HEARING TO RECEIVE TESTIMONY ON MILITARY COMPENSATION AND BENEFITS, INCLUDING SPECIAL AND INCENTIVE PAYS, IN REVIEW OF THE DEFENSE AUTHORIZATION REQUEST FOR FISCAL YEAR 2011 AND THE FUTURE YEARS DEFENSE PROGRAM

WEDNESDAY, APRIL 28, 2010

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

The subcommittee met, pursuant to notice, at 10:03 a.m. in room SR–222, Russell Senate Office Building, Senator Jim Webb (chairman of the subcommittee) presiding.

Committee members present: Senators Webb, Begich, and Chambliss.

Committee staff members present: Leah C. Brewer, nominations and hearings clerk; and Jennifer L. Stoker, security clerk.

Majority staff members present: Jonathan D. Clark, counsel; Gabriella Eisen, counsel; and Gerald J. Leeling, counsel.

Minority staff members present: Diana G. Tabler, professional staff member; and Richard F. Walsh, minority counsel.

Staff assistants present: Jennifer R. Knowles and Breon N. Wells.

Committee members' assistants present: Gordon I. Peterson, assistant to Senator Webb; Lindsay Kavanaugh, assistant to Senator Begich; Jason Lawrence and Clyde A. Taylor IV, assistants to Senator Chambliss.

OPENING STATEMENT OF SENATOR JIM WEBB, CHAIRMAN

Senator WEBB. The subcommittee will come to order.

The subcommittee meets today to receive testimony on military pay and compensation programs.

We welcome four witnesses this morning. William Carr is the Deputy Under Secretary of Defense for Military Personnel Policy; Brenda Farrell is the Director of Defense Capabilities and Management, Government Accountability Office; Dr. Carla Tighe Murray is the Congressional Budget Office Senior Analyst for Military Compensation and Healthcare; and Dr. James R. Hosek is the Director of Forces and Resources Policy Center, RAND National Defense Research Institute. We welcome all four of the witnesses to this hearing.

I'd like to say this is the first time that I have chaired a hearing in this room, and it's rather odd, because I spent many, many times down where you guys are when I was in the Department of Defense. So, it looks a little better from this end of the table, I have to say. [Laughter.]

The cost of military personnel, including pay and compensation, noncash and deferred benefits, and healthcare continues to rise at disturbing rates. The Department's proposed base budget for fiscal year 2011 for military personnel and healthcare amounts to almost 170 billion, or more than 30 percent of the Department's total budget. By comparison, using 2010 constant dollars, the Department's total cost for military personnel and healthcare in 2001 was $109 billion. This represents an increase of more than 57 percent. The defense health program base budget, including retiree healthcare costs, has increased from 16.6 billion in 2001, using constant dollars, to 41.7 billion in 2011, which represents an increase of more than 151 percent.

Nevertheless, we face the realities posed by the ninth consecutive year of combat operations and the incredible stress this has placed on our servicemembers and their families.

In order to carry out our National obligations, the services must continue to recruit and retain highly qualified individuals in sufficient numbers. Unlike past wars, this Nation today is fighting with an All-Volunteer Force. And if the services are to sustain the quality of the AVF, they must be able to compete with private sector, with the right numbers of talented young men and women.

Beyond the basic requirement to compensate our service members fairly for their unique conditions of service and sacrifice, a robust military compensation and benefit package is a key to maintaining the military's competitive position.

As a consequence, compensation and benefits have risen significantly over the past decade. In the 2010 National Defense Authorization Act, Congress enacted a pay raise above the annual increase in the employment cost index, ECI, for the 12th consecutive year. For 10 of those years, the pay raise was across the board for all members of the uniformed services, including uniformed members of NOAA, the Public Health Service, and the Coast Guard.

While the pay raises of the past decade were appropriate, and I supported them on this subcommittee over the past 3 years, DOD officials remind us that additional pay raises above the ECA have a tailing cost that is often overlooked. Because the increased basic pay above the rate of inflation, for example, future retired pay is increased for all members of uniformed services, well beyond Department of Defense projections.

In addition to basic pay, the Department and the services rely on bonuses and other special and incentive pays to attract and retain highly qualified individuals who serve in critical occupation specialties and hard-to-fill billets. Such cash incentives, while sometimes causing sticker-shock to the media, the public, and even some Members of Congress, have the benefit of being targeted to essential people and necessary skills, when done properly.

We, in government, have a particular responsibility to have a full understanding of how such funds are being used and if they are being used in a logical and efficient way. Special and incentive

pays are not reprogrammed from other accounts with specific congressional approval. However, unlike other DOD spending actions during a budget execution year, they can be dialed up or down, depending on circumstances and the need of each branch of the Armed Forces. They also can be used to encourage an appropriately recognized service, under the most arduous and demanding conditions.

The Department's management and stewardship of S&I pays is not always transparent, either to the public or to the Congress. During this subcommittee's personnel posture hearing last month, I asked Under Secretary Stanley to provide a consolidated accounting and an explanation of the Department's use and management of S&I pays, and how these pays ensure that they are being used efficiently and prudently.

We are informed by DOD that S&I pays make up less than 4 percent of the proposed 2011 military personnel budget. And this, in fact, represents a decline from prior years. This level of funding, more than $5.5 billion, is still significant. In its response to my inquiry, the Department has urged the greater use of S&I pays as a more efficient and, ultimately, less costly use of funds, versus an additional across-the-board pay raise above ECI that affects all members of the uniformed services equally.

The GAO report on military compensation released this month seems to agree with this assessment, as does the 2007 CBO report on military compensation. I look forward to hearing from Ms. Farrell and Dr. Murray on their agencies' work in this area.

This raises the question of what comprises the best mix of across-the-board pay raise versus cash incentives in order to attract and retain the highest quality All-Volunteer Force in sufficient numbers to reduce the stress on the Force while compensating servicemembers adequately and fairly for the unique conditions of their service.

I believe this is the ultimate goal of an equitable military compensation system. In the final analysis, the relative success of recruiting and retention may be the most relevant indicator of our striking the right balance and adequately compensating our all-volunteer military.

In the end, we must make sure that our compensation systems are as efficient and responsible as fairness allows so that we can afford the end strength that we need.

I hope our witnesses today, especially Mr. Carr, can shed some light on the Department's needs and the process that it follows to ensure that S&I pays are used in a way that best serves the interests of our military and of the U.S. taxpayer.

Similarly, I look forward to working with Under Secretary Stanley to ensure that Congress has the visibility it needs in order to effectively discharge its responsibilities to oversee the military and the military compensation system.

I thank each of our witnesses for appearing and to testify today. I hope you can shed some light on how we can be more efficient, at the same time being adequate and fairly—and fair, in terms of compensating our servicemembers. And I also hope to hear some ideas on what we can do to address the sharp growth in some of

these costs. Looking forward to a dialogue on that during this hearing.

Senator Graham is held up in a markup in a—ono another committee, and we're very pleased to have Senator Chambliss here to represent the Republican side.

And, Senator Chambliss, welcome.

STATEMENT OF SENATOR SAXBY CHAMBLISS

Senator CHAMBLISS. Thank you very much, Mr. Chairman, first of all, for holding this hearing, for your leadership on this issue.

And I want to join you in welcoming our witnesses and, first of all, thanking you for your public service. We appreciate the great work you do. It's never easy dealing with numbers, period. But, when you're having to deal with numbers in tough times, particularly on this particular issue, where the service to the United States is reflected by the men and women who continue to serve so valiantly, it's even more difficult, I know. So, we particularly thank you for your service to our country.

