

**HEARING TO RECEIVE TESTIMONY ON RECENT CHANGES TO THE U.S. MILITARY RETIREMENT SYSTEM**

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**TUESDAY, JANUARY 28, 2014**

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

The committee met, pursuant to notice, at 9:36 a.m. in room SDG-50, Dirksen Senate Office Building, Senator Carl Levin (chairman) presiding.

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

Committee staff members present: Peter K. Levine, staff director; and Travis E. Smith, chief clerk.

Majority staff members present: Joseph M. Bryan, professional staff member; Jonathan D. Clark, counsel; Gabriella E. Fahrner, counsel; Gerald J. Leeling, general counsel; Mariah K. McNamara, special assistant to the staff director; Michael J. Noblet, professional staff member; and Roy F. Phillips, professional staff member.

Minority staff members present: John A. Bonsell, minority staff director; Steven M. Barney, minority counsel; William S. Castle, minority general counsel; Samantha L. Clark, minority associate counsel; Allen M. Edwards, professional staff member; and Daniel A. Lerner, professional staff member.

Staff assistants present: Kathleen A. Kulenkampff, Brendan J. Sawyer, and Alexandra M. Hathaway.

Committee members' assistants present: Carolyn A. Chuhta, assistant to Senator Reed; Cathy Haverstock, assistant to Senator Nelson; Christopher M. Cannon, assistant to Senator Hagan; C. Patrick Hayes, assistant to Senator Manchin; Moran Banal, assistant to Senator Gillibrand; Ethan A. Saxon, assistant to Senator Blumenthal; Karen Courington, assistant to Senator Kaine; Paul C. Hutton IV, assistant to Senator McCain; Lenwood A. Landrum, assistant to Senator Sessions; Joseph G. Lai, assistant to Senator Wicker; Bradley L. Bowman, assistant to Senator Ayotte; Peter W. Schirtzinger, assistant to Senator Fischer; and Charles W. Prosch, assistant to Senator Blunt.

**OPENING STATEMENT OF SENATOR CARL LEVIN, CHAIRMAN**

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

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

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

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

I believe that the COLA reduction is wrong because it targets a single group, military retirees, to help address the budget problems of the Federal Government as a whole. While reforms have been made to the Federal civilian pension system over the past several years, those changes applied prospectively to new employees. By contrast, this change to military pensions will apply upon implementation to current retirees, their families and survivors.

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

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

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

The military services have responded to severe budget pressure by reducing force structure and end strength, deferring repair of equipment, delaying or cancellation modernization programs, and allowing training levels to seriously decline. The Department of Defense has told us that it will be unable to meet legislatively man-

dated future budget levels unless it also begins to curtail growth in the cost of military pay and benefits.

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

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

**STATEMENT OF SENATOR JAMES M. INHOFE**

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

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

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

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

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

Chairman LEVIN. Thank you very much, Senator Inhofe.  
Secretary Fox.

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

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

I appreciate the opportunity to appear before you with Admiral Winnefeld to discuss the state of military compensation and retirement benefits. On behalf of Secretary Hagel and the men and women in uniform we serve, I'd like to begin by offering my appreciation for the support of this committee in once again enacting the National Defense Authorization Act. Your dedication to passing the NDAA means the Department has the authorities it needs to ac-

compish the incredible array of missions we undertake around the world each and every day, as well as those that support our number one asset, our people.

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

In response to sequester, last summer Secretary Hagel directed that the Department be prepared to operate with significantly fewer resources than those previously requested. The resulting strategic choices and management review showed that savings from increased efficiencies, reduced overhead, and reduced military and civilian pay and benefits would not come close to closing the funding gap created by the Budget Control Act. Nonetheless, every dollar saved in these areas could remedy some of the shortfalls to military reduction, capacity, and capability caused by sequestration.

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

While the Bipartisan Budget Act partially mitigates the worst of the Department's readiness problems in fiscal year 2014 and to a lesser extent in fiscal year 2015, beyond those 2 years the BCA remains the law of the land. If sequestration is allowed to persist, our analysis shows that it will lead to a force that is too small, inadequately equipped, and insufficiently trained to fully defend the Nation's interests. That is why the Department continues to call for a change in the law, even as we plan responsibly for a future that could include a return to sequestration.

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

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

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

This rate of growth occurred, of course, in an era in which the Department's top line was also growing to meet the needs of a Na-

tion involved in multiple conflicts. Given today's fiscal realities, barring unforeseen events, we are unlikely to see defense budgets rise substantially for some time. So if this Department is going to maintain a future force that is properly sized, modern and ready, we clearly cannot maintain the last decade's rate of military compensation growth.

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

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

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

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

A few words now on the COLA Minus One or CPI Minus One provision included as part of the BBA. To my knowledge, no DOD officials were consulted on the details of the BBA, including the CPI Minus One provision. The Department fully supported the changes made to the provision to exempt military disability retirement and survivors. Moving forward, we support a comprehensive review of this provision, including its effects on retirees not currently exempted.

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

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

I'll conclude by reiterating that pay and benefits are an area where we must be particularly thoughtful, cognizant of commitments made and our ability to recruit and retain the force needed

for tomorrow. Yet it has become increasingly clear that slowing the rate of growth of compensation cannot be excluded from critical efforts to sustain a force that is balanced, equipped with the latest technology, and ready to meet challenges seen and unforeseen. Not to do so in the name of serving our people or for any other reason would ultimately risk a future in which our men and women could be sent into harm's way with less than what they need to accomplish their mission.

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

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

Chairman LEVIN. Thank you very much, Secretary Fox.  
Admiral Winnefeld.

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

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

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

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

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

We in uniform are very grateful for all of this. It means a lot. However, demanding at this point that our compensation not only remain at its currently high relative level, but that it continue to rise faster than that for the average American, is simply not sustainable at a time when our entire budget is under great pressure. This growth has been substantial and rightly so. By the 1990s mili-

tary compensation had fallen to a deeply unsatisfactory level relative to the rest of the working population in America. The quality of our All-Volunteer Force suffered as a result. To address this, with the help of the Congress we substantially increased the compensation growth trajectory in the late 90s and in the post-September 11 period.

These increases worked. In 2001 U.S. median annual household income was \$42,000. That equated to the direct pay of an average E7 in the U.S. military. Today median annual household income is \$52,000, roughly equal to what an average E5 makes. So in short, the average enlisted servicemember surpasses the U.S. median annual household income two pay grades earlier, or about 8 to 10 years earlier, than his or her career would have in 2001. None of this includes indirect compensation, or the special pays and bonuses we use to shape our force, or very generous changes to the GI Bill.

