of support for them.

The other issue is the service men and women and their families, their contract is with the United States of America and they count on Congress to take care of them. They don't have a union. They depend on us to take care of them. When we look at it, they are willing to do extraordinary things for this Nation and for each other and put themselves in harm's way, be without a family, not have equity in a house, change addresses six or eight times, kids out of school, and do all those things, and count on the Congress of the United States of America to take care of them.

They are getting a serious message now. I can tell you from the amount of emails that we get from family members on all of this, it would choke a horse, that they are very concerned about all of this.

General SULLIVAN. I'd like to clear the air here on one point. I don't think they're asking more than they deserve. I don't get that feeling at all. I think all they want is a fair shake. They want to know that people like you—and you are, by the way, to your credit—paying attention to what's going on. I thank you for it.

Senator AYOTTE. I thank you all for being here. I will also add that when people call things like an $80,000 cut to a sergeant first class whose average retirement is $23,000 "teensie-weensie," like the Washington Post did, or "minuscule," it's offensive. We should fix this, and we are sending the wrong message.

Thank you.

Chairman LEVIN. Thank you very much, Senator Ayotte.

Senator King.

Senator KING. I'd like to follow up a bit. There's been a lot of discussion about keeping faith, about contract, about all of those kinds of things. Cast your mind back, if you would, to when you signed up. What do people who sign up sign? What are they told? Is there something that says, "if you sign here you will get health care, if you sign here you will get a certain level of retirement benefits?"

I'm just asking you, what are people told when they sign up that the government is committing to them?

General TILELLI. Sir, I think there's no contract signed. What you sign is your oath of office, which is to support and defend the Constitution of the United States and do whatever you're told to do. The fact is, it's the nuanced business of all of those things that are told that are not in a contract—retirement pay, for example; medical care for life, for example; commissary, for example. All those things that are never put down on a piece of paper, because folks who serve are not serving to become rich. They're serving to serve the country. The fact of the matter is, maybe General Sullivan's memories are better than mine, but I remember signing my oath of office, to be quite frank with you, and that was it.

Senator KING. Any others?

General SULLIVAN. I may look younger than him, but I'm a little bit older. My memory is not better than his. Over time I learned, since all my buddies retired, they retired at 2.5 percent a year, 50 percent. I didn't sign a piece of paper. I signed up to serve and I took my oath.

Senator KING. But even if it wasn't on a piece of paper, what were the expectations?

General SULLIVAN. The implicit contract was that I would have a retired pay if I stayed for 20, it would be 50 percent of what my last pay slip said, and that I would have medical care or they'd pick me up off the battlefield, either myself or my remains, and bring them home.

Senator KING. I think it's clear from this hearing this morning—and I'm sure you were here for the first panel—that everybody on this committee, one, didn't agree with this piece that was in the budget deal; two, wants to fix it; three, wants to fix it now; and four, as we go forward wants to work off a principle of grandfathering of what's in the law. I think that's where this committee is.

Now, Dr. Chu, I'd like to follow up on one of those points. There's been a lot of talk about grandfathering. If everything is grandfathered and nothing changes except prospectively, what does that mean in terms of budgetary effect? Because we operate around here on a 10-year budget window, but in my simple-minded way, if everything's grandfathered, that means there's going to be no

savings for 20 years. The first savings will be 20 years plus 1 day if something is changed at the beginning.

By the way, I think there should be something at the time of enlistment that says this is what the expectations are and this is what the benefits will be, so there is some clarity on that.

Dr. Chu, how do we grandfather and yet at the same time do anything at all with regard to personnel costs?

Dr. CHU. I should begin by reminding all of us that grandfathering does not necessarily even preserve the change. So REDUX, the retirement change made in the 1980s by Congress, at congressional initiative, grandfathered everyone, including the cadets and midshipmen at the military academies. That did not preclude Congress from reversing course when the first savings actually were going to take effect, the first cohort that would have a slightly smaller annuity, came up to that point.

I think it's this issue of expectations, the issue of buy-in, so to speak, from the affected parties that's crucial to a successful transition in the regime.

To your immediate question, how do we save if everything is grandfathered, I would point out the grandfathering we discuss is mostly one-sided. Any reduction raises the issue of grandfathering, but a new benefit is not generally awarded only to those who want to serve prospectively. That's not been the way new benefits have been awarded, they've been awarded to everyone regardless of the period of service, in general.

I think one issue on grandfathering is when new initiatives are taken, more thought might be given to whom do they really apply, what's the purpose of the new benefit, and what kind of effect do we wish to achieve.

From a purely technical perspective, TRICARE for Life changes and annuity changes would show up in the DOD budget as a savings immediately, if there were a reduction, that is to say, because those are both funded by set-asides.

Senator KING. Even though the savings might not be——

Dr. CHU. Even though the cash savings are not for 20 years or whatever, you would get an immediate DOD budget savings. The Treasury would not see a savings because the Treasury would have a smaller receipt from DOD for the payments, but a constant factual witness correction outlay.

So, yes, from a technical perspective you would see DOD budget savings for those things that are subject to prefunding, which is in the military just the TRICARE for Life program and the annuity payments for longevity of service. But you would not see the same for other things.

Senator KING. Thank you. Thank you, gentlemen. Thank you very much. This is important testimony. As I say, I think it's safe to say, as you can see from the hearing today, that this committee is very firmly committed to fixing this problem.