In view of the sacrifices and service of the men and women of our Armed Forces, it is essential that we provide them and their families with compensation and a quality of life that reflects not only what is needed to successfully recruit and retain personnel, but also our appreciation and respect for their volunteer service.

Monitoring and adjusting the levels of military pay is a shared responsibility of Congress and the Department which we all take very seriously. And, Mr. Chairman, it's helpful to step back, occasionally, and assess how we are doing.

I appreciate the views expressed by our witnesses regarding military pay comparability with civilian counterparts. Since 2000, our committee has supported robust pay increases, and there is no question that this has contributed to the superb caliber and readiness of the Armed Forces. To recruit the highest caliber young people and to retain them for careers, during good economic times and bad, it is absolutely critical that incentive pay, such as bonuses and special pays, be flexible enough to respond to changing manpower needs.

The military has had to be able to compete successfully for the services of critically needed professionals, and retain leaders of proven ability for careers of service. Critically needed warfighters, such as Special Forces personnel, are high on this list. Healthcare professionals, nuclear-qualified individuals, EOD personnel, and many others come to mind, as well.

Compensation for our Reserve component personnel is another area that requires careful examination. Reservists and guardsmen provide a great return on the investment, in terms of the capability they provide; but, an operationally-oriented Reserve and Guard is very different from the Strategic Reserve of the past. I'll be interested to hear how the Department is using pay as an incentive to retain reservists for long careers, and what changes we may see in that regard.

The issue of pay and benefits is very important to our servicemembers, and one that this committee cares a great deal about. Each of your perspectives can help inform our recommendations in this area and help us, with the Department, shape a set

of pay and benefit policies that serves to recruit and retain the people our Nation needs in the military, and does so in a way that is also fiscally responsible.

I thank you for your appearance today, for your commitment to this issue, and, most of all, your commitment to our members of the military.

Thank you very much, Mr. Chairman.

[The prepared statement of Senator Chambliss follows:]

[SUBCOMMITTEE INSERT]

Senator WEBB. Thank you very much, Senator Chambliss.

We're going to go to the witnesses. Mr. Carr will go first.

But, before we do, I would like to raise a matter. And, Mr. Carr, I hope you will take this back to your boss. This relates to a question that I raised about military fellows. And this is a very simple question requesting data on military fellows in all elements of their involvement outside of DOD. I asked this question, on the 2nd of February, to Secretary Gates. I re-asked it again, on the 10th of March, to Secretary Stanley.

I want to start off by saying, when I was a committee counsel over on the House side, 30 years ago, DOD was famous for its responses. I once, during a hearing where we were looking at the Carter discharge review program—we were trying to get a breakdown on who served during the Vietnam war, where the casualties were, et cetera—I once turned around to the DOD liaison and said, "I need a breakdown of who served: ethnically, racially, by service, by year; and what the casualties were, by service, by race, by ethnicity, by year." I had that information in 1 day; you know, a very voluminous piece of information. DOD invented computer technology. It basically invented the Internet, with apologies to some other people who made contrary statements in the past.

This kind of information shouldn't take 3 months. And I don't want to be put in a position where I'd have to put a hold on nominations or, you know, do any of these sorts of things that we have to do in order to get cooperation. And we finally, this morning, received a reply, and it's really inadequate. It's, you know, basically, I think, minimal cooperation. So, we need to do a lot better on these kinds of things.

Mr. CARR. Yes, sir.

Senator WEBB. So, just take that back to your boss, if you would.

Mr. CARR. I will do that, sir.

Senator WEBB. And welcome.

And, Mr. Carr, the floor is yours.

STATEMENT OF WILLIAM J. CARR, DEPUTY UNDER SECRETARY OF DEFENSE FOR MILITARY PERSONNEL POLICY

Mr. CARR. Thank you, Mr. Chairman.

I—very correctly, the Chair pointed out that today we fight the war with an All-Volunteer Force. If we would have looked back a number of years ago and asked ourselves how a volunteer force could perform the protracted war, we would have viewed it as a risky proposition. It has not proven that. Our retention is stable. Our retention is good. Unit manning, as a consequence, is good. And the skill distribution is good—far better than I would have projected years ago.

The things that have happened because of this subcommittee and because of the Congress—I'll mention, simply, one, because it goes to the chairman's point on pay as being an important component, in addition to S&I pays. We took the military pay table which is rank versus years of service, and when we looked at it, we realized NCOs and junior officers were relatively underpaid; some pay compressions had occurred. It took a number of years to tweak the pay table and jack those up, and we did. But, we did something else. The Congress moved it to a 40-year pay table, instead of 30. We had an extraordinary number of senior noncommissioned officers who were called upon repeatedly to go to the theater, because they were talented, sharp, and experienced. And for that reason, they served beyond 30 years. But, retirement pay would be capped at 75 percent. That was removed, coupled with a 40-year pay table enacted by the Congress. Those are the kind of things that adapt, that show the agility and, I think, specifically, are generating the kind of readiness we have.

Today we focus on roughly 3 percent of the budget for military personnel that are, I believe, the best-leveraged dollars we invest. They allow the Nation to recognize special circumstances: the hazards of combat and special duties, such as explosive ordinance disposal, or unique private-sector opportunities, where a given segment of the force has an opportunity and a strong temptation for their families to move to a different line of work. And yet, they remain with us, in part, because of the special and incentive pays that we provide. Those pays are targeted. They produce a specific result on a limited population. They, therefore, tend to be some of the most efficient manpower dollars that we invest in the pursuit of readiness.

But, that account is tight, and it's growing tighter. We believe it's sized right. We believe it's prioritized correctly in this budget. But, even so, those dollars, as the Chair pointed out, are tightening, and we're moving from 2009 levels, of about 4.4 percent of the military personnel account, being allocated to these very precious, targeted, leveraged, efficient pays, to about 3 percent. And there are reasons we do that. And we think the risk is reasonable, based on our forecasts of how the members and families are going to react.

Now, we know that setting compensation at an appropriate level is critical to the sustainment of robust Guard and Reserve, as the Chair also correctly pointed out, as did Senator Chambliss. The 11th QRMC is convened, and the President asked that they look specifically at this. These QRMCs are producing solid public policy options—bold, almost daring. The 10th QRMC certainly did in, its reviews of options for military retirement, for example.

And with the people that we've chosen to lead that, I have little doubt that this QRMC is going to produce a systematic set of outcomes that will help improve the lot of the Reserves and the way that we integrate them in today's environment.

So, in summary, Mr. Chairman, you have aggressively and you've attentively watched over those in the military. And every person in uniform owes you a debt, and the subcommittee a debt, for the things that you've done.

I thank you for the opportunity to appear before you, and look forward to participating today.

[The prepared statement of Mr. Carr follows:]

Senator WEBB. Thank you very much, Mr. Carr.

Ms. Farrell, welcome.

STATEMENT OF BRENDA S. FARRELL, DIRECTOR, DEFENSE CAPABILITIES AND MANAGEMENT, GOVERNMENT ACCOUNTABILITY OFFICE

Ms. FARRELL. Mr. Chairman, Senator Chambliss, thank you for the opportunity to be here today to discuss our most recent report on military compensation.

The National Defense Authorization Act for 2010 required that GAO conduct a study comparing the pay and benefits of military service members with those of comparably situated private-sector employees to assess how the difference in pay and benefits affect recruiting and retention of military servicemembers. Our work focused on servicemembers' perspectives on compensation—that is, cash compensation and the value of benefits to the servicemembers—rather than the cost to the government of providing compensation.