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

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

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

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

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

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

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

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

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

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

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

Chairman LEVIN. Thank you very much, Admiral.

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

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

Now, one of those criteria would be grandfathering. Is there any other criteria beside that one which either one of you would suggest that we consider as we find a way to repeal this provision or

the commission considers as they look at the broader picture? Do either one of you have suggestions on that?

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

There are standards for that, but frankly we monitor that very, very closely every year and, as Admiral Winnefeld said, would certainly come back to you if we saw any kinds of trends in the negative direction.

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

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

Admiral Winnefeld?

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

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

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

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

I hope that helps.

Chairman LEVIN. Thank you.

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

Admiral WINNEFELD. Are you talking about retirement benefits?

Chairman LEVIN. Yes.

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

Chairman LEVIN. Do you agree with that, Admiral?

Admiral WINNEFELD. Absolutely. I think this goes back to what Secretary Fox said a moment ago, where any adjustments we might make in existing compensation, those are changes within an existing structure. We think the commission is going to look at the entire structure and that takes a much longer deliberate look that addresses the variables that I mentioned.

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

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

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

In our budget there are savings that we would accrue aside from the mandatory savings that you referred to of about \$500 million a year. We understand and are planning that these types of changes take time. So if you grandfather those savings would accrue over time, and that's true for all the compensation changes we've proposed, force structure reductions we've proposed, efficiencies. We understand it takes time. That's one of the big challenges with a sudden drop like sequestration would give us before the BBA and we may go back to in '16. That sudden drop is a real challenge for us because it does take time. We understand that.

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

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

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

Chairman LEVIN. Thank you.

Senator Inhofe.

Senator INHOFE. Thank you, Mr. Chairman.

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

I have a chart you can see over there on this side, and it shows—this is a chart that we have used quite a bit. I've talked to both of you about this chart in my office. I think that you have to review this.

[The material referred to follows:]

Chairman LEVIN. Can I interrupt you?

Senator INHOFE. Excuse me.

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

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

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

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

Senator BLUNT. So much for sneaking out.

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

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

Senator INHOFE. I so move.

Chairman LEVIN. And is there a second?

Senator NELSON. Second.

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

Opposed, nay. [No response.]

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

Senator INHOFE. So moved.

Chairman LEVIN. Second?

Senator MANCHIN. Second.

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

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

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

Senator BLUNT. I'll be right back now, but now that we've moved over a thousand nominations while I was here I'm glad I was able to help.

Chairman LEVIN. Well, thank you. Sorry to have done that to you.

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

Senator INHOFE. No, that's fine.

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

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

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

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

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

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

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

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

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

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

Ms. FOX. Certainly, again we believe that we should grandfather any changes to retirement, and we also believe that for retirement we need to look more holistically. CPI Minus One might be right

for the future, it might not. So absolutely the CPI Minus One is important.

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

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

Ms. FOX. It is, yes, sir.

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

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

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

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

Senator INHOFE. Very good. I appreciate it.

Thank you, Mr. Chairman.

Chairman LEVIN. Thank you very much, Senator Inhofe.

Senator Hagan is not here. Manchin, Senator Manchin.

Senator MANCHIN. Thank you, Mr. Chairman.

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

So I really want to thank Chairman Levin for holding the hearings today. There's a couple of things that I want to ask both of you. This is for both. When I was Governor of West Virginia, the

first thing they came to me and said we had to raise taxes, the first thing. And I said, don't you think maybe we can run the place, let me check this out for about a year and see if we can do a little better job before we raise taxes? As a matter of fact, we were able to lower taxes, find more efficiencies and be more prudent in what we did. Basically, our values were based around our priorities and vice versa.

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

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

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

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

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

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

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

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

I'd also share in the belief that there's an awful lot more this Department can do to become efficient. It would be irresponsible to say or believe anything else. We are working very hard on that. As you know, we're cutting our staff sizes considerably. We're working hard on acquisition efficiencies. We've got a long way to go on that, and I think many Senators here would point out examples where we have a long way to go on that, although we are making

progress. We just saved \$4 billion on the Expendable Launch Vehicle, which I think is a real tribute to Ash Carter and Frank Kendall's management of that program.

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

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

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

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

Maybe, Admiral, you can.

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

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

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

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

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

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

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

The Guard to me is the most effective, efficient way for us to go in this country, to have the expertise and keep that expertise ready at all times. For some reason, I don't see the Pentagon embracing that. Even though we've elevated that up to the full Joint Chiefs

position, it hasn't—maybe it takes time. I know that Senator Graham tells me it takes a little bit—it's like Paul Masson's wine: It's not ready until it's time. But I hope we're getting close to that.

So with that, thank you, sir.

Chairman LEVIN. Thank you very much, Senator Manchin. Senator McCain.

Senator MCCAIN. Thank you, Mr. Chairman.

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

Ms. FOX. That's correct, sir.

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

Ms. FOX. That would be our preference.

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

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

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

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

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

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

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

Ms. FOX. That's correct, sir.

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

Ms. FOX. Not to my knowledge.

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

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

Senator MCCAIN. Mr. Chairman, I want to thank you especially for anticipating this issue, because it is an issue of rising personnel costs, and the fact that under your leadership we now have a com-

mission established, that I think we can come up with a recommendation that would take into consideration the views of the military and civilian leadership in the Pentagon, and hopefully we can arrive at consensus.

Our next panel of witnesses today will be very adamant, understandably so, about their concern about the effect of

this action taken by the Budget Committee on the morale and readiness and the ability of us to keep our promise to the men and women who have served and are serving.

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

Chairman LEVIN. Thank you so much, Senator McCain.

Senator DONNELLY.

Senator DONNELLY. Thank you, Mr. Chairman.

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

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

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

Senator DONNELLY. Secretary, would you like to?

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

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

Admiral WINNEFELD. I think that's a good question and I think it gets back to the variables that are inherent in any retirement plan. I think one that has been discussed the most is the vesting time, the piece about you have to wait until 20 years before you receive any retirement benefits. That actually helps us a great deal right now in the profiling of our force. We want to have a young force that's going to stay to a certain point and then, frankly, we need a number of them to move on so that we can bring fresh new faces in.

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

Senator DONNELLY. Secretary Fox?

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

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

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

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

So it's a big soup of variables in there, and the commission's going to have to consider that very, very carefully. When you open up, sort of release the glue and introduce a new framework that could potentially allow people to retire earlier, those models are going to be upset, and we'll have to determine how to modify them

so we can understand the behavior. I think that's part of the challenge for the commission, is to understand whether we have a model that can accurately predict behavior so we can profile our force correctly.

Senator DONNELLY. Thank you very much.

Thank you, Mr. Chairman.