Thank you.

Chairman LEVIN. Thank you very much, Senator King.

Senator Graham.

Senator GRAHAM. Thank you.

I think we are firmly committed to fixing this problem. Without those emails, I'm not so sure we would be as firmly committed as

we are. I just want your membership to know it matters that you weigh in, that you go visit people. Congress is very friendly to our military. Sometimes we make decisions that upon a second look maybe were not that smart. The fact that we're responding appropriately, I think, is a good thing. But do not underestimate how urging helps.

Now, isn't there a social contract, even though it's not in writing? Your kids, your sons, your daughters, individuals, will not have to be drafted because others will come forward and do the job voluntarily. Isn't that the deal? I don't know what that's worth to somebody out there, knowing that your son or daughter doesn't have to be drafted. I don't know how you put a number on that. But think about it in terms of the family budget. What would you pay, if you had to, to avoid your family from being drafted?

That's kind of an odd way, I guess, to look at it. But you're trying to put a value on something that's hard to actually put a value on.

So when we talk about retirement—you're a master sergeant, is that right? What was your retirement when you first retired?

Sergeant DELANEY. Right at $21,000 a year.

Senator GRAHAM. Here's the deal. $21,000 after 20 years of service, multiple deployments, whatever risk comes your way. That is a good retirement, but by no means an exorbitant retirement, given the value to the country. Given the fact that your son, your daughter, your loved one, doesn't have to go, would you be willing to pay somebody $21,000 or contribute your part to it? I think most Americans would say yes.

Now, having said that, now that we're going to right this wrong—and we will—who is advocating for the defense budget? You're out there talking about the troops and their quality of life and what we should be doing in terms of TRICARE in the future and how we should be sensitive to any changes we make to the benefit package, because that's who you represent. Who is representing the equipment? Who's representing the number of people? If it's not Congress, who?

General SULLIVAN. At the risk of breaking in——

Senator GRAHAM. Please.

General SULLIVAN.—I'll tell you, the Association of the United States Army is advocating for that. We're advocating for mission accomplishment, and that is a very finely tuned relationship between young men and women who are developed as leaders and trained to fight and their equipment and the doctrine and so forth and so on.

Senator GRAHAM. Is that true of everybody else at the table?

General SULLIVAN. I don't know.

Senator GRAHAM. No, I'm asking them.

General TILELLI. Yes, sir. Yes, sir, I think it's true of all of us, because when you look at readiness for the country, it's not only people; it's the modernization, the equipment, it's also the training. So it's the triad. I think we all support that, I think the reason we're not talking about that today is because of the subject of the panel.

Senator GRAHAM. Can I make a proposal to you, that if you believe, as I do, that at the end of the sequestration period of time we're going to have a greatly reduced military capability at a time

when we may need it the most, is it unreasonable for a Member of Congress to say over the next decade the GDP we spend on defense should be at least consistent with peacetime spending? Is that an unreasonable position?

General SULLIVAN. No, I don't think it's unreasonable. I think it's also not unreasonable to ask all of the people who are suggesting otherwise or that we continue with this sequestration, to state could you please tell me what you think you're getting for a defense establishment at the end of this journey?

Senator GRAHAM. What kind of capability?

General SULLIVAN. What kind of capability are we going to have in 10 years or 15 years if we just have this mindless approach to budgeting and programming?

Senator GRAHAM. As my time is about to expire, I guess what I'm trying to suggest is that historically we've been spending around 5 percent of GDP on defense in time of peace, more in war. I would like some organization out there to start advocating for a 10-year number consistent with the threats we face.

I know you're here to ask about the COLA changes and they need to be changed. But I'm asking you to think even bigger, to come back up on Capitol Hill and remind us all, many haven't served but who are great people, what kind of defense capability will you have if you keep invoking sequestration? Look where the average has been and see how far away. Would you be willing to help us in that endeavor? I feel incredibly lonely in this exercise.

General SULLIVAN. Sir, I'll be up soon.

General TILELLI. Absolutely.

Senator GRAHAM. Thank you. God bless.

Chairman LEVIN. Thank you so much, Senator Graham.

Senator Vitter.

Senator VITTER. Thank you, Mr. Chairman, and thanks to all of you for your testimony, for your service, and for the work of your organizations that is very important.

Certainly, I'm committed with the others to fixing this absolutely as soon as possible, in a responsible way, which certainly includes finding other real and not fake savings.

I wanted to just use my time briefly to highlight another smaller issue, but an important issue, that hopefully can be fixed at the same time. At the urging of me and others, it is already in some of the bills to fix this COLA issue. That is a problem created when the Congressional Budget Office (CBO) changed their scoring rules with regard to VA clinics and how they were scored and worked into the budget.

Not to get into the weeds, but out of the blue CBO changed the rules. It made it far more "expensive," to get these important community-based clinics built, because it scored much more upfront. I've been working for well over a year to try to get the VA to respond to this and to put solutions up. Unfortunately, they have not been responsive in a positive way. But many of us on Capitol Hill have been, and the House passed a bill that would appropriately deal with this scoring issue so that these clinics are built. Twenty-seven clinics immediately slowed down and impacted nationwide, including two in Louisiana, which should have been already built but for a separate screw-up and delay by the VA.

This House bill has passed 346 to 1. It's very fiscally responsible. It deals with the issue. At the urging of me and others, this provision is already included in some of the bills dealing with this COLA issue, including the Sanders bill.

