

Military Compensation and Retirement Modernization Commission

Testimony Before the
House Armed Services Committee
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Statement of:

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The Honorable J. Robert Kerrey

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Chairman Thornberry, Ranking Member Smith, distinguished members of the Committee: We are honored to be here and thank you for the opportunity to testify today. We also want to thank you for your support of the Commission during the last 18 months, and your leadership in protecting Service members' compensation and benefits.

Our All-Volunteer Force is without peer. This fact has been proven during the last 42 years and decisively reinforced during the last 13 years of war. It is our obligation to ensure the Services have the proper resources to support our Service members. Those resources include a valued compensation system that is relevant to contemporary Service members and that is operated in a modern and efficient manner. We are unanimous in our belief that our recommendations strengthen the foundation of the All-Volunteer Force and ensure our national security, now and into the future.

Our recommendations sustain the All-Volunteer Force by maintaining or increasing the overall value of the compensation and benefit system for Service members and their families. They also provide additional options for Service personnel managers to design and manage a balanced force. Our recommendations represent a holistic package of reforms that modernize the structure of compensation programs, rather than adjust the level of benefits delivered to Service members. This approach creates an effective and efficient compensation and benefit system that saves the Government, after full implementation, more than \$12 billion dollars annually, while sustaining the overall value of compensation and benefits of those who serve, those who have served, and the families that support them.

Our work represents the most holistic and comprehensive review of military compensation and benefits since the inception of the All-Volunteer Force. Our Interim Report, published in June, 2014, documents the relevant laws, regulations, and policies; associated appropriated Federal funding; and historical and contextual backgrounds of more than 350 compensation programs. Consistent with our Congressional mandate, programs were reviewed to determine if modernization would ensure the long-term viability of the All-Volunteer Force, enable the quality of life for members of the Armed Forces and the other Uniformed Services, and achieve fiscal sustainability for compensation and retirement systems.

Based on the results of this review, our Final Report offers 15 unanimous recommendations that improve choice, access, quality, and value within the compensation system. Our retirement recommendation proposes a blended plan that extends retirement benefits from 17 percent to 75 percent of the force, leverages the retention power of traditional military retirement to maintain the Services' current force profiles, protects the assets of Service members who retire at 20 years of service, and reduces annual Federal outlays by \$4.7 billion. Our health benefit recommendation improves access, choice, and value of health care for active-duty family members, Reserve Component members, and retirees, while reducing outlays by \$3.2 billion. Our recommendation on commissaries maintains patrons' grocery discounts and reduces the costs of delivering that benefit by more than \$500 million annually. Yet we did not engage in a cost-cutting drill. Our recommendations to improve joint readiness, Service members' financial literacy, support for exceptional families, and transition assistance require

additional funding to ensure program efficacy. Our recommendations also give the Services greater flexibility to recruit and retain a balanced force.

Our report is informed by our life-long experiences, but more importantly by the insights of a broad range of Service members, veterans, retirees, and their families. More than 150,000 current and retired Service members responded to the Commission's survey. The Commission visited 55 military installations, affording us the opportunity to discuss compensation issues with Service members worldwide. We developed an ongoing working relationship with more than 30 Military and Veteran Service Organizations. We also received input from more than 20 Federal agencies; several Department of Defense working groups; and numerous research institutions, private firms, and not-for-profit organizations. Our recommendations align compensation and benefit programs to the preferences of the modern Force and societal shifts since the inception of the All-Volunteer Force.

Taken as a whole, our recommendations create a modern and innovative compensation system that will be relevant to the contemporary and future workforce. By maintaining or improving benefits, while concurrently reducing costs, our recommendations address the ongoing tension between maintaining Service member benefits and reducing personnel budgets to meet the demands of the new fiscally constrained environment. We are confident that our recommendations to reform the compensation system protect the quality of life for Service members and their families and ensure the fiscal sustainability of these programs for the future.

We thank you again for the opportunity to testify today and are honored to present our unanimous recommendations that have one thing in common: These recommendations were formulated with the benefit to the Service members, and the families who support them, as the top priority.

Pay and Retirement Recommendations

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.