Chairman LEVIN. Thank you, Senator Donnelly.

Senator WICKER.

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

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

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

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

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

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

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

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

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

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

Admiral Winnefeld, you mentioned predictability. We have an opportunity. We have pay-fors proposed on both sides of the aisle to do this. It seems to me it doesn't make any sense, if we're all in agreement on this, to wait, unless you want to hold out the possibility that we may stick with this. Now, if you want to send that

signal then waiting for a commission report or waiting 18 months might be a good idea. But if we're all agreed this is wrong, shouldn't have been done, we can pay for it elsewhere, it seems to me that it makes no more sense to postpone this for 13 months than it did for the other clear case.

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

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

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

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

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

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

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

Chairman LEVIN. Thank you, Senator Wicker.  
Senator KAINE.

Senator KAINE. Thank you, Mr. Chairman.

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

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

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

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

This is an example of something that, we didn't put it in the Senate budget deal because we didn't like it. We like the grandfathering notion, I think all of us embrace. But the vote that we cast on this—I know it's good to put this whole vote as we were breaking a promise. No. We were trying to do a budget for the United States of America in a Congress that hadn't done a budget for four years, and doing it with the knowledge that there were some pieces that we didn't like and felt like we could fix.

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

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

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

Senator KAINE. And are you glad that we were able to get an omnibus appropriations bill for the full year instead of gimmicks like continuing resolutions?

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

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

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

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

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

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

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

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

Inside DOD, we've had a number of meetings of the Joint Chiefs with the senior enlisted advisers in the room, and we have talked about this for months on specifically the compensation pieces. We're still working through it. We haven't made a budget submis-

sion yet, but there's been a thorough vetting with our senior officer and enlisted leadership of the proposals that we might present.

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

Senator KAINE. Thank you, Mr. Chair.

Chairman LEVIN. Thank you, Senator Kaine.

Senator AYOTTE.

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

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

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

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

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

Ms. FOX. That's correct.

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

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

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

Let me just ask you, Admiral. Sergeant first class—the chairman used an example of you enlist at 18, you put 20 years in, you retire at 38. Well, someone who has done that in the last 20 years, how

likely is it that that individual has done multiple tours in Iraq and Afghanistan?

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

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

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

Senator AYOTTE. Or anywhere.

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

Senator AYOTTE. Right.

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

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

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

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

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

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

Admiral WINNEFELD. Yes.

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

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

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

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

Senator AYOTTE. In fact, we've been informed since 9–11 about 3400 retirees were actually recalled back to active duty service. Does that sound about right?

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

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

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

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

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

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

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

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

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

Thank you.

Chairman LEVIN. Thank you, Senator Ayotte.

Senator Reed.

Senator REED. Thank you, Mr. Chairman.

I think there's two clear issues emerging with broad consensus. One is we have to correct this issue, and my sense is that has to be done very quickly, immediately, for many reasons. One is the issue of what signal we're sending to the forces in the field. I understand—and the chairman may correct me or respond—that we could move such a bill through this committee without a pay-for, because we're not responsible for the pay-for. Is that accurate?

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

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

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

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

Can you comment on that, Admiral?

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

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

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

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

Senator REED. Secretary Fox, your comment?

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

This point about timing. I hear the consensus. We agree, CPI Minus One in the provision is not grandfathered and that's not what we seek. We want any change to retirement, whatever it ends up being, is grandfathered. The only point is that it doesn't happen until December '15. We believe that two things must happen. It needs to change before it's implemented and we need to give space to this commission to allow it to be effective. If that space is repeal and then do something, so be it. If that space is wait and we'll see what the commission has to say and then do it one time, a one-time change, so be it.

But those are the parameters of our consideration.

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

Ms. FOX. Yes, sir, that's exactly our position. And the commission now will report out in February 2015.

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

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

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

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

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

Chairman LEVIN. Thank you very much, Senator Reed.

Senator Fischer.

Senator FISCHER. Thank you, Mr. Chairman.

Thank you both for being here today. You've presented us with a lot of interesting information. In discussing the conclusions on the strategic choices and management review, Secretary Hagel said that Chairman Dempsey would lead an effort to find \$50 billion in savings through changes to compensation. Now, today you've said that retirement changes won't be part of the coming budget request. But can you tell me what the status is of General Dempsey's review on the compensation part?

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

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

Senator FISCHER. Thank you.

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

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

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

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

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

Admiral WINNEFELD. No, we have not brought them in and asked for their proposals on how to change compensation. We're certainly open to that. We listen to what they say. We read what they write and we take that into account as we deliberate over these things. I don't know whether they would come in with a proposal at all to change the glide slope of compensation, but I would be interested in that if they did.

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

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

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

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

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

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

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

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

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

So we haven't seen any behavior changes yet, but we do know that they're very nervous about this. They don't like it. If you were

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

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

Ms. FOX. Certainly I think this is an issue. One thing I would just throw in here is one of the retention concerns we are starting to feel is the concern about the quality of service: Will they have the training, will they have the equipment, will they have the opportunity to serve in a way that is as rewarding as they expected when they joined?

Senator FISCHER. Thank you so much.

Thank you, Mr. Chair.

Chairman LEVIN. Thank you, Senator Fischer.

Senator Hagan.

Senator HAGAN. Thank you, Mr. Chairman.

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

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

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

My question is that, unlike the private sector, where most companies can easily recruit mid-level employees, the Armed Forces have no alternative but to build and develop their midgrade officers and noncommissioned officers from within. As servicemembers

reach their eight to ten-year service mark, many are making that critical decision, are they going to stay in the military, make it a career, or not.

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

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

So I don't have a metric that we can measure right now that indicates a change in behavior because of the COLA-One provision because it's simply too soon. We do surveys. We can look at the numbers and the like. But again, we do believe, we have heard anecdotally, that people who are approaching retirement are doing the calculation that says, well, if I retired at 20 I was going to get this, under CPI Minus One I would have to retire at X, 22, 23, in order to have the same benefit accrue over the course of my retirement.

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

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

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

Senator HAGAN. Secretary Fox, thank you.

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

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

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

Admiral WINNEFELD. That varies dramatically. I can tell you, somebody who's a nuclear welder in the United States Navy probably gets a pretty substantial bonus compared to somebody who

might be in a lesser skilled position in the Navy or another service. So it really varies dramatically.

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

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

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

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

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

Ms. FOX. It's February of 2015.

Senator HAGAN. Thank you.

Thank you, Mr. Chairman.

Chairman LEVIN. Thank you very much, Senator Hagan.

Senator Graham.