I just urge you all to also put that near the middle of your radar. I urge my colleagues to get this pretty simple, should be noncontroversial, fix done so we move forward as we had been planning to with these VA community-based clinics. I believe it can and should be done at the same time, which is immediately, as this COLA issue.

Thank you. If you have any response to that, I'd love to hear it. I just wanted to put that on the record.

Thank you, Mr. Chairman.

Chairman LEVIN. Thank you, Senator Vitter.

I think we've had a really good hearing. We appreciate your contribution to it. We thank you all for your service. We thank all the veterans for their service, whether they're here within earshot or out there somewhere else. We will now stand adjourned.

[Whereupon, at 12:52 p.m., the committee adjourned.]

[Questions for the record with answers supplied follow:]

QUESTIONS SUBMITTED BY SENATOR JAMES M. INHOFE

READINESS

1. Senator INHOFE. Ms. Fox, what is the Department of Defense's (DOD) plan to use the $6.2 billion that the Bipartisan Budget Act (BBA) cut from military retirement to support the warfighter and current readiness through reductions in monthly accrual payments?

Ms. FOX. Based on estimates from the DOD Office of the Actuaries, section 403 of the BBA, as amended by section 1001 of the Consolidated Appropriations Act, 2014, reduces DOD's accrual payments to the Military Retirement Fund by $505 million in fiscal year 2015 and approximately $5.4 billion over a 10-year period. These funds will be reallocated to various readiness and modernization efforts and help fill the holes generated by the roughly $45 billion reduction to DOD's fiscal year 2015 budget still required under the BBA from the previously planned fiscal year 2015 levels assumed in the fiscal year 2014 President's budget request.

COST SAVINGS ALTERNATIVES

2. Senator INHOFE. Ms. Fox, what areas of potential savings exist within DOD discretionary spending to pay for restoring the cost-of-living adjustment (COLA) cut in section 403 of the BBA and to grandfather those who are currently serving as well as current retirees?

Ms. FOX. While the specific reductions will depend on the final allocation of resources in the upcoming budget request, finding the roughly $500 million annual savings requires the review and rethinking of a number of difficult decisions. That said, DOD is prepared to revisit those decisions and find the funds because the Secretary and I believe grandfathering is the right thing to do.

GENERAL AND FLAG OFFICER RETIREMENT PAY

3. Senator INHOFE. Admiral Winnefeld, in your view, is it appropriate that the general and flag officer community should support restoring the longevity caps on retired officer pay as part of total military compensation reform?

Admiral WINNEFELD. The 2007 National Defense Authorization Act (NDAA) changed the criteria used to compute military retirement pay, providing greater pensions for those senior leaders who serve longer. These longevity caps provide greater incentive and more appropriate compensation for individuals who DOD retains beyond 30 years of service, and increases the flexibility of the President and Secretary of Defense in managing the most senior levels of the officer corps.

The Military Compensation and Retirement Modernization Commission should look at all elements of military compensation reform; however, I do not believe longevity caps should rise above 100 percent.

4. Senator INHOFE. Admiral Winnefeld, in your opinion, is there a continuing need to incentivize general and flag officer yearly retirement pay greater than their Active Duty pay?

Admiral WINNEFELD. General and flag officer basic pay is limited by Level II of the Executive Schedule. Once a general or flag officer retires, the cap is removed and they receive the appropriate percentage of their uncapped basic pay. In some rare cases, this results in pay that is greater than their pay while on Active Duty.

The Military Compensation and Retirement Modernization Commission should look at all elements of military compensation reform, including general and flag officer retirement.

QUESTIONS SUBMITTED BY SENATOR CLAIRE MCCASKILL

IMPACT OF REDUX ON RETENTION AND RECRUITMENT

5. Senator MCCASKILL. Ms. Fox, the Military Retirement Reform Act of 1986 reduced retirement benefits for those entering Active Duty after enactment and retiring before the age of 62 by altering the formula used to calculate retirement pay. Congress subsequently raised concerns about how REDUX had negatively impacted military retention and recruiting efforts in the late 1990s. To assist in bolstering military retention and recruiting, the DOD supported Congress's repeal of mandatory REDUX in the NDAA for Fiscal Year 2000. What is the DOD's current assessment of the impact mandatory REDUX had on military retention and recruitment while in effect?

Ms. FOX. A number of studies attempted to understand the effects of changes in military retired pay on the retention decisions of military members. Overall, these studies tended to find that decreases in military retired pay, such as when mandatory REDUX reduced the retired pay multiplier from 2.5 percent to 2.0 percent, result in decreased retention rates for members between the 10th and 20th year of service.

Studies attempting to identify those factors that influence a prospective recruit's decision to join the military found that the military retirement system is not a strong factor in the decision process. Because so few members tend to stay until retirement, and because military retirement does not vest until a member generally serves 20 years, prospective recruits tend to discount its value relative to other, more immediate factors such as enlistment bonuses.

The decision process of a prospective recruit is also affected by parents, former military members, and others. These influencers are more likely to consider the long-term benefits of military retirement when encouraging a prospective recruit to enlist. While the impact of mandatory REDUX may have had a minimal impact on the prospective recruit's decision to enlist, it likely had a greater effect on the willingness of the influencers to encourage enlistment.