My written statement today summarizes the findings of our report, issued earlier this month, that you mentioned in you opening. I—now I will briefly discuss my written statement that is presented in three parts.

The first part of the written statement highlights that total military compensation for Active Duty members is broad and difficult to assess. DOD provides Active Duty servicemembers with a comprehensive package that includes cash, such as basic pay; noncash, such as healthcare; and deferred compensation, such as retirement pension.

CBO, RAND, and CNA all have assessed military compensation using varying approaches. All of their studies include some components of compensation; for example, cash compensation beyond basic pay, which includes housing and subsistence allowances, the Federal income tax advantage, and, when possible, special and incentive pays. However, these studies did not assess all components of compensation offered to servicemembers. Thus, the results of the studies differ based on what is being assessed, the methodology used to conduct the assessment, and the components of compensation included in the calculation. Furthermore, the valuation rates of noncash and deferred benefits proved more difficult to determine than cash compensation, because servicemembers value these benefits differently and varying assumptions have to be made to assign value.

The second part of my written statement addresses comparing private-sector compensation for civilians with those of military personnel. We found that military compensation generally compares favorably with civilian compensation in studies. But, these comparisons present limitations. While these studies and comparisons between military and civilian compensation, in general, provide policymakers with some insight into how well military compensation is keeping pace with overall civilian compensation, we believe such broad comparisons are not sufficient indicators for determining the appropriateness of military compensation levels. For example, the mix of skills, education, and experience can differ be-

tween the comparison groups, making direct comparisons of salary and earnings difficult.

The third part of my statement addresses the 10th QRMC's recommendation to include not only regular military compensation, but also select benefits, when comparing. These—this recommendation appears reasonable to us, because it provides a complete measure of military compensation than considering only the cash compensation. Given the large portion of servicemember compensation that is comprised of noncash and deferred benefits, the 10th QRMC emphasized that taking these additional components of compensation into account shows that servicemember compensation is generous, relative to civilian compensation; more so than the traditional comparison of regular military compensation suggests. The 10th QRMC found that when some benefits were included, military compensation compared approximately with the 80th percentile of the comparable civilian compensation. That is, 80 percent of the comparable civilian population earn less than the military population in the comparison.

In summary, I would like to emphasize that another key indicator of the appropriateness and adequacy of military compensation is DOD's ability to recruit and retain personnel. Since 1982, DOD has only missed its overall annual recruiting target three times: in 1998, 1999, and in 2005.

Certain specialties, such as medical personnel, continue to experience recruiting and retention challenges. Permanent across-the-board pay increases may not be seen as the most efficient recruiting and retention mechanism. The use of targeted bonuses may be more appropriate for meeting DOD's requirements for selected specialties where DOD faces challenges in recruiting and retaining sufficient numbers of personnel.

Mr. Chairman, that completes my opening remarks.

[The prepared statement of Ms. Farrell follows:]

Senator WEBB. Thank you very much, Ms. Farrell.

Welcome, Dr. Murray.

STATEMENT OF CARLA TIGHE MURRAY, SENIOR ANALYST, NATIONAL SECURITY DIVISION, CONGRESSIONAL BUDGET OFFICE

Dr. MURRAY. Mr. Chairman, Senator Chambliss, I appreciate the opportunity to discuss CBO's analysis of compensation for members of the Armed Forces.

I've provided a written statement for the record which gives more detail. And so, I'll simply outline my points here.

To attract and retain the military personnel it needs, the Department of Defense must offer a competitive compensation package, one that adequately rewards servicemembers for their training and skills, as well as for the rigors of military life, particularly the prospect of wartime deployment.

The best barometer of effectiveness of DOD's compensation system may be how well the military attracts and retains high quality personnel. However, the relationship between specific changes in pay and benefits, and the amount of recruiting and retention, may not be clear. A variety of factors, including economic conditions, may affect DOD's ability to attract and retain the force it needs.

Therefore, it is difficult to determine the appropriate increase in pay solely on the basis of patterns of recruiting and retention.

Another way to determine whether military compensation is competitive is to compare it with civilian compensation. This testimony will focus primarily on such comparisons, which can be useful, but not definitive, in part because of the significant differences in working conditions and benefits between military and civilian jobs.

Today, I will address three questions. The first question is, How does military cash compensation compare with civilian wages and salaries? CBO's most recent analysis for calendar year 2006 found that average cash compensation for servicemembers, including the tax-free cash allowances for housing and subsistence, was greater than that of more than 75 percent of civilians of comparable age and educational achievement. Since then, military pay raises have continued to increase—to exceed increases in civilian wages and salaries. So, that finding has not changed.

Second, Is there a gap between civilian and military pay raises over the past few decades? The answer depends on how narrowly military cash pay is defined. One frequent method compares the cumulative increases in military basic pay with civilian pay raises. Applying that method would indicate that military pay rose by about 2 percent less than civilian earnings since 1982. But, this method does not encompass the full scope of military cash compensation. Using a broader measure, one which includes housing and subsistence allowances, indicates that the cumulative increase in military compensation has exceeded the cumulative increase in civilian wages and salaries by 11 percent since 1982. That comparison does not include noncash and deferred compensation, which would probably add to the cumulative difference.

And third, How would the costs of using bonuses to enhance recruiting and retention compare with the costs of adding more to basic pay? Changing the basic pay raise that would take effect on January 1st, 2011, from the 1.4 percent requested by the President to 1.9 percent, for example, would increase DOD's costs by about $350 million in 2011, and by a total of about $2.4 billion through 2015. A larger pay raise would probably enhance enlistment and retention, although the effect would be small.

One alternative would be to increase cash bonuses by enough to achieve the same retention effects as a higher across-the-board pay raise. That approach would have a smaller impact on DOD's costs, because bonuses can be targeted to servicemembers who possess the occupational skills the military needs most. Unlike pay raises, bonuses do not compound from year to year or affect retirement pay and other elements of cash—of compensation.

Thank you, and I look forward to your—answering your questions.

[The prepared statement of Dr. Murray follows:]

Senator WEBB. Thank you very much, Dr. Murray.

Dr. Hosek, welcome.

STATEMENT OF JAMES R. HOSEK, DIRECTOR, FORCES AND RESOURCES POLICY CENTER, RAND NATIONAL SECURITY RESEARCH DIVISION

Dr. HOSEK. I would like to thank the committee for the opportunity to testify.

I will address my comments to the usefulness of incentive pays, such as bonuses, in influencing career decisions of servicemembers.

To summarize my main points, research consistently finds that people are responsive to enlistment and reenlistment bonuses. Bonuses expand the recruiting market, channel enlistees into hard-to-fill occupations, reduce attrition, and increase reenlistment. Because bonuses and other incentive pays can be targeted and increased or decreased in value, they can be a flexible, cost-effective element of military compensation.

The health of the Volunteer Force depends on maintaining an adequate foundation of compensation. The foundational pays of military compensation include basic pay, allowances, health benefits, educational benefits, and retirement benefits. These pays and benefits help to ensure that the services can recruit, retain, motivate the number and caliber of people they need to meet manpower requirements, as well as produce future leaders and shape the Force. However, it is not cost-effective to pay servicemembers only through foundational pays, but through a combination of foundational pays and incentive pays.

The relevance of this observation to policy action depends on the state of the economy. In 1999, when unemployment was low and jobs were plentiful, recruiting and retention were hampered by low military pay, and the basic pay increases enacted at that time were an effective response. Today, the economy is climbing out of a deep recession, the unemployment rate is high, and job opportunities are expected to improve only gradually during the coming year. These conditions have helped recruiting and retention, and weaken the case for a higher-than-usual increase in basic pay.