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

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

I'd also like to associate myself with Senator Kaine. It's good to have a budget. You make mistakes in the budget process, but, quite frankly, I'm very pleased with my colleagues. We raised this early on with Senator Wicker and Ayotte and myself, and the way the Congress has responded to looking at this with an open mind and trying to fix it in a bipartisan way—I think this is a good thing for the body. Everybody makes mistakes, but you really judge people by their willingness to right wrongs. It seems like we're on a

good glide path to find \$6 billion, hopefully, to set aside what we've done with the CPI Minus One Percent.

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

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

It's just a squishy number, and you wouldn't want to pin, here's the goal, it should be 32.5 percent, because if that changed it would disrupt things. So we really want to find out what it takes to recruit and retain the best and pay them fairly.

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

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

Senator GRAHAM. Right.

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

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

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

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

Senator GRAHAM. Without reform?

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

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

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

Secretary Fox, I guess the point I'm trying to make is that if about half the budget is going to be personnel costs, direct or indirect, the other half will be spent on readiness, modernization, being able to actually go to the fight. The reason we're looking at reform-

ing compensation is because over time we think it's unsustainable; am I right or wrong?

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

Senator GRAHAM. Well, you'd have fewer and fewer people with less equipment to fight with.

Ms. FOX. Yes, sir.

Senator GRAHAM. The goal is not—the goal is to have a well paid, well trained military that can win the war, right?

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

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

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

Senator GRAHAM. 100 to nothing. We don't want to go to war because those who go to war have to believe they will lose, and those dumb enough to go to war will lose. It's just that simple. But you've got to keep the people around to make sure you win the war.

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

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

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

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

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

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

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

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

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

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

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

Admiral WINNEFELD. In 7 seconds, less.

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

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

Senator GRAHAM. Likely not to occur in ten years?

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

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

Admiral WINNEFELD. Yes.

Senator GRAHAM. Thank you.

Chairman LEVIN. Thank you, Senator Graham.

Senator Blumenthal.

Senator BLUMENTHAL. Thank you, Mr. Chairman.

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

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

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

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

I know that you've outlined well the impact that retirement and other benefits may have. But if you could give me a broader assessment, give the committee a broader assessment. Admiral Winnefeld, if you could begin, and then I'd be interested, Secretary Fox, as well. What are the incentives we need to offer? How do we

change, if we need to change? Because we need to do it before 2015 when this commission reports back. I think we need to do it now, right away.

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

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

So that gives you—that actually makes me feel pretty good, that our young men and women—

Senator BLUMENTHAL. Very encouraging.

Admiral WINNEFELD.—are coming into the service for the right reasons.

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

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

In terms of quality of service, we're hearing more and more from our people that they're sort of surprised by all of this. What really matters to them more than keeping this high rate of growth is they want to fight in a modern and ready force. They want to go to work every day and they want to have parts in the bin where they can repair the thing that they are entrusted with. They want to be able to drive it or fly it or sail it, and they want to feel confident that they are on a winning team.

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

Senator BLUMENTHAL. Secretary Fox.

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

It's very hard for those models to account for the intangibles and the individuals' view of what they are there to do and what they're able to do, given the way we support them in this broad term that's overused, "readiness." But that means the things that Admiral Winnefeld outlined about their ability to operate it, their ability to have parts to fix it, their ability to show up for duty on a ship and

have other people there. They're not trying to do three or four jobs—all of the things that I think are eroding the morale of our force right now.

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

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

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

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

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

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

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

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

Thank you, Mr. Chairman.

Chairman LEVIN. Thank you, Senator Blumenthal.

Senator Vitter.

Senator VITTER. Thank you, Mr. Chairman.

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

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

I just have one question for both of you. This provision essentially treated folks in uniform fundamentally differently and worse than Federal civilian employees, all other Federal civilian employees. It sort of penalized them, if you will, retroactively on this issue, while the changes made for all other Federal employees was

prospectively only. Do you think there is any justification for that different treatment?

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

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

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

Thank you.

Chairman LEVIN. Thank you, Senator Vitter.

Senator King.

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

But I appreciate your testimony and I'm going to have some questions for the other panel. I associate myself with everyone else here. I don't think we should wait until the commission. I think we should fix this. It's not a huge item. It should be fixed, and I think our veterans and people that are receiving pensions for some odd reason may not fully trust us to resolve this in 2015. So I think we should take care of it as soon as we can.

Thank you, Mr. Chairman.

Chairman LEVIN. Thank you very much.

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

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

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

We also have statements for the record from the following individuals and groups, and they will be entered into the record: The

Fleet Reserve Association, the Iraq and Afghanistan Veterans of America, the American Legion, the Veterans of Foreign Wars, the National Military Family Association, and Lieutenant Colonel Michael Parker, USA Retired, who is a wounded war advocate.

[The material referred to follows:]

[COMMITTEE INSERT]

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

General Tilelli.

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

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

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

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

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

The financial impact has been called in various quarters as "teensy-weensy" and "small." But for example—and we've heard it today—a noncommissioned officer in the grade of E7 retiring this year with 20 years of service would see a cumulative loss of \$83,000 by the time he or she reaches the age of 62, more than three years of his original retirement pay of \$23,000 a year annually.

The ongoing rhetoric about spiraling out of control personnel costs has emboldened some to propose drastic changes to military benefits and compensation in the name of fiscal responsibility, without fully understanding the unintended consequences of their

action. Suggested cost-cutting proposals are gaining traction because critics continue to cite personnel cost growth since 2000 as a motive to gut pay and benefits. When we think about that, we need to think about it in the context of people, soldiers, sailors, airmen, and marines, who are serving in harm's way every day, rather than look at it in a budget context.

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

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

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

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

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

So in conclusion, we believe that the COLA cut needs to be fully repealed now and now wait until the retirement commission. Second, we believe that any changes to today's retirement program need to be grandfathered to existing retirees in the current force.

And three, any further changes recommended by the commission must be fully vetted through this committee to determine what impact it will have on our world-class All-Volunteer Force.

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

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

[The prepared statement of General Tilelli follows:]

Chairman LEVIN. Thank you so much, General.  
General Sullivan.

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

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

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

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

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

Now, this one line in the Budget Act has created doubt in the minds of the very people who do not need doubt created in their mind about the commitment of the American people for their

wellbeing and their ability to fight and win the Nation's wars, whatever those wars may be. Frankly, we now have them worried about things I never worried about in my 36 years of active service. And I cannot imagine that at this point in our history we need to cause them to be worried about their wellbeing.

The Congressionally created Military Compensation and Recruitment Modernization Committee that was tasked with reviewing potential changes to the military retirement system was directed to follow guidelines set by this committee and the President that included grandfathering the currently serving force and current retirees. In my view, the commission should be allowed to do its job, and I recommend strongly that this provision, which gets into the retired pay of those between retirement age and age 62, be taken off the table now and not passed to the commission based on some hope that someone else some time down the road is going to change it. I don't think it's ever worked in the past and I doubt it would work now.