6. Senator MCCASKILL. Ms. Fox, did the repeal of mandatory REDUX improve military retention and recruitment?

Ms. FOX. At the time Congress repealed mandatory REDUX, it also committed to restoring military compensation to more competitive levels through targeted raises in the military basic pay table as well as through increased, across-the-board military basic pay raises through 2006. As a result, isolating the specific impact any one of these three changes had on recruiting and retention is difficult. However, cumulatively these three changes significantly improved both recruiting and retention.

A number of studies examined how changes in retired pay a member expects to receive upon retirement affect the member's retention behavior. Generally, these studies found that changes to military retired pay tend to affect significantly the projected retention decisions of members between the 10th and 20th year of service. When Congress repealed mandatory REDUX, this increased the amount of retired pay a member who joined on or after August 1, 1986, would receive immediately upon retirement. Therefore, based upon earlier studies, DOD concludes that it is likely that the repeal of mandatory REDUX improved military retention rates for these members. It also appears likely that the other improvements in military basic pay contributed to improved retention.

Whereas decisions by members between the 10th and 20th year of service are sensitive to changes in retirement, studies found that decisions of new recruits tend to

be less sensitive to changes in retirement and more sensitive to other, more immediate factors, such as enlistment bonuses. Therefore, while repealing mandatory REDUX may have had some impact on the decisions of new recruits, it is likely that new recruits' decisions were influenced more by the targeted pay raises and the commitment to improvements in military basic pay than the repeal of mandatory REDUX.

QUESTIONS SUBMITTED BY SENATOR KELLY AYOTTE

RECALLED RETIREES

7. Senator AYOTTE. Ms. Fox, DOD has informed me that 3,456 retirees were recalled to Active Duty service since September 11, 2001. How many of those were involuntarily recalled?

Ms. FOX. The data required to conduct the analysis is found in numerous repositories throughout the Services. The Services queried these repositories and reported that 2,957 involuntary retiree recall events were conducted since 2001. Additionally, the Services reported 3,152 voluntary retiree recall events. The total retiree recall events reported by the Services totaled 6,109.

READINESS

8. Senator AYOTTE. Admiral Winnefeld, in your prepared statement, you write that "savings accrued through changes to compensation should be invested in warfighting capability and personnel readiness." Why do you believe that any savings accrued from future compensation reform should be invested in warfighting capability and personnel readiness?

Admiral WINNEFELD. It is important that we provide adequate compensation to recruit and retain the best young men and women this Nation has to offer, while at the same time gaining best value for the American taxpayers in terms of warfighting capability, capacity, and readiness. Thus, savings we accrue through adjustments to compensation growth rates would best be applied to warfighting capability and readiness. Moreover, serving in a ready and modern force is a vital element of quality of service for our people. As DOD's overall budget declines, we must continue to balance compensation, readiness, and modernization.

ENLISTED PERSPECTIVE

9. Senator AYOTTE. Master Sergeant Delaney, based on your knowledge of the noncommissioned officers who are the solid foundation of our force, what is the likely impact of the COLA change for retention of current enlisted servicemembers and their plans for their future retirement and goals for their families?

Sergeant DELANEY. This change will be, indeed is already seen, as a failure by the government to keep its word to those serving it. I firmly believe that it will hurt retention for at least two reasons. The first is the change itself can only be seen as based upon our government's belief that younger retirees are receiving too many retirement benefits. This has never been true. But it should be noted that the younger retirees of today have been serving in our last 13 years of war. They stayed and served through these dangerous times and through tour after tour after tour. Then they returned home to a very sluggish economy to try to start a new career. After all of that the Federal government then cuts a promised benefit! How can future servicemembers really believe that all their promised earned benefits will be there if they choose to serve a full career? They won't and retention will be damaged.

This is simply unfair and is seen as unfair and ungrateful.

Dramatic changes to the retirement package, REDUX, was seen to cause serious retention problems and was therefore rolled back.

Second, this looks like just the first of many cuts being considered by DOD. When they need to consider should I sign up again they will think—will the package be the same when I finish my 20+ years as it is now? How can I be sure? This is the sort of doubt that is supremely damaging to retention.

COST CONTROLS

10. Senator AYOTTE. Dr. Chu, we all understand that the cost of military personnel has risen in the last 20 years. In your opening statement, you said that reform to military compensation must be made in a holistic manner in a way that

derives from the desired shape and characteristics of the future military force. What benefits do you believe are essential to attract and retain a top quality military force?

Dr. CHU. As your question implies, decisions on benefits should key on results—as you state, the ability to attract and retain a top quality military force. In turn, that requires focusing on the expectations of those whom we seek to attract to the military, and providing a reasonable way for them to deal with the special burdens of military service.

Going forward, a results-oriented approach should recognize the differences in burdens across warfare communities and skill areas, both those that exist now and those that may well arise in the immediate future, as well as those that depend on the nature and tempo of contemporary operations. A benefit program keyed to only one set of burdens may work poorly in alleviating those that others may bear, or may bear at a different time. Likewise, what appeals to one skill community may not be at all interesting from the perspective of another—think special operations versus cyber warfare.

It is also the case that burdens—and preferences—may differ based on the personal circumstances of the military member. One of the most important personal differences is that between single personnel and those with families. Approximately half the force is single, and the manner in which some benefits are offered now can disadvantage the single servicemember. This is particularly true of the way the housing benefit is currently structured.