Enlistment and reenlistment bonuses have been used extensively in recent years, and they have helped to stabilize recruiting and retention. In the case of enlistment bonuses, the average Army enlistment bonus increased from about $3,000 to $12,000 from fiscal year 2004 to fiscal year 2008. In the absence of this increase, high quality enlistments would have been about 20 percent lower. If basic pay had been used instead of bonuses, the cost to the taxpayer would have been greater. Enlistment bonuses tended to decrease attrition, as well. I should add that other recruiting resources, such as the number of recruiters and advertising, have also contributed to recruiting success.

Reenlistment bonuses have been equally valuable. Our analyses show that, by 2006, the growing burden of deployment was putting downward pressure on Army and Marine Corps reenlistment. Two-thirds of the soldiers and half of the marines up for first-term reenlistment had 12 or more months of deployment in the previous 3 years. And we found that this cumulative amount of deployment tended to decrease reenlistment. The expanded use and increased generosity of reenlistment bonuses, starting in 2005, helped to offset this downward pressure and keep reenlistment rates on a fairly even course.

The role of bonuses is not limited to the active components. We are finding that enlistment bonuses are effective in increasing enlistment into the Reserve components by those who have served in an Active component and who, therefore, already have training and experience.

In closing, I want to note an area where the use of bonuses might be improved. This has to do with bonus ceilings; that is, the upper limit on the size of the bonus. Some servicemembers may be at or near the bonus ceiling because they are at a high grade or in a specialty offering a high bonus. In these cases, an increase in the bonus means that the member can sign up for a shorter term without decreasing the amount of bonus he receives. Our empirical evidence confirms this behavior. A higher bonus ceiling would remove this undesired effect. More generally, there should be flexibility to allow a higher ceiling in cases where higher bonuses are needed to sustain retention.

Thank you.

[The prepared statement of Dr. Hosek follows:]

Senator WEBB. Thank you very much.

And, to all the witnesses, thanks for your testimony. We've got a tremendous amount of experience at the table right now, from a number of different perspectives.

And, as I mentioned at the outset, this is a—I think a good opportunity for all of us just to take a look at these programs. Sometimes we have to even re-explain them to the political process, because of the momentum that—which they're—with which they are dealt. We rarely break down and say, "All right, what is this? What is this program? How does it help?" And so, I'd like—in that spirit, I'd like to ask a number of questions, and get the panel's thoughts on them.

The first occurred to me, listening to Ms. Farrell and Dr. Murray, both, talking about the civilian comparability on compensation—military compensation. And let me just start by saying, when I was growing up in the military, the differential truly was the other way around, even—you could compare, say, an O6 with a GS15, and, in terms of benefits and long-term benefits, the civil servant clearly had a better deal. I don't think that's true today. It's probably the other way around today, when you look at the protections that are in place.

Even when my father finally made colonel—and I was long gone when that happened—I think he made $14,000. Even if you do all the multiples, it's not a whole lot of money. And there weren't a lot of other incentive pays to go along with that.

I was on Active Duty when we began the volunteer army concept. I actually was on the Secretary of the Navy's staff in 1971, when they first started talking about reconfiguring the overall pay structure. And it was a—pretty much a bold leap forward. It was before they got into these add-ons. But, as all of you know, the premise in military compensation, until the creation of the volunteer system, was that the lower three enlisted ranks and the lower two officer pay levels were paid very little, the idea being that that was sort of the citizen soldiery, as a consequence of a country that had conscription. And then, the money, such as it was, went into the career force, to try to protect and properly compensate the career

force. So, when they started the volunteer concept, the first step that they made was to dramatically increase the pay scale at the bottom, to incentivize people to come in on a voluntary basis.

And then all these other programs that are now in place, kind of fell in, incrementally, over the years. We saw a lot of it when I was in the Reagan administration, in the Pentagon, where it really started focusing in on different areas.

So, this is still a work in progress, in terms of how we field the best military in the world, and how we take care of our people.

But, the question that came to my mind when I was listening is, When we're talking about comparability with private sector—for instance, when the comment was made if you include other benefits, there's about an 80th percentile for the typical military person—I would like to hear from all of you—first of all, which benefits are we including when we do that? And which benefits are we not? For instance, even on the medical side, do we factor in such things as not having to have malpractice insurance or to pay for an office? Do we count that as compensation when we're looking at comparing what the costs would be on the outside? What are we doing on these different areas? What are we putting in and what are we leaving out when we hit these kinds of numbers?

Ms. Farrell, you might want to start on that.

Ms. FARRELL. Sure, Senator.

As I noted, the studies differ in what they include. And that's the first—that's the reason you get different results; although, at this time, the reports that we looked at, from my colleagues here, all came up with—showing that the military pay was very favorable. When we're talking the 10th QRMC including select benefits, it was healthcare, retirement, and the Federal tax advantage. And we're talking about a very broad base. When you referred to malpractice insurance, I'm thinking maybe you're thinking more of a scenario that's comparing one occupation for a physician with a physician in the private sector. These studies are very broadbased, and that's the reason we say that they have limitations, because the populations can differ, in terms of—usually your private-sector population is older than what you have in the military workforce, and usually your private-sector population is already further ahead in education. As you know, many of our young people join the military, with the plans to go on and get that education. So, you've got different populations, in terms of demographics that you're viewing, that places some limitations.

But, with that said, there's—we feel that the studies that we looked at, with CNA being the backup for the data, with the 10th QRMC that included the three select benefits, took a very reasonable approach. There could be—there were a couple comments that we made on the CNA study, regarding—you know, you're making assumptions about healthcare and retirement, and some other organization could come up with different assumptions. We still think it's reasonable.

One of the assumptions made, for example, about retirement, involves the discount rate. You know, if someone's going to retire in 20 years and receive $100, to make if very simple, what is the discount rate that would be the present value today? And the discount rate that CNA used could be a little bit on the high side, compared

to if a different rate was used. So, there's differences in the assumptions that are used for these noncash benefits, such as the healthcare—trying to place the value on it—as well as the retirement.

Does that help?

Senator WEBB. That helps.

Mr. CARR. I should make a point, I think.

Senator WEBB. Mr. Carr.

Mr. CARR. Military pay, if it's simple and it's understood—for example, paystub—we, for years, used regular military compensation, which is roughly synonymous with paystub. It considers my basic pay, my allowances, and—housing allowances, for example—and because allowances are not taxable, the tax advantage—an enormous amount of time explaining that to the soldier, sailor, or marine, so that they can gain some cross-comparison. Whether it's true that—and I'll stipulate that we're 70 percent against that paystub measurement—or 80 percent, if we included esoteric things that aren't reflected in the paystub. It simply is a means of communicating a baseline. Either one is producing the same effect. Eighty percent, if you use the esoteric; 70 percent, if you're not. But, the importance is consistency in use.

So, if we are 70 percent today, and we've used that measurement for years and hope to use it into the future, then we are communicating about a point at which core retention patterns look okay to us. So, what was the pay level then? And we'd say, "Well, the regular military compensation"—because we have to account for the tax break—"is at this level. And yes, retention was good, and unemployment was that." We can communicate in much simpler, cogent terms that I think the troops would subscribe to, first, because we've talked to them in those terms for so long, and, second, because it has to do with the paystub. And they get that.

Senator WEBB. Well, the question, though, is whether we have the right information out to truly compare, because there are a number of concerns. We hear it from, like, Military Officers Association, et cetera, saying that the pay differential for the same type of job in the military is less. And we need an accurate number. If it's less, it's less. If it's—but, if it's—if you're factoring all of the different pieces in together, and it's good, we should say, "It's good."