The current military retirement system for the Active Component (AC) is a defined benefit retirement system that vests at 20 years of service. Annuity payments are generally calculated by multiplying a member's retired pay base by 2.5 percent for each year of service completed. Reserve Component (RC) Service members may request retired pay after 20 years of "creditable service" as defined in law. Under the current military retirement system, 83 percent of enlisted personnel and 51 percent of officers receive no retirement savings for their service.

The Commission's recommended retirement system would maintain retirement pay for current Service members and retirees and set out a blended retirement plan for Service members entering the force. The blended plan would preserve the 20-year retirement with a reduced defined benefit multiplier of 2.0, create a defined contribution plan through a Thrift Savings Plan, and add continuation pay at 12 years of service to provide mid-career retention incentives. The recommended plan would provide additional options to Service members by authorizing them to choose full or partial lump-sum payments in lieu of their working-age defined benefit payments. The proposed plan would allow the Services to maintain their current force profiles. It would provide retirement benefits to potentially more than one million Service members who, under the current system, would leave service without any Government-sponsored retirement savings, yet it would maintain the value of the retirement system for Service members who serve 20 years or more. A blended retirement system would also provide flexibility to the Services to obtain the appropriate mix of skill and experience needed to maintain a balanced force.

2. Provide more options for Service members to protect their pay for their survivors by offering new Survivor Benefit Plan coverage without Dependency and Indemnity Compensation offset.

The current Survivor Benefit Plan (SBP) gives retiring Service members the option to provide a lifetime monthly annuity to qualified survivors. Service member premiums cover approximately two-thirds of the full cost of SBP coverage, and DoD subsidizes the remaining amount. Eighty percent of Service members who retired in 2013 enrolled in SBP. Survivors of retirees, entitled to Dependency and Indemnity Compensation (DIC) payments from the Department of Veterans Affairs (VA), are restricted by law from receiving the full amounts of both SBP and DIC benefits (SBP benefits are offset by the amount of DIC received). The Commission found the DIC offset of SBP very unpopular with Service members.

The Commission recommends maintaining the existing SBP program for Service members who want to select subsidized coverage and remain subject to the SBP-DIC offset, yet also granting Service members the option of choosing modernized SBP coverage that balances greater participation cost with no DIC offset. Survivors of Service members who elect the new SBP coverage would derive a greater overall benefit by receiving full SBP and DIC payments.

3. Promote Service members' financial literacy by implementing a more robust financial and health benefit training program.

The Services currently implement personal financial management training for their members according to their internal policies. Nevertheless, military personnel regularly make minimum payments, pay late fees, or pay over-the-limit charges on credit cards, and commonly borrow from nonbank financial institutions (e.g., pawn shops). Service members who get in financial trouble often lose their security clearance, which is costly to both the individual and the DoD. These facts demonstrate insufficient knowledge among some Service members with regard to managing their personal finances. The Commission concluded that existing financial literacy programs do not adequately educate Service members and their families on financial matters.

The Commission's recommendations, particularly with regard to retirement and health care, would provide increased choice and require educated financial analysis on the part of Service members. The Commission recommends that DoD increase the frequency and strengthen the content of its financial literacy training. Service members should receive financial training throughout their careers, including mandatory health benefits seminars when they register one or more dependents, and when they are nearing retirement from the military. Implementing a comprehensive training program would help educate Service members, provide them with enhanced tools to better protect their finances, and develop a culture of personal financial responsibility.

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

Although Active Component members have a single duty status—active duty—Reserve Component (RC) members serve under a variety of duty statuses. In the current system, each time the purpose or the source of appropriation for an RC member's orders changes, existing orders must be cancelled, and new orders must be issued. The current RC status system aligns poorly to current training and mission support requirements, complicates effective budgeting, and causes members to experience disruptions in pay and benefits as they transition among different duty statuses.

The Commission recommends replacing the 30 current RC duty statuses with six broader statuses. Simplifying RC statuses would support both operational and training missions, better enable the purpose of RC duties to be tracked to justify budgets requests, and facilitate a seamless process for RC members.