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

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

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

This cut in pay and benefits must be balanced against the long-term viability of the All-Volunteer Force. Recent history, which has been pointed out, from the 80s and 90s shows that precipitous pay cuts and benefit cuts have unintended detrimental consequences. The prime example is the ill-fated REDUX retirement adjustments. Actually, in just a few years we faced a recruiting challenge, which Congress wisely reinstated the old system.

The current COLA cut provision, which some say will help tame the, quote, "wildly out of line" military pensions, will hit hardest on the enlisted force. In most cases, I would point out that these people, grade staff sergeant E6 or sergeant first class E7, are not fully employed in lucrative retirement positions in today's economy. For many, their now to be deflated retirement check is their main source of income. And after decades of service, which I hasten to add could have involved repeated, repeated, tours of duty in conflict areas, this puts them in a bad position employmentwise, and so forth and so on, which I won't go into today.

The fact of the matter is the compensation package in place today recognizes compensation which has been earned by over 20 years of arduous service. By the way, this compensation was designed to encourage careers of service in the All-Volunteer Force

based on personal qualifications, and this force has performed magnificently over the last several decades and certainly the last 12 to 13 years in active combat.

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

In addition to patriotism, what has kept professional soldiers in the Army and professional sailors, airmen, or whatever the case may be in their service has been the assurance that the benefits which they understood they received would be forthcoming. I will tell you I never worried about retirement. It was just there. And somehow we have created doubt in their mind. The last people in the world you want worried about that kind of stuff are those who are out there climbing into helicopters and airplanes and ships and jumping out of airplanes in the middle of the night, is whether they and their families are going to be taken care of.

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

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

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

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

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

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

talking about this issue. This is not the kind of issue they need to be worried about.

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

Thank you very much.

[The prepared statement of General Sullivan follows:]

Chairman LEVIN. Thank you so much, General.

Now we've got Sergeant Delaney.

**STATEMENT OF MASTER SERGEANT RICHARD J. DELANEY,  
USAF [RET.], NATIONAL PRESIDENT, THE RETIRED EN-  
LISTED ASSOCIATION**

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

I am greatly concerned about the recent action this Congress has taken. Quote, "When you freeze salaries, eliminate bonuses, and change their health care benefits, it's folly to think that it's not going to have an impact on the work force." End quote. That's a quote from Bradford Fitch, President and CEO of the Congressional Management Foundation, not 2 weeks ago in Politico. And he was not talking about military retirees, of course. He was speaking about the Congressional staff and the effect that eliminating traditional health care is going to have on members of Congressional staffs leaving and pursuing other opportunities.

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

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

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

I believe the multitude of cuts in benefits for military careerists that are being urged by the DOD, as well as the current COLA cut,

will have a seriously negative impact on our Nation's defense posture. The senior staffers in your offices and the committees are critical to your being able to fulfil your duties and responsibilities as members of Congress. Together they hold the institutional memory as well as the subject matter expertise that are indispensable to the functioning of Congress. The same is true of military career personnel who the COLA cut has been aimed at. The largest single segment of retired personnel is E7's, who make up 29 percent of all military retirees. The top enlisted grades, the senior non-commissioned officers E7 through 39, make up 47 percent of all retired personnel. And if you add in E5's and E6's, you have reached 73 percent of all military retirees made up of NCOs.

An E7 receives retired pay of about \$23,000 a year. The fact is there's no way to retire from the military and have the same standard of living that existed while on active duty without getting another full-time job. And to be hit with a COLA cut that works out to about \$83,000, that equates to a loss of four years of retirement pay nearly.

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

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

According to former Command Sergeant Major of the Army's Communications and Electronics Command, Miguel Buddle, quote, "It is the noncommissioned officers who are the ones keeping up with the changing technology, then using their leadership capabilities to bring that technology to the soldier in the field." He also continues: "It is true, NCOs are the backbone of the Army. The NCO is the one who will either teach you how to do it right or teach you how to do it wrong."

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

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

The Department of Defense is the only Federal Department that is unable to be audited. We urge Congress to, at a minimum, sus-

pend cuts in personnel benefits until DOD can audit its books and see where it's really spending its money.

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

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

Thank you.

[The prepared statement of Sergeant Delaney follows:]

Chairman LEVIN. Thank you so much, Master Sergeant. We very much heed your testimony.

Next is Dr. David Chu. Welcome back.

**STATEMENT OF DAVID S.C. CHU, PH.D., PRESIDENT AND CHIEF EXECUTIVE OFFICER, INSTITUTE FOR DEFENSE ANALYSES**

Dr. CHU. Thank you, sir. Mr. Chairman, Senator Inhofe, members of the committee: It is indeed a privilege to appear before you again this morning. I should emphasize the views I offer are entirely my own. They do not necessarily reflect the research by the Institute for Defense Analyses nor the perspective of the Department of Defense.

I do have a formal statement which I hope might be made part of the record.

Your letter of invitation asked that I focus on the evolution, especially the recent evolution, of military compensation. Put differently, how did we get to where we now are? I would argue that three important forces have created the compensation system that is the subject of discussion this morning.

First, of course, is the longer history of military pay and benefits, that especially explains the fact that so much of military compensation is deferred and a substantial part of military compensation is offered in kind as opposed to in cash.

Second, there is the desire by the country to recognize and reward those who have served in the military. That explains the very substantial growth in a series of benefits in the last 15 years or so—the repeal of REDUX, the advent of TRICARE for Life, the expansion of the GI Bill and the decision to make some of its benefits transferable, and the substantial relaxation of the century-old ban on concurrent receipt of Federal annuities.

The third force, of course, as has been emphasized this morning, is the need to ensure that we have a high quality All-Volunteer Force. That was the source, as other witnesses have emphasized, of the targeted pay raises that the Congress enacted at the end of the 20th and the beginning of the 21st century. It's also the source of expanded authority to pay bonus special incentive pays the Department used to ensure the All-Volunteer Force's success during the current conflicts. Those payments, of course, have been reduced as those conflicts have waned in importance.

The issue going forward, as we all know, is the question of change. I agree wholeheartedly with those who argue that we ought to use the commission and the commission process to take

a holistic view of change as opposed to piecemeal changes such as the one being discussed this morning. I do argue that a prior question in that debate over change ought to be, as some of the questions this morning have emphasized, what force does the country want in the future? What shape of experience, what level of quality, what differences in skill, background are essential to secure our national security in the years ahead?