So, the question, again, becomes, What are we putting into this when we make the formula?

And, Ms. Farrell, when I was talking about medical insurance, it was just one of the things that popped into my mind while you were giving your presentation, in that you can't sue a military doctor—Federal Tort Claims Act. So, there are a lot of doctors in civilian practice who spend tens, if not hundreds, of thousands of dollars in medical malpractice insurance in order to cover the possibility of a lawsuit. We, arguably, should factor that in when we look at compensation for medical folks.

Just one of many questions that I would have, in terms of, How sophisticated are we in—should people be concerned about these pay levels as they are right now? Maybe they should, maybe they shouldn't. But, are we using the right formula?

Ms. FARRELL. Again, we think by going with the 10th QRMC's recommendation to include select benefits, that's an advantage to

DOD, to show how good their package really is and that it could be used even as a recruiting or retention tool. We have reported in the past that—through our surveys with servicemembers—they lacked an understanding of how their pay compared to counterparts in the private sector. There are a lot of misperceptions out there.

Granted, DOD has its hands full, because this is such a large workforce. I mean, they bring in about 180,000 every year. They're maintaining 1.2 million servicemembers that—it's a vast array of occupations. But, by doing—when you're doing a broad-based comparison of how the military compares to the private sector, we firmly believe that the total package should be included. The regular military compensation that Mr. Carr mentioned, we're not saying, "Don't look at that." And—keep that measurement of how the cash does compare with the civilian, but also go with the recommendation to look at select benefits, to the extent possible, because it will give a fuller picture. It will help DOD to monitor what is going on so that they can keep pace and be competitive with the private sector. And it's a good recruiting tool, as we said.

Senator WEBB. Dr. Hosek, what do you think about that?

Dr. HOSEK. Well, various things. The first thing to observe, I think, is that the basic elements—what, in the past, have been referred to as "regular military compensation" for officers or enlisted personnel—still constitutes the vast majority of their current compensation, even when one considers benefits and allowances. That is, it's on the order of 90 percent. And what that means to me is that it's really important to make sure that, whatever we do, we keep track of that and watch it carefully.

The second thing is that probably the most salient benefit to military families on Active or Reserve Duty today would be the health benefit. And that comes not only because the military has pledged to care for military servicemembers and their families, and follow through with this health benefit—it's a fairly comprehensive benefit—but also because the cost of similar services in the private sector have risen dramatically—at times, upwards of 40- or 50-percent-a-year increase in cost. Today, I believe, in the private sector, the cost of a relatively good healthcare benefit for a family of four is around $13,000, whereas, at the beginning of the decade, it was probably half that. And so, the value of the military benefit can be thought of in terms of what it would cost a military family to obtain comparable healthcare outside.

A few years ago—I want to, certainly, recognize the fine work that's been done by CBO, GAO, and, in this area, also can—but, let me—with that comment, let me add that, a few years ago, before these studies, we did a study at RAND, trying to place a value on the military healthcare benefit, by which we made use of information on private-sector claims data for providers, and skill sets, and the age and ethnic distribution similar to that in the military. To make the story short, we, too, came up with a number such that, when you put it in the full context, enlisted personnel had a benefit, including basic pays, allowances, tax—you know, the nontaxability of the allowance—and the healthcare benefit, placing their compensation at around the 80th percentile. And for officers, I believe it was at around the 90th percentile.

Now, I—that—I—I'll end there, with only an additional final comment, that, as you stressed at the beginning, as important as it is to look at the specific elements of pay and be clear about what we're including and how we're doing it, we always want to be able to relate those elements of pay to our recruiting and retention outcomes.

Thank you.

Senator WEBB. And also, if I may, on an issue like healthcare, that's a moral contract. It's a moral contract that goes beyond benefits, and it goes, like, to the life of an individual who spends a career in the military. It's—I can't tell you how many people, in my lifetime, who are career military, who point that out while they're on Active Duty and after they retire.

Mr. Carr, how do you develop an—for lack of a better term, the internal discipline on a lot of these special pays, when there's really no business model here? I mean, this—we're doing this—if this were a business, you would say, "This is the amount of money we have coming in. We can't—unless we take out a loan, we can't get more money. This is where we're going to put this money, in order to make a productive business work." We're not—when we're doing the Department of Defense, we're not doing that. We're—we look at what we need in order to keep the country secure; we make decisions. And when it goes to a lot of these special incentives and pays—I'm going to ask some questions in a minute about some of them—what are the factors that you put in that could bring a discipline to the process?

Mr. CARR. Good. Sir, if we asked any of the services, "What are you trying to hit with your retention incentives?" the answer is going to be, "A grade and experience mix, such that I produce seasoned noncommissioned and petty officers." I say, "Okay. Define that, mathematically." And the answer would be, "I'd like to have 50 percent of my enlisted force with fewer than 7 years of service, and 50 percent more—with more than that." And they draw, physically, as I'm sure the Chair has seen, a profile that says how many people they want to have in year of service 1, 2, 3, 4, 5. Do it for pilots. Do it for—you name the skill or the service aggregate.

So, the question becomes, "For my inventory, how much does that inventory deviate from that ideal line? And where does it deviate? And how do I prop it up?" And there is a mathematical solution to that. It's imperfect, because human behavior cannot be perfectly predicted. But, we would know, for the given investment, what it seeks to accomplish. And by drawing another picture—we know who's out there in the force—whether or not that gap is being closed.

So, the empirical knowledge in this area is applied against that rigidly defined goal in a disciplined way, with a best estimate of what the cause and effect is on the money we're going to spend. And if we guess wrong, we adjust, because it is, after all, a forecast. But, take that through any skill, and it pretty much proceeds the same way.

There's a lot of pays, of course, that depend on not retention, but we're trying to recognize the hazardous exposure you have, and so forth. So, there's many others that do that. But, I think the Chair's question was, "When we're trying to decide where to put a reten-

tion dollar and why we're going to put it on that occupation, for that zone, which is expressed as a range of years of service," the answer is, "Because we're trying to close the gap between two explicit lines."

Senator WEBB. Can you give us a—an understanding of continuation pay and how it fits into that formula that you just expressed? You have aviator contingent pay—

Mr. CARR. I'd be happy to. Yes, sir.

Senator WEBB.—nuclear officer contingent pay—continuation pay—

Mr. CARR. If we took—oh, I'm sorry.

Senator WEBB.—judge advocate continuation pay—

Mr. CARR. Sure.

Senator WEBB.—engineering and scientific career continuation pay, Acquisition Corps continuation pay, surface warfare officer continuation pay, just—if you could—

Mr. CARR. Very much—

Senator WEBB.—explain, for us, the program and how it affects what you just said.

Mr. CARR. I'll knock out surface warfare officer and aviator continuation pay pretty much the same way. The question is, "What's your force profile?" In the late 1980s, we overhauled aviation pays. And I chaired the study the produced the legislation that revised ACIP and then reinvented ACP, aviator continuation pay. But, in every case, in every weapons system that we were trying to satisfy—and the Navy was the most disciplined in this—there was a reason that they wanted to move this year-of-service cohort, this experience group, to a higher level. And it had to do with department-head requirements. So, they would say, "Well, my department heads on ship—the squadrons that are embarked—are weapon-system-specific. I, therefore, need X number of department heads who grew up in Prowlers. And how many do I have in the pipeline? If my number is too short, then I pay aviator continuation pay in whatever measure is required to close that gap. The Air Force is similar. It has greater fungibility across weapon systems. But, the—whether it's a surface warfare officer or an aviator, simply, in those cases, count your department heads who are going to pop up at their certain years of service. How many people are in the pipeline, in that academic—or at—I should say—I'm sorry—that occupational discipline? Am I going to fill them, or am I going to be short? And if I'm short, then I'm going to cause some people to change their behavior so that I can fill them all."