Health Benefit Recommendations

5. Ensure Service members receive the best possible combat casualty care

The Military Health System (MHS) relies heavily on military treatment facilities (MTF) as training platforms to maintain the clinical skills of the military medical force. Military medical personnel assigned to MTFs deliver health care primarily to active-duty Service members and their families, then, as space is available, to military retirees and other eligible beneficiaries. Because most MTFs do not

have sufficient case mix and volume to adequately prepare military medical personnel for deployment into an operational environment, each Service has created separate trauma training programs to provide medical personnel additional training prior to deployment. There is, however, no consistency or standardization in the organization or requirement for this just-in-time trauma training. Continuing with this method for training medical personnel does little to preserve critical skills acquired over the last 13 years of war.

Congress should establish a four-star command to oversee all joint readiness, especially medical readiness. The proposed central oversight would ensure a necessary high-level joint focus overall and, more specifically, enhance the MHS as a training platform for identified Essential Medical Capabilities required by the medical force in support of deployed operations. Increased oversight would afford the medical force greater opportunities for continued training, creating a more ready force both in peacetime and in preparation for contingency operations.

6. Increase access, choice, and value of health care for active-duty family members, Reserve Component members, and retirees

The DoD's TRICARE program provides health care benefits for Active and Reserve Component Service members, retirees, their dependents, survivors and some former spouses at MTFs or through a network of civilian health care providers. The Commission found that TRICARE's payment schedule limits available doctors. It limits choice to only a small number of plans with a one-size-fits-all approach to covered benefits and determinations of medical necessity. The current benefit lacks flexibility in its program design and contracting process, which hinders adoption of advances in the health care sector. TRICARE also restricts access to care with a frustrating appointment and referral process. Beneficiaries prefer greater choice in their health care benefit options. Providing a wide range of different health plan options at different costs incentivizes cost-conscious consumer decision-making in health care.

The Commission recommends that AC families, RC members, and retirees would receive a better health care benefit by allowing them to choose from a selection of commercial insurance plans offered through a DoD health benefit program administered by the Office of Personnel Management. This program, which we call "TRICARE Choice," would increase beneficiaries' choice, enhance their access to care, and deliver a better value. Under an insurance model, the ease and timeliness of patients' access to health care would improve because beneficiaries would not be subject to DoD's lengthy and frustrating process for making appointments and obtaining referrals. The network of health care providers would be improved, especially in rural areas and areas without a substantial military presence. A broader network of providers would particularly assist RC members and retirees, who often live away from major active-duty installations. Active-duty Service members, for reasons related to operational readiness, would continue to receive their health care through their units or the direct care system MTFs.

7. Improve support for Service members' dependents with special needs by aligning services offered under the Extended Care Health Option to those of state Medicaid waiver programs

Service members with exceptional family members (EFMs) require specialized supplies and services that are not provided through TRICARE. State Medicaid waiver programs can satisfy these needs, but the frequency with which military families are moved between states, combined with the long waiting lists in most states, result in military families not having access to this support. The Extended Care Health Option (ECHO) is a DoD alternative, used when state services are unavailable. As it is currently implemented, ECHO does not provide coverage equal to state Medicaid waiver programs. As a result, many military families with EFMs do not have access to the same level of support as their civilian counterparts.

Aligning services offered under ECHO with those of state Medicaid waiver programs would enhance coverage for exceptional family members to ensure consistency with civilian programs. This change would improve continuity of support for EFMs as Service members and their families are relocated to support the DoD mission.

8. Improve collaboration between Departments of Defense and Veterans Affairs

The Joint Executive Committee (JEC) coordinates numerous health care activities between DoD and VA, including efforts in regards to electronic health records, drug formularies, resource sharing, and interagency billing. Yet there remain substantial opportunities for enterprise-wide collaboration through standardization, elimination of barriers, and adoption of best practices. The Commission found numerous, ongoing weaknesses exist in joint collaboration and cost-effectiveness between the health care services of DoD and VA.

The Commission recommends that the JEC should be granted additional authorities and responsibilities to standardize and enforce collaboration between DoD and VA, to include: defining and monitoring expenditures for common services that are regularly jointly conducted throughout DoD and VA health-care systems; approving in advance any new capital assets acquisition, or sustainment, restoration, and modernization of capital assets, of either DoD or VA medical components; overseeing electronic health record compliance with the Office of the National Coordinator for Health Information Technology standards across both DoD and VA; ensuring that the DoD and VA establish a health care record within the VA electronic health record system for all current military Service members; creating a uniform formulary to include all the drugs identified as critical for transition by the JEC beginning immediately with pain and psychiatric classes of drugs; and establishing a standard reimbursement methodology [process] for DoD and VA provision of services to each other. These actions should substantially ease the transition of Service members and improve collaboration between the Departments.

