THE MILITARY OFFICERS ASSOCIATION OF AMERICA (MOAA)

STATEMENT FOR THE RECORD

BEFORE THE

HOUSE ARMED SERVICES COMMITTEE

PERSONNEL SUBCOMMITTEE

ON

The Military Compensation and Retirement Modernization Commission Recommendations

March 25, 2015

Chairman Heck and Ranking Member Davis, members of the committee, on behalf of the over 380,000 members of the Military Officers Association of America (MOAA), we welcome this opportunity to submit testimony for the record, regarding our views concerning the Military Compensation and Retirement Modernization Commission's (MCRMC) report and recommendations.

MOAA does not receive any grants or contracts from the federal government.

MOAA sincerely appreciates the hard work and analysis that went into the Military Compensation and Retirement Modernization Commission's report. We commend the commissioners and their professional staff for their extensive effort. Their product provides the country with an instrument that we can use as a catalyst to begin important thoughtful discussions, analyses, and debates on vital issues that directly affect our service men and women, retirees, veterans, and their families, and their ability to insure our national security.

We look forward to working closely with the Congress and in particular this committee, your staff, the Pentagon, and the administration on these critical concerns and recommendations regarding military compensation, benefits, and the retirement system.

The commission and MOAA both seek the same objective: providing the necessary pay and benefits needed to sustain the All-Volunteer Force (AVF) more effectively and efficiently.

Our primary concern is the AVF's health, welfare, and sustainability. The most important element of the AVF is the retention of the experienced, high quality, mid-grade non-commissioned officer (NCO) and officer corps.

MOAA has reviewed the 15 recommendations and our views on each follow. Overall, we support ten recommendations with some varying degrees of concern; two we believe require further study; and three we do not support.

Recommendation 1: **Help more service members save for retirement earlier in their careers, leverage the retention power of traditional Uniformed Services retirement, and give the Services greater flexibility to retain quality people in demanding career fields by implementing a modernized retirement system**

MOAA Position – This recommendation requires further analysis and study, given the potential impact a blended retirement system could have on the retention of the mid-career NCOs and officer corps.

Careful thought was put into the current military retirement system decades ago when it was established by Congress. It has served the nation and the AVF very well through good times, but most importantly through the most challenging retention environments, including periods of high operational tempo and strong civilian economic opportunity.

MOAA is wary of major changes to the retirement system because REDUX, the last major alteration to military retirement, was repealed years later due to its harmful effects to retention.

Sustainment of the professional, experienced, mid-grade non-commissioned officer and officer corps is critical to the future viability and readiness of the AVF. The current retirement system has proven its worth since its inception.

Although MOAA supports providing a transportable career device for those who leave the service prior to attaining 20 years of service, it should not come at the expense of those who serve for a full career and should not cause serious retention problems. MOAA has serious concerns that a blended retirement benefit will fail to provide the necessary draw to retain service members to 20 years of service.

The combination of providing a transportable career device and reducing the value of the 20-year defined benefit by 20 percent provides a greater incentive to leave rather than stay. This is especially true in a high operational tempo environment and a robust private sector job market.

Another shortfall of the new proposal is that it fails to continue to provide government matching to Thrift Savings Plan (TSP) accounts for members who serve beyond 20 years of service. This creates a major disincentive to serve beyond 20 years and greatly devalues their retirement value compared to the existing, cliff-vesting retirement benefit.

One of the greatest attributes of the current retirement system is its predictability. The suggested 401K-like retirement benefit value is just the opposite – unpredictable – and is contingent on variables: fund choice, return rates, member contributions, inflation, cost-of-living increases, the economy, etc. This proposal signals a dramatic change in military culture by shifting a major element of retirement financial planning onto the service member, vice what is currently an employer (DoD) responsibility.

Another concern of the MCRMC recommendation is regarding disability retirement. By reducing the retirement multiplier, disabled retirees receiving retirement pay and Department of Veterans Affairs (VA) disability compensation could receive less compensation under this proposal.

The success of this recommendation is completely dependent on the accomplishment of major education in financial literacy of the force. By the commission's admission, only 12 percent of service member respondents indicated they received financial information from their command or installation.

We remain skeptical of the services' ability to provide sound financial and health care counseling based on industry past practices and whether highly qualified, government-sponsored financial planners will be available at all locations to provide continued assistance to members, retirees, and their families.