Accepting that a thoughtful benefit program would take these considerations into account, from the extensive survey data available to DOD, and from the opportunities I've had to meet and talk with military personnel, I would offer the following observations that I believe are germane on a general basis.

First, there is normally a preference for cash. Put differently, it may be better to offer cash allowances to all, with a menu of choices from which military personnel can select, vice offering benefits in kind, typically with only one choice available. That military personnel often under-estimate the cost to the government of providing benefits only strengthens the case for cash.

Second, cash now is preferred to cash in the future, typically strongly so. The current package defers important benefit elements, which makes them less effective as compensation elements.

Third, two of the most important issues for those with families are the quality of education for the children and the career opportunities available to the spouse. The current benefit package does not always address these issues well.

In short, a simpler system of cash benefits, provided now not later, coupled with thoughtful attention to spousal careers and children's education for those with families, would likely be more highly valued by current and prospective military personnel and cost the taxpayers less than the current system. Inevitably, change will leave some less satisfied with the revised system; providing a significant degree of choice as changes are implemented might help alleviate their concerns.

QUESTIONS SUBMITTED BY SENATOR JEANNE SHAHEEN

RETENTION AND MORALE

11. Senator SHAHEEN. Ms. Fox, historically, DOD has supported grandfathering any potential changes to pay or compensation, so that we keep the faith with those that have served and are currently serving. Can you talk about why that is important in terms of retention and morale?

Ms. FOX. Individuals join the military for a variety of reasons, but all understand that their service entitles them to certain pays and other benefits. Members also understand that if they continue serving for a full career they may become entitled to retired pay, and to the continuation of other benefits they enjoyed during their careers.

Enlistment contracts and other agreements to serve explicitly state that there are no guarantees these pays and benefits will remain. Instead, members who serve accept as a matter of faith that the U.S. Government will care for them and their families while they put the country's interests ahead of their own.

The U.S. Government may make changes to any aspect of military compensation and benefits at any time; and, depending on the nature or extent of the change(s), may be seen as perfectly acceptable by the All-Volunteer Force. For example, slowing the growth of military pay through the most recent 1 percent annual basic pay raise has, by and large, been accepted without rancor. However, if changes are perceived as cuts that are too large, or beyond what is considered normal, the U.S. Gov-

ernment jeopardizes the continuing goodwill of those who serve. Such reductions made to longstanding pays and benefits, especially if they are abrupt and unexpected, can result in disappointment, frustration, and anger, which in turn can lead to reduced productivity or even discontinued service. For those too near retirement to let their feelings dictate leaving service, the view that the U.S. Government broke faith with them may result in poorer performance, antagonistic feelings, and even negative influences on prospective recruits. For these reasons, the DOD remains concerned about how changes to military compensation and benefits are considered and implemented, and it focuses on maintaining the All-Volunteer Force.

As DOD considers changes to compensation, it recognizes that pay and benefits are an area where it must be particularly thoughtful, weigh commitments made, ensure the ability to recruit and retain the forces needed for tomorrow, and make certain those sent into harm's way have all they need to accomplish the mission. When all is said and done, DOD believes it must keep the faith with those who serve and that grandfathering is the right approach to any changes affecting military retirement.

PERSONNEL COSTS

12. Senator SHAHEEN. Admiral Winnefeld, there is some disagreement as to whether or not personnel costs have actually increased as a percentage of the overall DOD budget. Can you explain DOD's understanding of that issue and how it differs from others' analyses?

Admiral WINNEFELD. Military and civilian personnel costs combined account for nearly half of the defense budget, whereas military personnel costs alone consume roughly one third of DOD's budget. These percentages have remained relatively constant over the years as personnel costs have always consumed a significant portion of the defense budget. Disagreements on these numbers can surface due to differing assumptions regarding what is included in compensation costs, as well as with different timelines used in the analyses. However, pay and compensation percentages of the overall DOD budget is not the main point in the debate. The more important point is that if military and civilian personnel costs do not take a reduction when the overall defense budget decreases, these unadjusted costs will eat into our readiness and modernization efforts.

Many members of our Active-Duty Forces tell us they are more concerned about maintaining their ability to serve and their quality of work, than they are about continuing the same trajectory of compensation growth we have experienced over the last decade.

QUESTIONS SUBMITTED BY SENATOR MIKE LEE

REFORM OF MILITARY RETIREMENT PROGRAMS

13. Senator LEE. Secretary Fox and Admiral Winnefeld, what are your concerns about future funding issues within DOD if there is no reform of military retirement programs?

Ms. FOX. While the bipartisan Budget Control Act (BCA) partially mitigates the worst of DOD's readiness problems in fiscal year 2014, and to a lesser extent in fiscal year 2015, beyond those 2 years the BCA remains the law of the land. If sequestration is allowed to persist, our analysis shows that it will lead to a force that is too small, inadequately equipped, and insufficiently trained to fully defend the Nation's interests.

It is within this context that I join the rest of DOD's leadership in stating that DOD cannot afford to sustain the rate of growth in military compensation experienced over the last decade. The one-third of the defense budget consumed by military compensation cannot be exempt as an area of defense savings. So if DOD is going to maintain a future force that is properly sized, modern, and ready, it clearly cannot maintain the last decade's rate of military compensation growth.