So, again, it's empirically derived against a very specific, tight target.

Senator WEBB. But, the continuation pay goes to everyone who is qualified, under those——

Mr. CARR. No—

Senator WEBB.—occupational specialties?

Mr. CARR. I'm sorry. It is—

Senator WEBB. Would it not?

Mr. CARR. There—an aviator is going to come in, as the Chair knows, with—having completed their major weapon system training. And then, with that is, say, a 9-year Active Duty service obligation. So, you're taking the person, at that point—up until then,

there's been no retention choice; the contract said, "You must remain"—and we're focusing on that group of people, to stimulate their behavior to carry them from the end of the contract, which we all agreed to, incident to entering the training, and vault them out for another 6 years. And so, it is system-specific, but it's not to all, because we're targeting the retention-sensitive years, so it is almost exclusively dedicated to those who are approaching their first quit option.

Senator WEBB. But, in that group, it's all.

Mr. CARR. Yes, sir.

Senator WEBB. The same with, How you do the judge advocate? As a lawyer here, I'm treading on sensitive ground, but—

Mr. CARR. No, you're right, sir. It is, because the—your notion—if we were talking about an aviator, about pilots—is that they hold that rank of O4 for a reason, and there's no—they're promising. And so, I'm ambivalent as to which ones I get, so long as I get so many. I could, however, set quality standards for department head and say, "Only those that had these assignments may be considered in the pool I'm trying to vault up." So—but, as a general proposition, yes, sir, you're right. It is—for a given experience cohort, take all comers within that, considering them to be of homogeneous quality.

Senator WEBB. Same with JAG?

Mr. CARR. Same with JAG.

Senator WEBB. We have a problem recruiting JAGs?

Mr. CARR. There's a—there—the JAGs demonstrated to us, convincingly, that there was a shortage in retaining JAGs for—against the force profile. Again, the—nothing—I'll—let me set it up this way.

If the Congress should enact a law that says, "Pay money for this circumstance," typically, it says, under regulations established by the Secretary of Defense, "We, in turn, will issue a directive that says, 'If you think you meet these conditions, come see us and we'll discuss it and have a second review.'" And if you present evidence that you do have a shortage against authorized lawyer billets, and you're not keeping them, then, yes, we would be in the—I'll call that readiness—as—tough to—but, I'll call that "readiness"—and say, "We must keep that number of lawyers," and therefore, we would pay them in order to fill a specific set of billets that would have otherwise demonstrably go unfilled.

Senator WEBB. But, there is no continuation pay for infantry.

Mr. CARR. There is not a continuation pay for infantry officers, and—well, there can—the Army did use an incentive to retain captains. There can be. And I think the Chair's point may be, "I suspect we're in a tight supply on infantry captains, if the selection to major is running as high as it is. Shouldn't we try and boost up the number of persons entering the zone for major?"

Army, a few years ago, for example, said yes and offered a continuation bonus to combat arms in order to address that very specific shortage. The new battlefield required new organization, begat smaller organizations, which, necessarily, creates, proportionately, a richer grade structure, and, boom, we had a lot of major requirements that we didn't have before and some lean captain cohorts

that we had to pay some incentives to in order to generate the requisite number.

Senator WEBB. Well, as a former infantry—

Mr. CARR. Yes, sir.

Senator WEBB.—rifle platoon and company commander, I think the question needed to be asked.

You know, and that's one of the questions that, actually, was being asked a lot, back in the 1980s, when you were going to this targeted pay, as Dr. Hosek may remember, having been on so many of these boards—these quadrennial reports. In fact, I don't know, was it General Vessey, someone back there, who said, "How much do you pay a point man?" You know, "How much do you pay a point man in the infantry when things really get bad? What kind of a bonus should they get?" And so, you know, the perception, from the inside out, from people who've done a lot of the hard work, seeing some of these continuation pays is—you know, that—I think that's still there, as a matter of fairness, inside the military.

Mr. CARR. Point taken, sir.

Senator WEBB. Dr. Hosek, you have sat on three quadrennial reviews?

Dr. HOSEK. Yes.

Senator WEBB. When was the first?

Dr. HOSEK. I think it was 1992.

Senator WEBB. 1992? What would be your observations on this particular area, the specialty pays, as they've evolved from that period? Are we on the right track? Is there something else we need to be looking at?

Dr. HOSEK. I think, even back—going into the 1970s and 1980s, and certainly since, there's been a recognition of how important specialty and incentive pays can be, for various reasons. I think the evolution, as you mentioned earlier, of the increase in these pays is notable. And it's really a reflection of the fact that the pays have turned out to be a useful, flexible, and, I think, on the whole, cost-effective mechanism allowing the services to tailor their compensation to secure the people needed for particular occupational areas and leadership positions, both enlisted and officer.

I'm not dismayed in any way, I think, with the way things have evolved, in terms of the increase in the numbers of these pays. As I mentioned, I think that the foundational pays, that I noted in my testimony, still remain of vital importance to the health of the force. And the move—the suggestion on—that has since been enacted under the 10th QRMC, to consolidate into, I believe, seven categories the proliferating number of special pays that had become confusing, is a good move, if only to do a better job of communicating what these pays are to our servicemembers, Active and Reserve. So, I look forward to that.

But, basically, I think these are—these pays are quite good. I think that we do have to—you know, they —the special and incentive pays are of different types and serve different purposes. The—for example, the aviation continuation incentive pay that you mentioned and, for that matter, the pays for the adjutant general and so forth, I view as fairly permanent compensating differentials that reflect private market conditions for those skills. Same for physi-

cians. It's important that the military be able to get physicians, lawyers, et cetera, in order to satisfy its requirements. In fact, I think I would emphasize, even more than that. To me—we have to go back and ask, What would an enlisted person or an officer think if they didn't have the full cadre of individuals needed to provide military capability, if we didn't have officers or enlisted? And even though they, individually, might not be the beneficiary of certain select—certain special or incentive pays, I think, somehow, that they're also willing to recognize and accept the importance of pay differentiation in order to ensure that we have a full complement of individuals for the purpose of military capability. I think that—that's really the role of these things.

I've thought about this a fair amount, because, as you noted, the infantry point guy—if he or she comes under fire or is in really dangerous conditions, you sort of wonder, Are we paying that person enough at that time? What do we do to recognize that? And there—we don't have spot bonuses to award that sort of thing, and I'm not sure we want them. But, I think that—

Senator WEBB. That's sort of where—

Dr. HOSEK. Yeah.

Senator WEBB.—the civilian comparative model breaks down, because maybe that—well, actually, there are some areas where that skill is marketable on the outside, but there's not a lot of people on the outside, who aren't doing it, who would step in to do it. It's sort of an inverse model, in a way.

Dr. HOSEK. We, absolutely—and so, I mean, the bottom line is, we want to set pay so that, on net, when people come to making their decisions to stay or leave, and, for that matter, to really exert effort and take risks on behalf of their country, they're there, and they know that the country is providing the compensation, family support, healthcare, retirement benefits, educational benefits that they want. And the real test of that in our military over time, though not necessarily at a particular instance—instant, is whether we can—whether we have gotten, and can keep, the caliber of people we need.