Finally, MOAA recognizes that many reservists may find the plan attractive since they consider reserve retirement as a supplement to civilian retirement plans and may be more comfortable with 401k and IRA financial instruments. However, the continuation pay of only .5% at the 12th year of service (compared to 2.5% for active duty) may harm career retention. Moreover, uncertainties over how when

the Thrift Savings Plan would be matched in the reserve environment indicate that more study is needed on this aspect of the MCRMC proposal.

Recommendation 2: Provide more options for service members to protect their pay for their survivors by offering new Survivor Benefit Plan (SBP) coverage without Dependency and Indemnity Compensation (DIC) offset

MOAA Position – MOAA does not support the recommendation.

A long-time goal of MOAA is to eliminate the SBP-DIC offset. We are encouraged that the commission highlights this unfairness; however, this proposal does nothing to eliminate the current offset inequity affecting approximately 60,000 survivors. Under a two-tier system, retirees will be paying for elimination of the SBP-DIC offset through higher premiums.

The higher tier benefit would be most advantageous to survivors of retirees that are the most financially strapped – 100 percent total and permanently disabled retirees. MOAA believes we should not ask these disabled retirees to pay even higher premiums.

Our analysis shows that while some service members support a two-tier system, an overwhelming majority would not be willing to pay higher premiums for the benefit. We believe that higher premiums would provide a disincentive for retirees to enroll in the program altogether.

Recommendation 3: Promote service members' financial literacy by implementing a more robust financial and health benefit training program

MOAA Position – MOAA supports the recommendation.

The commission's retirement recommendation success is predicated on the accomplishment (and success) of a major education campaign focused on the financial literacy of the force. As we mentioned in recommendation 1, we are skeptical of the services' ability to provide sound financial and health care counseling based on industry past practices and whether highly qualified, government-sponsored financial planners will be available at all locations to provide continued assistance to service members and retirees and their families.

Currently, some bases share Personal Financial Managers with other installations, limiting their availability. Therefore, any plan to grow a more robust financial and health benefit training program must include service members and family members, as well as retirees and their families.

We also recommend that any plan to promote financial literacy should include education on accessing benefits at key touch points during the military life cycle, including separation.

Recommendation 4: Increase efficiency within the Reserve Component by consolidating 30 Reserve Component duty statuses into 6 broader statuses

MOAA Position – MOAA supports the recommendation but believes the final number of statuses requires vetting with the reserve component to ensure service members are provided proper credit for their duty.

Recommendation 5: Ensure service members receive the best possible combat casualty care by creating a joint readiness command, new standards for essential medical capabilities, and innovative tools to attract readiness-related medical cases to military hospitals

MOAA Position – MOAA does not support this recommendation.

MOAA has long supported the principle of establishing a Unified Medical Command to ensure inter-service consistency of policy and budget oversight, staffing, training, procurement efficiencies, and more. Although the MCRMC proposal has some similarities to that concept, the proposed Joint Readiness Command will be responsible for all of military readiness, which is too far-reaching.

Astonishingly, for the vast amount of responsibility and management proposed, the recommendation does not include any budget oversight, limiting power. The commission's Joint Command vision only grants participation in the budget process.

The proposal also appears to envision further downsizing of Military Treatment Facilities (MTFs) and establishment of beneficiary copays in MTFs, though the proposed elimination of catchment areas could be positive, provided long-distance travel to MTFs is voluntary.

Instead of creating another layer of bureaucracy, DoD should improve the current attempt at integration using the DHA as the foundation for getting to the next level. The DHA is a step in the right direction, demonstrating that it can get things done. The DHA should be given more authorities to consolidate and unify disparate service structures into an efficient and effective organization with common purposes which are clearly understood by all.

Unfortunately, to date, its budgetary successes have mainly been borne on the backs of the beneficiaries by higher pharmacy fees, mandatory mail order and rising premiums and co-payments. **The MCRMC health care proposals represent a "shot across the bow" and should serve as a catalyst for the DoD to quickly push through with these long needed structural reforms under the direction of Congress.**

Recommendation 6: Increase access, choice, and value of health care for active-duty family members, Reserve Component members, and retirees by allowing beneficiaries to choose from a selection of commercial insurance plans offered through a DoD health benefit program

MOAA Position – Recommendation requires further analysis and study.

MOAA and the commission seek the same objective. However, we urge caution concerning any major changes to the military's health care system (MHS) that could potentially have a negative impact on the medical readiness of personnel, as well as the entire AVF community.

TRICARE has problems that need fixing and the status quo is unacceptable; however, instead of fixing the TRICARE program, the commission's answer is to replace it with a Federal Employee Health Benefits Program (FEHBP)-like substitute. This change could have far-reaching implications and presents a high level of risk to medical readiness.