Admiral WINNEFELD. We need to look after future generations of Americans who expect their military will be capable of defending the Nation. In the near-term, military retirement reform will have less of an impact on DOD funding because of our intent to grandfather current servicemembers, so any savings will accrue slowly. Eventually, savings from a future retirement program could be significant, depending on how it is configured. Thus, these reforms are essential to the long-term balance of DOD and the sustainability of the retirement benefit.

14. Senator LEE. Secretary Fox and Admiral Winnefeld, do you believe that a failure to reform military retirement will endanger funding to operations and maintenance, procurement, and research and development funding?

Ms. FOX. Pay and benefits are areas where DOD must be particularly thoughtful and cognizant of commitments made in order to ensure the ability to recruit and retain the force needed for tomorrow. Even so, it is increasingly clear that slowing the rate of growth of compensation cannot be excluded from critical efforts to sustain a force that is balanced, equipped with the latest technology, and ready to meet challenges seen and unforeseen.

Avoiding difficult choices, in the name of serving our people or for any other reason, would ultimately risk a future in which our men and women could be sent in to harm's way with less than what they need to accomplish the mission.

Admiral WINNEFELD. In the near-term, military retirement reform has less of an impact on DOD funding because of our intent to grandfather current servicemembers. However, these reforms could grow significantly over time; and are essential to the long-term balance of DOD and the sustainability of the retirement benefit.

15. Senator LEE. Secretary Fox and Admiral Winnefeld, Congress and DOD are in agreement that any changes to military retirement should not apply to current servicemembers and retirees. If reform legislation is passed and these members are grandfathered into the current retirement system, how long do you anticipate it will take to see a change in the rate of cost-growth in the military retirement program?

Ms. FOX and Admiral WINNEFELD. Changes to military retirement to reduce the rate of cost-growth will affect DOD budgetary savings (i.e., the amount DOD contributes to the Military Retirement Fund annually to pay for future retirement benefits) and outlays (i.e., actual current retired pay distributions to retirees).

A change, such as the recently enacted COLA-minus-1 calculation for military retirement pay, could result in immediate DOD budgetary savings—even if current servicemembers and retirees were to be grandfathered—because of the accrual method of funding military retirement. Accrual rates would adjust upon enactment of such a proposal. DOD budgetary savings, relative to the status quo, would be relatively small at first but increase steadily as an increasing number of servicemembers entered into service subject to the new retirement pay calculation. The rate of growth in outlays would not generally decrease relative to the status quo for approximately 20 years until these new servicemembers begin to retire.

ACHIEVING AUDIT READINESS

16. Senator LEE. Secretary Fox and Admiral Winnefeld, the military's budget and spending issues will not be solved by reforming retirement and healthcare programs alone. Changes must be made to make acquisitions and contracting more efficient and cost effective, and unnecessary overhead needs to be eliminated. Do you believe that any reform efforts, including military retirement and healthcare, would benefit by having DOD audit ready by 2017?

Ms. FOX. With DOD audit ready by 2017, it will have more accurate and timely information on compensation, retirement, operations, healthcare, and costs, with which it can make better-informed decisions about future reforms to programs and policies. Better cost data should lead to better decisions regarding the efficiency and effectiveness of operations and major programs.

DOD remains committed to improving its financial information and achieving audit readiness. However, given the long-term fiscal realities of defense budget funding levels under the BCA of 2011 and the BBA of 2013, DOD must also take steps to slow the growth in pay and benefit costs.

Admiral WINNEFELD. Yes, DOD is working hard to improve its overall financial processes, controls, and information. We have established a Financial Improvement and Audit Readiness (FIAR) Plan to outline the strategy, priorities, and methodology to achieve these objectives. The strategy focuses efforts on improving processes, controls, related documentation, and systems supporting information most often used to manage DOD—budgetary information and mission critical asset information. By improving the DOD's financial controls and increasing emphasis on asset accountability, tighter controls of military budget and spending issues will be in place to monitor retirement and healthcare reform efforts. DOD-wide financial improvement efforts continue to mature and are integrated with transformation activities across DOD.

RETIREMENT SYSTEM EFFECT ON RECRUITMENT AND RETENTION EFFORTS

17. Senator LEE. Secretary Fox and Admiral Winnefeld, how important are retirement pensions for recruitment efforts and for retention efforts separately, and is there one area where they are more important?

Ms. FOX and Admiral WINNEFELD. The military retirement system has a strong effect on retention rates for members between the 10th and 20th year of service and a weak effect on the enlistment decisions of new recruits.

Studies attempting to identify those factors influencing a prospective recruit's decision to join the military found that the military retirement system is not a strong factor in the decision process. Because so few members tend to stay until retirement, and because military retirement does not vest until a member generally serves 20 years, prospective recruits tend to discount its value relative to other, more immediate factors, such as enlistment bonuses.

The decision process of a prospective recruit is also affected by parents, former military members, and others. These influencers are more likely to consider the long-term benefits of military retirement when encouraging a prospective recruit to enlist. For example, while the repeal of mandatory REDUX may have had a minimal impact on the prospective recruit's decision to enlist, it likely had a greater effect on the willingness of the influencers to encourage enlistment.

Typically, a military member makes the decision whether to separate from the military or to stay for a career at around the 10th year of service. The expectation of receiving military retirement after serving a full 20 years is one of the more significant factors in that decision process. A number of studies attempting to understand the effects of changes in military retired pay on the retention decisions of military members found that changes in military retired pay strongly affect the retention rates for these members between the 10th and 20th year of service.