You could obviously have different compensation systems than the present one. It might well be argued some of those would be more efficient than the present one. That is to say, they could sustain the same force at less total cost to the taxpayer. I do think two of the important issues in that regard are whether so much of the compensation should be deferred, particularly because from a fairness perspective for several benefits most military personnel never actually collect those payments; and also the issue of whether so much of the compensation should be offered in kind.

As those changes are contemplated, I do think, as Senator Ayotte's question and General Sullivan's testimony emphasized, it is critical to keep in mind the circumstances of the military family are different from the circumstances of most American families. And while we cannot change the reality of the burdens of deployment, I do think we have to be sensitive to the fact that the family circumstances will importantly affect the military person's decision to stay with the military over time.

Above all, as the various testimonies today have stressed, I do think it is critical to pay attention to the transition mechanism and to the question of the expectations of those who have served in the past and those who are serving now and whether the changes that are proposed are consistent with the expectations or whether, put differently, those who are affected by them can accept the changes that we wish to make.

I look forward to your questions.

[The prepared statement of Dr. Chu follows:]

Chairman LEVIN. Thank you so much, Dr. Chu.

We're going to have to have a short first round of questions here if we're going to be able to get to all of our Senators.

Let me ask about the commission which is going to be reporting to us and the connection of our service groups and our veterans groups to that commission. I think it's the intent of everybody that has spoken, all the Senators that have spoken, is that in terms of this CPI Minus One language that it is our intention and belief that it should be immediately repealed, as soon after immediate as humanly possible in a legislative body.

I don't think that, from anyone I've heard here today at least, that there's any intention to wait until the Compensation and Retirement Modernization Commission reports to clear the air on that or to remove that item at this time.

But my question then turns to the commission, as to whether or not your organizations feel that you will be contacted, that your advice will be solicited, whether, for instance, you've looked at the members of the commission and feel that it's a representative group. Why don't we start with you, General Tilelli.

General TILELLI. Mr. Chairman, first, the Military Officers Association of America has had one meeting with the commission. We

think it's relatively representative of the force as determined by this committee. Whether or not we will be asked to go back again and discuss with them some of their final recommendations, I can't answer that. We have not yet been informed of any such opportunity.

Chairman LEVIN. If you feel—this goes for any of the organizations, the ones represented here today, but the others that are out there—feel that they're not being—that their advice is not being sought, that they're not having opportunity to express their views, we would welcome hearing about that, because the commission should be soliciting the views of those organizations that represent our troops, represent our retirees and our veterans.

Let me now ask you as well, General Sullivan.

General SULLIVAN. Senator, we've already been before the commission once at the National level. I believe some of my people out in the field have been doing some field interventions and some of our members have participated in those. So I think our views are well represented with them, and I'm comfortable with the representation on the board.

Chairman LEVIN. Thank you.

Master Sergeant?

Sergeant DELANEY. Yes, sir. Our organization, the Retired Enlisted Association, has spoken twice to the commission and we're comfortable with the way it's operating and we're hopeful about an outcome. Obviously, it's too early to tell yet what that outcome will be, but we'll just have to wait and see. But we're happy with the commission.

Chairman LEVIN. Thank you.

We are facing a real budget crunch, although it's been kind of deferred for a year and a half or so. Nonetheless, the law requires that basically the sequestered approach be back in full blast starting in 2016 unless we act. We've acted the best we could in terms of 2015, but we're going to face the same kind of horrific problem through 2021 starting in 2016, unless we take steps to avoid it.

That means that we will have in place, if we don't act, roughly a trillion dollars in cuts to the defense budget that were enacted as a part of the Budget Control Act 2 years ago. Half of those cuts have already been implemented. The other half are what we would face, basically.

So I'm wondering if you have thoughts, not just about that subject—I think we can infer what your thoughts would be about trying to avoid sequestration and that approach in those years—but if these budget caps that are currently mandated by Congress continue, do you have any thoughts on any approach to how do we deal with the balance between pay and benefits, as well as the need to train and equip and so forth? Any of you have any thoughts on that?

Dr. Chu, I think you've probably—let me start with you on this one, and then we'll quickly go to the others if they have a comment.

Dr. CHU. Yes, sir. I think the key question in that regard is the mix of personnel that you believe are best suited to the Nation's security needs, that is to say the balance among active duty personnel and Reserve component personnel, Federal civilians and contractor personnel. There may be more mileage long-term in get-

ting that balance right than any of the other kinds of changes that might otherwise be discussed in terms of the compensation system. That's not to put the commission's work aside. It's very important and very significant, I would argue, in terms of looking at operating costs of military personnel, active, and also Reserve are considered, too. But I think this question of the demand side, so to speak, in other words what mix of personnel is best suited to the security needs—could you, for example, make greater use of the Federal civilians than is true today—I think there's a number of pieces of evidence that suggest that that is the case—and Reserve military personnel billets for the truly military functions of the Department?

Chairman LEVIN. Do any of you want to add a comment to that before we turn it over to Senator Inhofe?

General SULLIVAN. Senator, I think it's a profound question, for which I'm not sure I have a profound answer. But it depends on how much risk you want to take, but until somebody comes up with a defense strategy and a national security strategy I don't think you can weigh the equation. I think then you have to ask yourself, what kind of a prediction can we make about the distant future?

Right now I think we're out there, because in my view we—it's always been hard to predict the future, but I think we're taking risks without understanding the future. I'll just leave it at that.

Chairman LEVIN. Let me turn to Senator Inhofe now. I won't call on the others because of the time limits. Thanks.

Senator INHOFE. I'm just going to ask one question, a hypothetical question, because I want to offset some of the accusations that you hear from people in service organizations. My feeling is that those of you heading up service organizations would fall down if you had to choose between an adequately strong national defense and a maintenance of the current military retirement compensation levels. Which would you choose if you had to, real quickly? That's an easy question.

General TILELLI. I would always vote on the side of a strong national defense.

Senator INHOFE. The other two of you would agree with that, I would assume?

General SULLIVAN. Yes. Look, we all took an oath to protect and defend the United States of America.

Senator INHOFE. Very good.

You too?

Sergeant DELANEY. That's what we do.

Senator INHOFE. The reason I say that—and I think you hit the nail on the head, General Sullivan, when you said America can afford the defense it needs; it's a matter of priorities. That's my whole position in a nutshell. That's something that we have—a lot of people don't believe that. There are people serving right now who think that we really don't believe in the strong national defense that all of us agree with.

Let me make sure that everyone understands there are 15 members who asked questions and made statements in this hearing, primarily on the first panel. You guys have won. You came here because you want the one percent corrected. We all agree. In fact, I made the statement that it is a moral issue, because during the

years when I was in the Army and people would talk about re-enlisting or something like that commitments were made to them, and you can't come along later and change those.