This proposal is a seismic shift in the philosophy of delivering military health care coverage. If it is seriously entertained, it should be subject to much more scrutiny to ensure it meets beneficiary needs without changing the fundamental benefit value or leading to unintended consequences.

TRICARE is designed to support military readiness – to include military family readiness. FEHBP and FEHBP-like health plans serve a very different purpose and do not factor in military readiness and the unintended consequences could be severe.

The idea of using MTFs as network providers, competing for business in the civilian marketplace, was not thoroughly examined in the commission's report. MOAA believes this represents an unacceptable level of risk.

The commission assumes that DoD, in working with FEHBP insurers, would be afforded the right to set provider payments and beneficiary copayments for MTFs versus other providers, and adjust as necessary. MOAA remains skeptical that a broad range of insurers would be comfortable with extending such authority to one provider, however preferred.

Military families will have to receive extensive education when selecting health plans. The choices may be overwhelming and confusing, especially given the existing stressors of military life. Educating beneficiaries on their TRICARE benefits has been a challenge since the program's inception. Under the MCRMC concept, DoD needs to effectively educate beneficiaries on an even greater array of plans, and MOAA has doubts.

Premiums, copays, unique plan features, and the determination of medical necessity would vary by location and plan design. This would be a dramatic and unwelcome departure from what has been a program with a uniform benefit. Military families today can only plan as far as their next set of orders. They have come to rely on the uniform nature of the health benefit administered by TRICARE, no matter where they are stationed in the world.

The needs of a military family can be dramatically changed by the demands of service. Unlike the TRICARE managed care support contractors, it is not clear that commercial plans under an FEHBP-like scenario would be sensitive to or responsive to a military family's unique needs. *"Ready to Serve,"* a recent survey conducted by MOAA and the United Healthcare Foundation, shows that civilian mental health providers are not equipped with the necessary knowledge or cultural sensitivity required in the care of military and veteran populations.

MOAA's recent survey of 7,500 service members and their families revealed that four out of five prefer TRICARE to an FEHBP-like system for retirees and families. Nine out of ten do not feel confident that OPM would be able to understand and accommodate the unique needs of military families. The respondents include active duty, active duty family members, retirees, military spouses, and survivors of all the uniformed services.

An additional concern of MOAA centers on the potential premium working-age retirees will pay. It is not clear how the commission determined premium cost shares for beneficiaries. A 20 percent premium cost share for retirees is substantially too high, regardless of any phase-in period. A cost structure this high devalues the in-kind premiums service members contributed through decades of arduous service and sacrifice acknowledged in previous cost-share settings.

We are concerned that the commission proposal states overtly that its intent is to raise beneficiary costs as a means of curtailing DoD beneficiaries' health care usage, which has exceeded civilian usage. MOAA has never accepted assertions that TRICARE in the 1990s entailed a 27 percent cost share.

MOAA opposes funding care for non-TFL-eligibles through the Medicare-Eligible Retiree Health Care (MERHC) or other health care trust fund. This would add significantly more funds to the "mandatory spending" category Congress has sought to reduce. This also imposes major administrative roadblocks to any future program enhancements or correcting unforeseen inequities that may arise.

TRICARE has its Faults but can be Improved with Congressional Leadership

Problems in TRICARE like rising costs, barriers to access, and lack of customer service in certain areas, can be addressed in a systematic manner without resorting to its elimination. The elimination of TRICARE would be akin to "throwing out the baby with the bath water" and does not get to the root of the problems. The recent MHS Review produced a baseline starting point.

The time is ripe to institute change. The development of a new set of TRICARE contracts, set to start in 2017, is about to commence bidding. The Request for Proposal (RFP) seeks industry bidders and additional input has gone out. Now would be an opportune time to institute innovative ideas from industry.

The Department of Health and Human Services' Centers for Medicare and Medicaid (CMS) have instituted reforms calling for more payments to providers that place the value of health care over volume. There needs to be more focus on value based reforms that reward innovation and quality outcomes. DoD and TRICARE should maintain alignment with Health and Human Services and set goals to institute these same types of payment reforms into the new contracts. For example, a program to benchmark that is already under TRICARE, the U.S. Family Health Plan, uses capitated financing to effectively manage its defined beneficiary population.

A great deal of the cost increases have come from the current fee-for-service payment structure that TRICARE uses to pay its providers as this facilitates increased use of services. DoD must recognize that it

is simply not possible to maintain a traditional fee-for-service discount purchasing strategy to keep costs down and improve access for beneficiaries.