Quality of Life Recommendations

9. Protect both access to and savings at Department of Defense commissaries and exchanges by consolidating these activities into a single defense resale organization

DoD operates a system of commissaries and three separate systems of exchanges. These four systems, and their associated organizations, provide discounted groceries, merchandise, and other services to Service members and their families around the world, in locations convenient to those living on or near military installations. They also facilitate or provide services at sea and in theater. In surveys and testimony, many Service members have identified this benefit as relevant and valuable and some have indicated that the discounts are critical to their personal financial health. However, financial pressures within DoD have resulted in proposals to significantly reduce the funding appropriated to operate these organizations, primarily focused on commissaries.

Consolidating commissary and exchange activities into a single Defense Resale Activity would maintain or improve the benefit, while making changes in structure, law, and policy that would enable more aggressive reductions in appropriated funding. Despite their differences, these retail organizations perform similar missions, for similar patrons, with similar staff, using similar processes. A consolidated resale organization, with combined resources, increased operational flexibility, and better alignment of incentives and policies, would improve the viability and stability of these systems. Multiple DoD-sponsored studies have identified strategies to improve cost-efficiency. Organizational boundaries, different cultures and business strategies, competing incentives, and restrictive policies have inhibited the aggressive pursuit of many of these strategies. Creating a consolidated organization would reduce these barriers and better position commissaries and exchanges to meet the needs of the Military Services and Service members. The proposed plan would also maintain grocery subsidies at DoD commissaries, while improving the efficiency of the benefit delivery.

10. Improve access to child care on military installations by ensuring the Department of Defense has the information and budgeting tools to provide child care within 90 days of need

Military child care is widely acclaimed for its quality, affordability, and ability to satisfy the unique needs of military parents, but is frequently a source of frustration because of its limited availability. Current models for planning and resourcing full-time military child care often result in long waiting times, particularly for children who are 3 years old and younger, the ages for which care tends to be most expensive and least available from other sources. Although DoD has established a goal to provide military child care within 90 days of need, that goal is not yet being met, and in some cases waiting times are not being reliably measured or reported.

Ensuring DoD has the information and budgeting tools to provide child care within 90 days of need would both improve DoD's understanding of the effect of the unmet demand for military child care and enhance DoD's ability to provide a timely response to that demand. DoD should standardize reporting and monitoring of child care wait times across all types of military child care to better understand the need for services. To quickly respond to the need, the Commissioners recommend reestablishing the

authority to use operating funds for minor construction projects up to \$15 million for expanding or modifying child development program facilities serving children up to 12 years of age. Recognizing that staffing, rather than facilities, is often the limiting factor, DoD should also streamline child care personnel policies to help ensure proper staffing levels.

11. Safeguard education benefits for Service members by reducing redundancy and ensuring the fiscal sustainability of education programs

DoD and the VA provide many programs that deliver educational benefits to Service members and veterans. Current education assistance programs include the Post-9/11 GI Bill, the Montgomery GI Bill Active Duty, the Montgomery GI Bill Selected Reserve, the Reserve Education Assistance Program, and Tuition Assistance. There are duplicative and inefficient education benefits that should be streamlined to improve the sustainability of the overall education benefits program.

Montgomery GI Bill Active Duty should be sunset on October 1, 2015. Reserve Education Assistance Program (REAP) should be sunset, restricting any further enrollment and allowing those currently pursuing an education program with REAP to complete their studies. Already enrolled Service members who elect to switch to the Post-9/11 GI Bill should receive a full or partial refund of the \$1,200 that was paid to buy in to the MGIB-AD. Eligibility requirements for transferring Post-9/11 GI Bill benefits should be increased to 10 years of service, plus an additional commitment of 2 years of service. The housing stipend for dependents should be sunset on July 1, 2017. Eligibility for unemployment compensation should be eliminated for anyone receiving housing stipend benefits under the Post-9/11 GI Bill. When providing feedback in comments to the Commission, Service members repeatedly emphasized the importance of education benefits as recruiting and retention tools. Ensuring the robustness of education programs is one of the best ways to guarantee the future of the All-Volunteer Force. This recommendation would also support GI Bill benefits, including transferability, while improving their fiscal sustainability.