The market is a real taskmaster in that regard. Even in draft years, in the 1960s, and leading up to the advent of the Volunteer Force in 1973, we had, primarily, an All-Volunteer Force. What we also had was a partially drafted force. And, as you pointed out, absolutely correctly, the onset of the Volunteer Force involved serious exercise in trying to raise the entry-level pay and—to competitive levels.

But, people have always served on a voluntary basis, for the most part. And, certainly, all servicemembers do so today. And that means, when they're thinking about entering or thinking about leaving the military, they're scouting around to consider their outside opportunities. And that's the test; that's the source of feedback that tells us something about whether we're paying people the right amount.

Thank you.

Senator WEBB. I couldn't agree with you more. And you raise an interesting point that people tend to forget. It has two different components to it, when you mention that, during the Vietnam era, most people were volunteers. Two-thirds of the people who served

during the Vietnam era were volunteers. And 73 percent of those who were killed in action were volunteers. And there's an application in that thought pattern today, in the sense that, even though we are a volunteer military, we're not an all-career military.

It's something that I had a number of challenges putting on the table when I first came to the Senate, becoming a member of this committee, the tendency of—a lot of people coming over from the Pentagon would simply talk about retention, rather than assisting the large number of people,—majority of the people who enlist, actually —who leave on or before the end of their first enlistment. But—it took us about a year to get the numbers, but the numbers we had before this economic meltdown were that 75 percent of the people who enlist in the Army, and 70 percent of those who enlist in the Marine Corps, leave the military on or before the end of their first enlistment. That's actually very healthy for the military. It's very healthy for the country. It preserves the citizen-soldier concept. It's one of the reasons I pushed so hard to get this GI bill through, because the transition period is something that we haven't always looked at.

And it also goes to the notion that, aside from these specialty pays, we really want to make sure that people who aren't eligible for these specialty pays and incentive pays are adequately compensated while they are in the military, and properly prepared for the rest of their lives.

I thank you very much for your comment on that.

Dr. Murray, you've been silent. Would you have any thoughts on what we've been talking about?

Dr. MURRAY. I guess I would just say that—when you ask CBO for the cost of military personnel, I would say that, oftentimes, including cash and noncash benefits are important. Sometimes it depends on the question being asked, and the context in which it's being framed. When you start to include noncash benefits, of course, they do cut across different departments, involves Department of Veterans Affairs, et cetera.

Also, the—when you—the valuation aspect is very important in analyzing the role that compensation plays in peoples' decisions to stay—join or stay in the military. And so, when I offer cash compensation, the value is easily understood. I give you a dollar, you spend that dollar on goods and services, and the cost to the government is the value that's been received by the servicemember.

I think, for all researchers, deciding the valuation of something that is less easily tangible—counted—things like noncash benefits, and the role that that plays—those different aspects play—is much more dependent on how the analysis is done and what you choose to include, and so on and so forth.

Senator WEBB. I believe it was your testimony, your written testimony, that had the chart on the percentage of military medicine that was being given to—provided to retirees. Was that your—there was a—I believe it was your—

Dr. MURRAY. I—

Senator WEBB.—testimony—

Dr. MURRAY.—an earlier report, perhaps—

Senator WEBB.—pie chart. It had—I think it was 52 percent of medical care actually was going to—of the different programs—were going to retirees at this point—and their families, obviously.

Dr. MURRAY. That was not in my—

Senator WEBB. Not in yours?

Dr. MURRAY.—written testimony. But, it—

Senator WEBB. Was it in yours, Ms. Farrell?

Ms. FARRELL. We didn't have a chart, but, in terms of retirement figures, it's—we had—15 percent of the enlisted would go on and be eligible for retirement. Around 47 percent of officers would go on and be eligible for retirement.

Senator WEBB. I'll find the chart and get back to you. [Laughter.]

Ms. FARRELL. We'll get you a chart, if you want a chart. [Laughter.]

Senator WEBB. I think—no, actually, it was in one of the pieces of the testimony that I read. I found it really interesting, that a majority of the healthcare was going to dependents, retirees, et cetera.

Dr. MURRAY. That is correct, yes.

Senator WEBB. Senator Begich has arrived.

Senator BEGICH. Thank you, sir.

Senator WEBB. Welcome, sir.

Senator BEGICH. Thank you very much, Mr. Chairman.

If I can, I just have just a couple quick questions. Is that okay?

First, just a general question on compensation. If this was talked about, I apologize to repeat it. But, because of where the economy is today—unemployment—and I—if I remember the information I was reading here, the compression between pay and the market is about 2 and a half or so percent. Has there—have you had—I'm trying to think how to word this—for the increases or the pay that we're trying to make sure that we're competitive with, has that pay changed in the private sector because the economy has flattened, and therefore, their pay has come down? Or is there a real gap that we don't really realize yet, because as soon as the economy recovers—

Mr. CARR. The—

Senator BEGICH.—then there'll be a bigger gap? Do you follow what I'm saying?

Mr. CARR. I do, Senator.

Senator BEGICH. Okay.

Mr. CARR. The private-sector wages have gone flat, for reasons you understand. And our objective is to parallel that. By law, we set a relationship between those two events by saying that the annual military pay raise would equal the change in the private sector in what's called the "employment cost index"—How much does it cost me to pay all these people in these chairs?

Senator BEGICH. Sure.

Mr. CARR. And I, each year, sample the same chairs, and I see what the change is. So, the military parallels it. And hence, the pay raise for this year, proposed in the President's budget, is probably on the order of half that that is programmed for future years in the Defense budget, if all were to hold together.

So, the economy is flat.

Senator BEGICH. Right.

Mr. CARR. We're, therefore, flat, because we are, by law, tracking against that. And—but, we're holding our own.

Senator BEGICH. Do you think—you know, my assumption is—and, again, we saw some good market indicators yesterday and the day before—you know, housing starts, up; and housing loans are up. The consumer confidence, which to me is the ultimate measuring stick—you know, all this other stuff—you know, I know people say unemployment's important to measure, but if the confidence of the consumer is not up, the economy will not fully recover. That number has moved, the first time; and the number that it's at now is equal to where it was in September or so of '08, which is good. You know, that's a good signal.

So, as the private sector recovers and the job rates or the pay rates will start moving up, will we fall into—because the way our system works here, it's not the fastest system, to say the least—will we be able to track that as fast as the private sector will be moving?

Mr. CARR. It's—

Senator BEGICH. Because I believe it will move, you know, private sector will move much faster than we could ever move. So, the question is, Can we get there?

Mr. CARR. I have to say that, in order to do it, yes, that's our duty. That's our objective, in forecasting the funds. And if we get it out of line before we would hemorrhage experience that we couldn't replace, then we would probably turn to reprogramming, because if we have gotten it wrong and we thought the economy was going to do this, but it—

Senator BEGICH. Right.

Mr. CARR.—heated up much faster, then our resources allocated to retention incentives won't be sufficient, because, again, it happened faster than—

Senator BEGICH. Gotcha.

Mr. CARR.—better than we thought. And in that case, then we have to look at the defense budget in the execution year and find what we're going to do to prevent the hemorrhage.

Senator BEGICH. Okay. And you—do—and you feel confident enough that, if that moment happens—you know, it's nice to have a nice slide, rather—and a glide up, rather than a spike; but, if it's a spike potential, do you feel the system that you work within can deal with this in a rapid pace, versus us coming along and saying, "Why the heck haven't you done it?" And do you think—we might still do that——

Mr. CARR. I believe that——

Senator BEGICH.—the way we operate here. [Laughter.]