The discounted fee-for-service strategies from the past have also not been effective in creating provider networks that meet the needs of TRICARE beneficiaries in an economical and customer satisfying way. The commission acknowledged this feedback from beneficiaries in their report.

A value-based model will require new ways of thinking and risk sharing. Under new contracts, managed support contractors and MTFs should be incentivized to align and integrate, with risk shared by each for the success of the whole.

These payment innovations can and should be tried in a pilot program, using one or more of the enhanced multi-service markets as a testing ground. Experimenting with innovative public /private partnerships, including the VA, should be done to increase training case-mix and critical skills maintenance. This can be done now, without change to the whole system.

One area where the commission proposal to use an FEHBP-like program could be productive is for Guard and Reserve members and their families. We have long sought to bridge the health care continuity gap between and during periods of activation. As Guard and Reserve family members are not usually subject to frequent relocations and typically prefer to keep their employer coverage, the FEHBP-like concept would be more fitting for this population, including providing these families an option for an allowance to cover their civilian employer coverage during periods of deployment.

By effective rationalization of the current military health care infrastructure, great savings can be gained with resulting better quality of care for beneficiaries. It simply does not make sense to keep open facilities with minimal inpatient occupancy.

For the continuous development of the future MHS and TRICARE, DoD would benefit from frequent dialog with leaders in the health care industry. A regularly scheduled forum could be modeled after the existing Defense Health Board (DHB), focused on industry best-practices from all sectors. A forum like this could also leverage ideas from the commission and beneficiary engagement.

Lastly, targeted investment should be made in technologies and people to support established joint processes and procedures that will generate real return on investment.

Recommendation 7: Improve support for service members' dependents with special needs by aligning services offered under the Extended Care Health Option (ECHO) to those of state Medicare waiver programs

MOAA Position – MOAA supports the recommendation.

We applaud the commission in addressing the unique challenges faced by military families with special needs. However, we believe it will be important to examine a transitional benefit for those who have

depended on this program and will find themselves at the bottom of state Medicaid lists upon separation or retirement.

The critical benefit must be provided to members of all seven of the uniformed services. Additionally, MOAA is concerned that Guard and Reserve families may have a difficult time transitioning in and out of the ECHO program. Finally, we believe it is important to consider a transitional benefit (1-3 years) for vulnerable families as they leave active duty service.

Recommendation 8: Improve collaboration between DoD/and VA by enforcing coordination on electronic medical records, a uniform formulary for transitioning service members, common services, and reimbursements

MOAA Position – MOAA supports the recommendation.

From our perspective, a single uniform formulary would be beneficial only if the formulary is larger to meet the needs of both beneficiary populations.

We believe the commission failed to adequately address access to National Guard medical records will be ensured, which are property of the respective states and difficult to obtain. Additionally, it is still unclear how DoD and VA interface with private providers to keep military records accurate and up-to-date if the Reserve Component is transitioned to TRICARE Choice.

Recommendation 9: Protect both access to and savings at DoD commissaries and exchanges by consolidating these activities into a single defense resale organization

MOAA Position – MOAA does not support this recommendation.

We appreciate the commission's focus on finding efficiencies and cost savings to sustain commissary and exchange benefits. MOAA supports improving the viability and stability of these systems in order to protect these benefits. However, MOAA has historically opposed consolidation because there has been no proposal that preserved the level of savings and revenue stream for the military readiness, morale, welfare and recreation program (MWR). Any proposal to change the existing structure must secure benefits at their current levels. This proposal leaves us unconvinced that these benefits will be secure.

The proposed recommendation needs to be thoroughly vetted to safeguard these cherished benefits used by 90 percent of the military community. The commissary and exchange systems consistently rank as one of the most valued earned benefits, providing needed savings and employment for military families and veterans.

We recommend the commission's proposal be evaluated against the FY 2015 congressionally mandated review of commissary and exchange systems.

Recommendation 10: Improve access to child care on military installations by ensuring the DoD has the information and budgeting tools to provide child care within 90 days of need

MOAA Position – MOAA supports the recommendation.

We support the commission's proposal and are grateful for recognizing the importance of child care for military families. We believe DoD should use this opportunity for collecting data to find a way forward that determines the prioritization of military families on the waiting list.

If implemented, DoD needs to continue to pursue innovative solutions to meet this need beyond building more brick and mortar installation child development centers (CDCs). Other issues for consideration when addressing the challenges of finding and securing affordable child care include: wait list prioritization and realignment of existing programs to meet the garrison-based force (24 hour and weekend care for duty, 7 day a week operation, extended day options).