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

DoD, in partnership with the Department of Labor, the VA, and the Small Business Administration, maintains the Transition GPS program to help Service members and their families prepare for a successful transition to civilian life. Transition GPS services are delivered through a series of workshops administered by each Service. The DOL administers One-Stop Career Centers which offer employment services for job seekers across the country, including veterans after they have transitioned to civilian life. These facilities are part of state workforce agencies or employment commissions and are partially funded through a number of grants under DOL's Jobs for Veterans State Grants program. Despite these services, transitioning from military service to civilian life is more difficult than it needs to be. DoD should require mandatory participation in the Transition GPS education track for Service members planning to attend school after separation or those who have transferred their Post-9/11 GI Bill benefits. The Department of Labor should permit state departments of labor to work directly with state VA offices

to coordinate administration of the Jobs for Veterans State Grants program. Furthermore, One-Stop Career Center employees should attend Transition GPS classes to develop personal connections with transitioning veterans. A review of the core curriculum for Transition GPS should be required to reevaluate whether the current curriculum accurately addresses the needs of transitioning Service members, and DoD, VA, and DOL should be required to produce a one-time joint report regarding the challenges employers face when seeking to hire veterans.

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

The Department of Agriculture's Supplemental Nutrition Assistance Program (SNAP), better known as the "food stamps" program, and the Family Subsistence Supplemental Allowance (FSSA), the Military Services' alternative to SNAP, have the same Congressional mandate and overarching goal of providing nutritional assistance to eligible beneficiaries. In many circumstances, however, it is easier to qualify for SNAP than it is to qualify for FSSA. SNAP benefits are typically more generous, and unlike FSSA, SNAP recipients have no obligation to inform their chain of command, thus avoiding perceived embarrassment or stigma. Estimates of Service members receiving SNAP vary widely because States are not required to collect or share data on Service members. DoD needs a better understanding of the number of Service families using SNAP and the financial situations of those families.

Although FSSA should be retained for Service members in overseas locations where SNAP assistance is unavailable, it should be sunset in the states and territories that provide SNAP benefits. The SNAP program should capture and share information on active-duty Service members receiving benefits to better inform military compensation and policy decisions. Adopting this recommendation would ensure Service members receive optimal supplemental nutritional assistance.

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

The Secretary of Defense is authorized to provide air travel for Service members, certain retirees, and their family members on a space-available basis. Space-Available travel regulations provide eligible passengers access to seats on military air transport flights that would otherwise be empty. Unused seats on DoD-owned or controlled aircraft are only made available to Space-A travelers once space-required (duty) passengers and cargo have been accommodated. Current DoD policy permits unaccompanied dependents to use Space-A travel, but only when their sponsor is serving a deployment of at least 120 days. In recent years, frequent deployments have been a reality for many Service members and many were shorter than 120 days, making dependents of these deployed Service members ineligible for Space-A travel.

DoD should allow unaccompanied dependents of Service members deployed for 30 days or more to use Space-A travel. The quality of life of Service members' dependents should be improved by providing this access to unaccompanied travel on military aircraft.

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

Children of active-duty Service members are not identified separately in nationwide reporting of student performance. Most elementary and secondary school student registration data systems do not include an indicator of students who have a military affiliation. These children experience unique stresses associated with parental deployments and frequent relocations that can adversely affect academic performance. As a result, national reports on student performance cannot reliably differentiate military dependent students from all others.

A military dependent student identifier should be implemented so that Elementary and Secondary Education Act reporting can identify students who are children of active-duty Service members. This information would enhance support for military dependent students by facilitating DoD's ability to monitor academic performance.

Thank you again for the opportunity to testify regarding our recommendations. We also want to thank all who contributed to our final report. The Commission is grateful to have been given the opportunity to make recommendations to strengthen the best All-Volunteer Force in the world. Ensuring our Service members, veterans, retirees, and their families' get the support they need is a responsibility the Commission took very seriously. Thank you to all those who serve, those who have served, and the families that support them.