18. Senator LEE. General Tilelli, General Sullivan, Master Sergeant Delaney, and Dr. Chu, in an opinion piece in "The Hill" on January 17, Retired General James Jones, Retired Admiral Gregory Johnson, Retired General Arnold Punaro, and Retired General Charles Ward stated that:

"We can either properly train and equip our future warriors or maintain overly generous benefits for your military retirees who have many years in the workforce ahead. We cannot do both."

Do you believe that the growth of military retirement and healthcare benefits, unreformed, will lead to a reduction of funding for operations and maintenance, procurement, and research and development accounts in DOD?

General TILELLI. No. The growth of pay and benefits will not continue at the same rate that DOD experienced over the past 12 years. Have costs grown since then? Yes, certainly, but using the 2000 baseline without placing it in an appropriate context is grossly misleading.

First, it implies the turn of the century was an appropriate benchmark for estimating what reasonable personnel and healthcare spending should be. Nothing could be further from the truth.

At that time, years of budget cutbacks had depressed military pay, cut retirement value by 25 percent for post-1986 entrants, and booted beneficiaries over age 65 completely out of the military health care system.

As a result, retention was on the ropes, and the Joint Chiefs of Staff urged Congress to fix the problems to prevent a readiness crisis.

Congress worked diligently over the next decade to restore military pay comparability, repeal the retirement cuts, and restore promised health coverage for older retirees. In other words, the cost growth was essential to keep the previous cutbacks from breaking the career force.

Recent military compensation studies have leaped to the erroneous conclusion that the cost trends of the last decade will continue indefinitely.

Not so. Now that pay comparability has been restored, there won't be any further need for extra pay plus-ups above private sector pay growth. Similarly, Congress won't have to approve another TRICARE for Life program or repeal REDUX. Those were one-time fixes that won't be repeated. Military personnel costs have continued to consume the same share of DOD's budget for the past 30 years—about one third—and slowing the growth of personnel costs has already started:

- Since 2010, pay raises have either kept pace with or have been below private sector growth with the fiscal year 2014 pay raise being the lowest in 50 years.
- Military personnel end strength is being cut by 124,000 members over 5 years.

• Since 2012, TRICARE Prime fees for retirees have experienced a 16 percent increase and future annual increases tied to cost of living adjustments.
• Pharmacy co-pays increased with future annual increases tied to cost-of-living adjustments.

General SULLIVAN. The growth in military retirement benefits was directly correlated to the need to close the 13 percent pay gap that had grown in the 1990s and to a congressional desire to incentivize longer service by senior military personnel. The pay gap was closed by Congress in the 2000s and now if Congress maintains pay raises at ECI, retirement pay (based on Active-Duty pay) will stabilize, not grow exponentially. Health care benefits are not growing exponentially and in fact, represent only about 10 percent of the DOD base budget (compared to 16 percent in the United States overall). Further, DOD has under-spent on TRICARE benefits for 3 straight years by nearly $3 billion. The TRICARE fee increases already put in place by Congress over the past 3 years mean the system can be sustained in its current cost structure. The force is people. Without people, there is no need for operations and maintenance, procurement, and research and development—you must take care of your people first.

Sergeant DELANEY. We strongly disagree with this analysis and statement analysis. Obviously all these functions—operations and maintenance, procurement, and research and development accounts as well as personnel costs must be properly funded. But we must always remember that we depend on dedicated skilled people to run the weapon systems, the operations and all the personnel projects that make our military the finest on earth. Without the right people all our critical missions will fail.

It is clear that DoD does not and will never pay them what they are worth (imagine what the private sector would need to pay them for taking the risks and life style that we require the military to assume.) But after serving 20 or more years this country should provide them enough so they can start again, a generation behind their age group in a new career.

Dr. CHU. I would not draw the list so narrowly. The challenge lies in the full range of benefits provided, including those financed and managed by other Federal agencies. Moreover, my concern is less with the pay and benefits offered to those serving today, but with the extensive set of benefits we employ to honor the service of those who have already left the military, particularly if they're still of working age. While that recognition is heartwarming and deserved, from a financial perspective it is making it difficult to afford the security investments we need, with the consequences outlined in your question. A better tailored and targeted set of benefits might both recognize earlier service and provide the resources needed to secure the country's future.

19. Senator LEE. General Tilelli, General Sullivan, Master Sergeant Delaney, and Dr. Chu, according to the Congressional Research Service, only 15 percent of enlisted military personnel and 47 percent of officers will reach the 20 years of service needed to receive retirement annuity. Though well less than half of all military servicemembers will be eligible for this benefit, it is still an important tool for recruitment and retention efforts. How will the changes in the Murray-Ryan budget deal effect recruitment and retention efforts?

General TILELLI. Fortunately, Congress acted on the COLA penalty for current retirees and currently servingmembers with the passage of S. 25 that provided partial relief. Unfortunately it still impacts new service entrants since January 1, 2014.

Therefore, because the retirement benefit is much more of a retention versus a recruiting tool, we believe that this change could hurt future retention and recruiting.

In the 1980s, budget pressures led to amending retirement rules twice for new service entrants with the implementation of the high-36-month average system and subsequently the REDUX system. At the time the REDUX plan was being considered, then-Secretary of Defense Caspar Weinberger strongly, but unsuccessfully, opposed it, arguing the change would harm retention and degrade readiness. When his prediction of adverse retention consequences proved all too accurate in the 1990s, Congress had to repeal REDUX in 1999 at the urging of the Joint Chiefs of Staff.