Recommendation 11: Safeguard education benefits for service members by reducing redundancy and ensuring the fiscal sustainability of education programs

MOAA Position – MOAA supports much of the recommendation.

We generally support much of the recommendation, including closing the Montgomery GI Bill-Active Duty and the Reserve Education Assistance Program (REAP). MOAA has long supported the Post-9/11 GI Bill as the educational platform for recruitment, retention and re-adjustment purposes.

Service members who have signed Post 9/11 GI Bill contracts, including transferability under the current rules, should be grandfathered (i.e., no additional active duty service commitment required). We strongly oppose eliminating the housing stipend payments on transfer contracts in place as of June 30, 2017 and oppose canceling unemployment compensation for student veterans using new GI Bill. Academic and training breaks may leave veterans with dependents with no capability to make ends meet.

Although the Montgomery GI Bill (MGIB) Active Duty buy-in of $1,200 may be refunded under current rules, it's cumbersome and needs to be simplified. Also, DoD needs to clarify the participation rules for military tuition assistance (TA) for professional development and career retention purposes.

Consistent with the recommendation to eliminate education program redundancy, the MGIB-Selected Reserve should be re-codified from Title 10 to Title 38. MCRMC offered no advice on the MGIB-SelRes.

Recommendation 12: Better prepare service members for transition to civilian life by expanding education and granting states more flexibility to administer the Jobs for Veterans State Grants Program

MOAA Position – MOAA supports the recommendation.

We generally support the recommendation with two caveats: Mandatory participation in Transition GPS and similar programs should occur at key milestones throughout a service member's career (i.e., upon second enlistment, at ten-year mark, within two years of retirement, and should not be just a one-time event) and additional accommodations should be made for families.

Recommendation 13: Ensure Service members receive financial assistance to cover nutritional needs by providing them cost-effective supplemental benefits

MOAA Position – MOAA supports the recommendation.

This proposal will help more families in need of nutritional and financial support and helps shine light on the SNAP program and WIC overseas – essential programs for military families who rely on a viable commissary benefit. Financial education is critically important and further data collection is needed.

Recommendation 14: Expand Space-Available travel to more dependents of Service members by allowing travel by dependents of service members deployed for 30 days or more

MOAA Position – MOAA supports the recommendation.

Recommendation 15: Measure how the challenges of military life affect children's school work by implementing a national military dependent student identifier

MOAA Position – MOAA supports the recommendation.

Presently, there is no nationwide data on educational performance and attendance of military dependents. Implementing a way to track military dependent students is important when considering the unique needs of military families.

Summary

The MCRMC has made 15 recommendations – two of which propose dramatic changes to both military retirement and health care programs that could seriously affect career retention required in the all-volunteer force. Both recommendations produce a negative effect on the pocket book of those whom the government needs to serve for a career of 20 years or greater.

The combined effects of the MCRMC's health care and retirement changes, if fully implemented today, on an E-7's annual retirement value is over $6,400, or a loss of 27 percent until he or she can draw from his Thrift Savings Plan at age 59 and a half.

Effects of MCRMC Proposal on Retired Pay E-7 20 Years of Service		
	Current System	**Fully implemented proposal**
Retired pay	$23,901	$19,121
TRICARE fees*	$556	$2,224
Annual loss of purchasing power		**$6,448**

* Assuming TRICARE Prime Family Option

E-7 loses **27 percent** of retirement value until age 60

A complete overhaul of a retirement and health care system serving 9.6 million beneficiaries deserves thoughtful and careful consideration, with Congress ensuring that legislation and implementation reflects intent. Congress should take all needed time to make deliberate decisions about this proposed wholesale change, ensuring that both Congress and stakeholders understand the second- and third-order effects.

Some of the findings in the MCRMC report align with concerns raised by MOAA, and deserve addressing as expeditiously as possible, pending deeper consideration of the broader issues.

The number one action Congress should take immediately is to demand that DoD, without delay, reform under a truly unified military health care system – and not just the service member's share of it. We are not advocating usurping the service Surgeon Generals' Title 10 responsibilities, but without a unified budget or oversight, TRICARE as we know it will remain parochially administered and sub-optimized.

Service members stationed around the world should not have to worry if they have selected the appropriate health care coverage for their families. Making radical changes to core retention programs – military health care and retirement – carries a significant risk of causing unintended, negative effects to retention.

The key is to ensure program changes create real improvements, both for readiness and for the entire military community, instead of creating new sets of problems for both.