Now, yes, we want a comprehensive reform. We want to get into all of these things. But first we want to make sure we correct it. As you said, General Sullivan, we want to correct it now. So do all of us want to correct it now. I just want to make sure that anyone, the three of you or anyone else who might be here from the military or representing or participating in one of the services, understand that we agree with you. That's it.

General SULLIVAN. I do.

Chairman LEVIN. Thank you so much, Senator Inhofe.

Who will be next? I don't have much choice. Senator Kaine.

Senator KAINE. Thank you, Mr. Chair.

Thank you all for your testimony. I believe we will fix this and fix it promptly. I really want to ask you a question about the next issue down the road, which is as we start to think about what we might hear back from the commission in early 2015, from conversations with primarily new people in the military—I've got a youngster and his colleagues—the way they talk about the compensation and benefits is that they have a feeling that some are promised, almost contracted—retirement after if you serve a full career, that's in the promise zone—some are sort of reasonable expectations. If I'm in the military and I have an injury, there's going to be a VA system there that will be functional and I have a reasonable expectation, without knowing what the budgetary top line is, there's going to be a functioning VA system. And some are sort of less than a promise or even a particular expectation, that there may be a hope or a desire. So for example, what would the premium level be for a retirement health policy, health insurance policy, that I would pay if I get to that. Most are not thinking about those issues. They're not really contracted for at a particular premium level.

So obviously the commission is going to come back with recommendations about all these kinds of things, about things that are sort of in the promise zone—that might be prospective, not retroactive—things that are sort of in the reasonable expectation zone, and things that frankly newcomers probably don't think about that much.

I just would be curious and the only question I have is, talk to us about how we ought to be thinking about these issues in prep for getting that report and having to make some decisions a year or so from now.

General TILELLI. If I might, thank you for that question. First, I think what the commission proposes, I think we have to review every aspect of it in full and open review and vetting it. Secondly, as General Sullivan said, I think we have to look at it in the context of what we want the force to be in the future. We do want an All-Volunteer Force.

But you've focused on an issue which is critical in the surveys that we do to military and military families, and that's health care. Military families and servicemembers believe that military health care or health care is a promise. They don't see that as optional. Certainly, when you're young and you believe that you're immortal,

military health care is not as important as when you get to be older and you're looking at it from the family aspects.

So in that context, I think we have to be very careful because it is a slippery slope. We have already cut military health care. We have already increased the copay. We have already increased the pharmacy fees. So we've already done things that are detracting, if you will, from what servicemembers and their families perceive to be an earned benefit, if you will.

Senator Kaine. General, could I just follow up on that, because that really gets at the nub of my question. If there is a belief that health care is a promise—and I believe that it is, it is a promise—and those coming in believe, is there also an expectation from your surveys that that promise extends to a particular premium a month or a particular premium that's an annual one that wouldn't change over the course of retirement?

General Tilelli. I don't think we've ever gotten to that point. I do think that reasonableness is a variable that must be considered, and that variable must be considered in the context of retirement and what that individual is going to get in retirement. Think about the context that you've heard today: A sergeant first class, an E7 who's getting a retirement of \$23,000 a year and has a family of three or four, he's at the poverty level to start with. So to require him to pay an exorbitant health care fee I think is very problematic.

Senator Kaine. Other comments on my question?

General Sullivan. Thanks for the question, Senator. I think if you just take that last business about the medical, the young person who comes into the service today, the concept of retirement might be different than the concept that we had, which was developed in the forties, after all. Life expectancy now is 77, I think, for males anyway.

So there is a model for retirement. Then there's a model for medical. Whatever the model is in my view should be—if there are increases, it should be stated right up front. Those increases will be within the COLA—ah, the world-famous COLA—the CPI such that whatever increase you pay might be within that, as opposed to this wildly fluctuating medical inflation. I mean, very quickly you could take an E7 off the table if you go to medical inflation.

So I think there has to be a model and a concept when they bring their system forward. And as General Tilelli said, we didn't worry about that because it was retire at 50 percent at 20 plus, then after 20 years, and then it was tapped at 30. And medical, we just went and got an aspirin or whatever, Tylenol. A couple of Tylenol and a cup of black coffee and you were golden.

Chairman Levin. That's making us all hungry for lunch.

Thank you.

Senator Ayotte is next.

Senator Ayotte. Thank you, Mr. Chairman.

I want to thank all of you for your leadership and for being here today on this incredibly important issue.

Here's what worries me as I think about how we ended up where we are. You have a budget agreement that the only group that really takes a hit right now are men and women in uniform. So what worries me is that we grandfathered the Federal employees,

meaning only new hires would they get impacted by it. But our men and women in uniform, who have taken the bullets for us, they got the cuts right now to their cost of living increase.

Is it because only less than one percent of the population defends the rest of us? Is it because the Federal employees and other groups around here just have stronger lobbyists and voices, we're going to protect our people?

What worries me about this is that it was a huge disconnect from Washington in terms of those who have sacrificed the most, that they would be the one group targeted in all of this. I just wanted to get your thoughts on all of this as leaders of our military organizations, because as I think about the big picture on this what is the lesson we need to learn from this? That just really worries me as I think about the big picture of the message that we are sending to our men and women in uniform when we have been at war—Iraq, Afghanistan. It's been a tough time for them.

Sergeant DELANEY. I think the problem we face is that a lot of people view the military as an easy target. We're a small group and they say, okay, we'll take some money from them. And it's over a five or ten-year period, rather than say, okay, let's adjust this. If we're going to do it, let's grandfather it and wait a little longer to get a return on our money.

But when I reenlisted in 1972, which would take me over the halfway point, I believed, yes, I'm going to get medical care when I retire. When I retired they said, now, you may not be able to get into the base hospital here; they're there for the active duty. I said: Fine, I can deal with that, but I've still got my medical care off base. Now they're looking at ways to change all that.

There's a bunch of targets on our back—commissaries, they're talking about closing those. They're looking at putting enrollment fees on TRICARE for Life. I have to pay for part B to get TRICARE for Life. Now I've got to pay for TRICARE for Life, too? Increasing copays on medical costs, copay raises, or even freezing the pay.

There's a lot of things. It just seems to me that we're an easy target, and that's what really bothers me.

Senator AYOTTE. General Sullivan, General Tilelli, what kind of message do we send with this? And what do we need to learn from this?

General SULLIVAN. Well, as I said in my remarks, we're causing our people in uniform to think about the issue, to think about an issue which they don't understand. And by the way, I don't want to ascribe any motives to anyone on whatever happens.

Senator AYOTTE. But did we forget? I'm worried. What are our priorities?