Mr. CARR.—we can. The great insurance policy that the Congress has—security blanket that you've placed over retention is the construction of our pay table. For military pay, from 1999, it's gone up 57 percent, compared to 42 percent in the private sector. And that's insurance. And I think that's stabilized our retention——

Senator BEGICH. Gotcha.

Mr. CARR.—and——

Senator BEGICH. Gave you the flexibility——

Mr. CARR. Say again, sir?

Senator BEGICH. Gives you the flexibility to sort of——

Mr. CARR. It gives us a baseline stability, so that we don't have to chase the tweaks, and we're not trying everything.

Senator BEGICH. Gotcha.

Mr. CARR. And so, that baseline stability keeps things settled——

Senator BEGICH. Okay.

Mr. CARR.—so that where we do have to chase will be relatively few in number and we can do that better.

Senator BEGICH. Let me ask you one last question. This is on base housing and allocations. There—when you do your studies—and I'll just be very parochial here for——

Mr. CARR. Yes, sir.

Senator BEGICH.—in Alaska—and when you've done your studies, the most recent one, you know, you based part of the study, obviously, on vacancies. The timetable you did it was in the summer in Alaska, which has very low vacancies. And what's left is—to be very frank with you, as someone who's been in the real estate business for almost 25 years now, it's low quality. So, it's not a real market condition.

On top of that, through the winter here, our utility rates have gone significantly up, for a variety of reasons. We have a problem with gas supply in South Central. By 2015, we anticipate, will be a shortage of gas, which is a predominant utility for heating which also generates our electricity. So, that has spiked. There was a slight decrease, but overall, it's spiked in the winter, and probably will stay that way, as well as—other utility costs have gone up.

Have you had—and again, I'm—and you don't have to answer this right here, because it's very Alaskan perspective—I'm just trying to understand how we ensure that these soldiers aren't pulling money out of their pocket to survive in their housing when—because the formula we used was just the wrong timing. In other words, for us, summer is—was not probably the best time to do it. And then the winter set in some heavy rate increases.

Mr. CARR. Whenever an artificiality is introduced that serves to the disadvantage, then we've got to look to what change we're going to do to make that good.

Senator BEGICH. Would you be willing to look at this——

Mr. CARR. I will.

Senator BEGICH.—for us? And it's just—it might be other States having the same problem, but for us, just because the way our energy costs are there, the higher cost, but also the transient and summertime business, we do really fills our apartments up. And then when you—what's left, really, is a very low quality. I'm sure I'm going to hear from my friends in the rental business that will say, "Well our property isn't low quality." But, I'm just telling you, after 25 years——

Mr. CARR. Sir, I'd be——

Senator BEGICH.—in the business——

Mr. CARR.—eager to do that.

[The information referred to follows:]

Senator BEGICH. Okay. That'd be great.

Mr. Chairman, I'll leave it at that.

I really wanted to ask him one question, but I know they can't answer it, and that is—because I deal with personnel—it's been bugging me ever since I heard it—and that is the personnel pay

system, which I won't bother you with, because I know it's out of your—

Mr. CARR. Yes, sir.

Senator BEGICH.—realm. But, how we spend a half a billion dollars and got minimal utilization out of it. And—but that's another question for another day, unless you want to dive into that. I don't want to torture you with that issue. But, I think we have to figure out how, when we pay our personnel in the military, that the complaint levels go down. And I know there was a great attempt by DOD to solve this problem. But, a huge amount of expenditure was laid out, with minimal utilization. I know there'll be efforts to try to utilize all that information. But, it's a half a billion-plus in expenditure.

And someone who's been a former mayor, it can't be that complicated. We had police and fire. And I'll tell you, that's complicated pay scales. For everything they do, from breathing to walking onto the soil of a crime scene, there's different pay levels you have to incorporate within that 2-week pay period. And we were able to do it. And every local government does it. And why the military couldn't figure this out is, you know, beyond me. But, you don't have to answer. It's just a rant I just went on, and I apologize.

Thank you, Mr. Chairman.

Senator WEBB. Well, sir, I'd be happy to have a further discussion with you about that. And if you like, we can put together a question that could be sent over to Mr. Carr.

Senator BEGICH. That'd be great. I just—I think——

Senator WEBB. Perhaps we could clarify where your——

Senator BEGICH.—it's such——

Senator WEBB.—concern is, here.

Senator BEGICH. I will do that. We'll work on it and give it to you, Mr. Chairman.

[The information referred to follows:]

Senator BEGICH. And just—I want to make sure when we spend that kind of money to revamp the personnel pay system, that we do it. And I just got frustrated when I heard, at a big committee meeting, that it just was scrapped. You know, it's hard to explain to taxpayers when you scrap a half-a-billion-dollar program.

Senator WEBB. Well, let's run down where the direction of the question would go, and I'll——

Senator BEGICH. Great.

Senator WEBB.—we'll submit it to——

Senator BEGICH. Thank you, Mr. Chairman.

Thank you all for being here. And thank you for letting me kind of come in late here to give you my two bits.

Thank you, sir.

Senator WEBB. Thank you, Senator Begich.

Senator WEBB. Mr. Carr, I want to ask you a question that is not directly related to the hearing today, but that—you're a target of opportunity here, obviously, because it's within your jurisdiction and it is within the jurisdiction of the committee. Just to—I'm trying to get a better overall picture of how DOD has evolved over the years. And this is a small area, but it's something I want to get a clear understanding of.

When I was on Active Duty, there were 3 million people on Active Duty. When I was in the Pentagon, I think there were 2.14 million. Today, there's about 1.4 million, with, obviously, the greatly expanded participation of the Guard and Reserve, which—programs I ran for—or was responsible for—I didn't run—as Assistant Secretary, for 3 years, at one point.

I would appreciate it if you could get me a—on that timeline—so, let's say, 1970, 1986, and today—how many generals and admirals, by service and by rank, there were, and are, in the United States military. I would think the number—from what I'm looking at, the number is well more than it was when I was in the Pentagon in 19-—the 1980s. So, it—we need a clear—I would like to better educate myself as to what these responsibilities are—where these people are now being used in flag billets, with the smaller number of people on Active Duty, and also flag levels in the Guard and Reserve, in a separate category. I would hope that would be pretty easy to——

Mr. CARR. It is.

Senator WEBB.—to put together.

Mr. CARR. It is, sir.

[The information referred to follows:]

Senator WEBB. Anecdotally, when I was doing a lot of work in NATO for Secretary Weinberger, when I was ASD, I came across the number—the British Army, in the 1980s, had 145,000 people on Active Duty. And my recollection is, I think they had 321 generals. And I came back to Al Gray, who was the Commandant, and I said, "We have 200,000 people in the Marine Corps, and we've got 67 generals. What's going on?" And Al Gray made a very famous comment. He said, "Well, they have more bands." [Laughter.]

He may not——

Mr. CARR. That's not bad.

Senator WEBB.—want to have that comment recycled today. But, let's just—I'd just like to get an idea of what we're doing on the flag——

Mr. CARR. We'll follow up with you, sir.

Senator WEBB. I appreciate all of you coming in to be with us today. I think it's really helped. This information will get recycled to other Members of Congress, you know, sent out for it to increase the understanding of these programs.

And I think there should be no doubt in anybody's mind that we are very committed to making sure that our military people are well compensated. We know how hard they work. We know what they're doing. We appreciate it. And we will make sure that we retain the quality and the expertise of our military, to keep them the finest military in the world.

Thank you very much.

[Whereupon, at 11:25 a.m., the subcommittee adjourned.]