Because this COLA change has a similar element found in REDUX, it could negatively impact retention just as it did in the late 1990s. However, because it is not as financially devastating as REDUX was, the negative impact may not be as severe. Only time will tell.

General SULLIVAN. Had the Murray-Ryan changes to the under-62 retiree COLA been maintained, they would surely have had a negative impact on recruiting and retention. Many military personnel are children of military personnel. If the concept

of grandfathering the current force and current retirees is ignored, the military influencers of young people will urge them not to enter service because promises made upon enlistment will likely be broken before retirement. Decisions to serve are influenced by how the current force is treated. Congress wisely repealed the legislation that would have broken faith with currently serving and retired military personnel.

Sergeant DELANEY. In my answer to Senator Ayotte I said: This change will be, indeed is already seen, as a failure by the government to keep its word to those serving it. I firmly believe that it will hurt retention for at least two reasons. The first is the change itself can only be seen as based upon our government's belief that younger retirees are receiving too many retirement benefits. This has never been true. But it should be noted that the younger retirees of today have been serving in our last 13 years of war. They stayed and served through these dangerous times and through tour after tour after tour. Then they returned home to a very sluggish economy to try to start a new career. After all of that the Federal Government then cuts a promised benefit! How can future servicemembers really believe that all their promised earned benefits will be there if they choose to serve a full career? They won't and retention will be damaged.

This is simply unfair and is seen as unfair and ungrateful.

Dramatic changes to the retirement package, REDUX, was seen to cause serious retention problems and was therefore rolled back.

Second, this looks like just the first of many cuts being considered by DOD. When they need to consider should I sign up again they will think—will the package be the same when I finish my 20+ years as it is now? How can I be sure? This is the sort of doubt that is supremely damaging to retention.

Surveys showed that the active duty, retirees, and veterans all reacted negatively to this change. It was seen as unfair by both those who were thinking or planning on a career in the military and those were not. After all these are their fellows; their comrades and they want them to get what they were promised.

Dr. CHU. From a quantitative perspective, the changes represent a modest fraction of the value of the current compensation package, with commensurate likely effect on retention, even less on recruitment. But from a qualitative perspective, they could be more damaging, because they do not proceed from a clearly articulated view of the future nature of the military compensation package, and may therefore undercut confidence in the steadiness of the Nation's commitment to the value of military service. Future changes should start with a clear statement of the objectives we seek to achieve, explain how the changes affect the achievement of those objectives, and acknowledge frankly that some may find the revised package less satisfactory, offering them a modicum of choice, given that they entered service with a different set of expectations about how their commitment would be rewarded.

20. Senator LEE. General Tilelli, General Sullivan, Master Sergeant Delaney, and Dr. Chu, how can future changes to the military entitlement and benefits system need to be made to lessen the negative effect on these efforts?

General TILELLI. The current retirement system, with relatively modest changes, has been in effect for roughly 60 years. Through decades of hot and cold wars it has been the primary incentive to successfully induce top-quality people to endure extraordinary demands and sacrifices inherent with a career in uniform for 2 decades or more.

The Military Officers Association of America (MOAA) accepts that there will always be proposals to change the retirement system, but we believe any change must be able to stand up to intense scrutiny and should not short-circuit the legislative process, such as this COLA cut did, in order to achieve retirement savings without adequate time to assess and adjust for retention and readiness impacts.

The real question one needs to ask before accepting significant retirement system changes is what is the objective? Changes should not be measured on how much money they save, but instead, the true measure of any change should be whether it improves the way we recruit and/or retain a world-class uniformed force.

When members sign up to serve there is no written contract that outlines their future retirement benefits. However, the advertised benefits clearly reflect that someone who serves for 2 decades or more would receive a retirement package that consists of retired pay and health care for themselves and their family.

Military members do not have a union. It is Congress who continues to look after their best interests and protect them from fast-tracking, budget-cutting proposals that would gut career force retention.

It is this reason MOAA thanks the committee for stripping the Military Compensation and Retirement Modernization Commission's provision that would have fast-tracked their recommendations. Changes need to be transparent. We believe it

is imperative that any suggested modifications to the retirement system go through the deliberative process with the committees of jurisdiction (Senate and House Armed Services Committees) that provide normal oversight and fully understand the potential impacts such changes would have to retention and readiness.

Finally, any changes to the retirement system should keep faith with those currently serving by grandfathering the existing force. We thank Congress for doing just that with the COLA relief.

General SULLIVAN. Any changes must be clearly explained and must be based on empirical data that shows what benefits military personnel value most.

Sergeant DELANEY. If by changes you mean cuts, they should only be prospective. If men and women enter and remain in the military relying on a certain package of earned benefits, those benefits should be there when they retire. The COLA cut that was the basis for this hearing is in effect for all those who entered the military after the first of this year. I am sure it did not make people happy but it does not feel like a bait and switch. It is clear and upfront and it won't make them feel foolish to believe what they were told. This is crucial.

Of course the Military Compensation and Retirement Modernization Commission has assured the VSOs and MSOs that they are not simply looking for cuts but efficiencies and coordination. They have clearly been working diligently and are aware of the worries concerning recruitment and retention. When we see the recommendations in February of next year, we will be able comment on their recommendations.

Dr. CHU. See response to previous question.