General SULLIVAN. Well, I think that's it. You have to decide, how will we spend the National budget? Where will we spend it? Will we spend it on our security or on other things? I think that's a decision that has to be made. Right now it appears, I'm sure it appears to some of the troops, that all of this, and their families, all of this is being placed on their back. Go out here and fight for the last 25 years beginning in Panama, right through to this day when we're fighting in Afghanistan. And oh, by the way, how we change the formula. I don't get it.

General TILELLI. Senator, I think you make a great point. First of all, I think we all have to understand that our service men and women and their families are getting a message and the message is being sent every day. You can read it every day in any number of periodicals, starting with the Minus One Percent, the copays, the commissaries, the TRICARE. They see that there is a devolution, if you will, of support for them.

The other issue is the service men and their families, their contract is with the United States of America and they count on the Congress to take care of them. They don't have a union. They depend on us to take care of them. When we look at it, they are willing to do extraordinary things for this Nation and for each other and put themselves in harm's way, be without a family, not have equity in a house, change six or eight times, kids out of school, and do all those things, and count on the Congress of the United States and America to take care of them.

And they are getting a serious message now. I can tell you from the amount of emails that we get from family members on all of this, it would choke a horse, that they are very, very concerned about all this.

General SULLIVAN. But I don't think—and I'd like to clear the air here on one point. I don't think they're asking more than they deserve. I don't get that feeling at all. I think all they want is a fair shake. And they want to know that people like you—and you are, by the way, to your credit—are paying attention to what's going on. I thank you for it.

Senator AYOTTE. I thank you all for being here. I will also add that when people call things like an \$80,000 cut to a sergeant first class whose average retirement is \$23,000 “teensie-weensie,” like the Washington Post did, or “minuscule,” it's offensive. And we should fix this, and we are sending the wrong message.

Thank you.

Chairman LEVIN. Thank you very much, Senator Ayotte.

Senator KING.

Senator KING. I'd like to follow up a bit. There's been a lot of discussion about keeping faith, about contract, about all of those kinds of things. Cast your mind back, if you would, to when you signed up. What do people who sign up sign? What are they told? Is there something that says if you sign here you will get health care, if you sign here you will get a certain level of retirement benefits?

I'm just asking you, what are people told when they sign up that the government is committing to them?

General TILELLI. Sir, I think there's no contract signed. What you sign is your oath of office, which is to support and defend the Constitution of the United States and do whatever you're told to do. The fact is it's the nuanced business of all of those things that are told that are not in a contract—retirement pay for example, medical care for life for example, commissary for example. All those things that are never put down on a piece of paper, because folks who serve are not serving to become rich. They're serving to serve the country. And the fact of the matter is, maybe General Sullivan's memories are better than mine, but I remember signing my oath of office, to be quite frank with you, and that was it.

Senator KING. Any others?

General SULLIVAN. I may look younger than him, but I'm a little bit older. And my memory is not better than his. Over time I learned, since all my buddies retired, they retired at 2.5 percent a year, 50 percent. I didn't sign a piece of paper. I signed up to serve and I took my oath.

Senator KING. But even if it wasn't on a piece of paper, what were the expectations?

General SULLIVAN. Well, the implicit contract was that I would have a retired pay if I stayed for 20, it would be 50 percent of what my last pay slip said, and that I would have medical care or they'd pick me up off the battlefield, either myself or my remains, and bring them home.

Senator KING. I think it's clear from this hearing this morning—and I'm sure you were here for the first panel—that everybody on this committee, A, didn't agree with this piece that was in the budget deal; two, wants to fix it; three wants, to fix it now; and four, as we go forward wants to work off a principle of grandfathering of what's in the law. I think that's where this committee is.

Now, Dr. Chu, I'd like to follow up on one of those points. There's been a lot of talk about grandfathering. If everything is grandfathered and nothing changes except prospectively, what does that mean in terms of budgetary effect? Because we operate around here on a ten-year budget window, but in my simpleminded way, if everything's grandfathered that means there's going to be no savings for 20 years. The first savings will be 20 years plus one day if something is changed at the beginning.

By the way, I think there should be something at the time of enlistment that says this is what the expectations are and this is what the benefits will be, so there is some clarity on that.

But Dr. Chu, how do we grandfather and yet at the same time do anything at all with regard to personnel costs?

Dr. CHU. I should begin by reminding all of us that grandfathering does not necessarily even preserve the change. So REDUX, the retirement change made in the 1980s by Congress, at Congressional initiative, grandfathered everyone, including the cadets and midshipmen at the military academies. That did not preclude the Congress from reversing course when it came—when the first savings actually were going to take effect, the first cohort that would have a slightly smaller annuity, came up to that point.

So I think it's this issue of expectations, the issue of buy-in, so to speak, from the affected parties that's crucial to a successful transition in the regime.

To your immediate question, how do we save if everything is grandfathered, I would point out the grandfathering we discuss is mostly one-sided. So any reduction raises the issue of grandfathering, but a new benefit is not generally awarded only to those who want to serve prospectively. That's been actually the way new benefits have been awarded. They've been awarded to everyone regardless of the period of service, in general.

So I think one issue on grandfathering is when new initiatives are taken more thought might be given to to whom do they really apply, what's the purpose of the new benefit and what kind of effect do we wish to achieve.

From a purely technical perspective, TRICARE for Life changes and annuity changes would show up in the DOD budget as a saving immediately, if they were reduction, that is to say, because those are both funded by set-asides.

Senator KING. Even though the savings might not be—

Dr. CHU. Even though the cash savings are not for 20 years or whatever, you would get an immediate DOD budget savings. The Treasury would not see a saving because the Treasury would have a smaller receipt from DOD for the payments, but a larger outlay.

So yes, from a technical perspective you would see DOD budget savings for those things that are subject to prefunding, which is in the military just the TRICARE for Life program and the annuity payments for longevity of service. But you would not see the same for other things.

Senator KING. Thank you. Thank you, gentlemen. Thank you very much. This is important testimony. As I say, I think it's safe to say, as you can see from the hearing today, that this committee anyway is very firmly committed to fixing this problem.

Thank you.

Chairman LEVIN. Thank you very much, Senator King.

Senator Graham.

Senator GRAHAM. Thank you.

I think we are firmly committed to fixing this problem. Without those emails, I'm not so sure we would be as firmly committed as we are. So I just want your membership to know it matters that you weigh in, that you go visit people. The Congress is very friendly to our military. Sometimes we make decisions that upon a second look maybe were not that smart. The fact that we're responding appropriately I think is a good thing. But do not underestimate how urging helps.

Now, isn't there a social contract, even though it's not in writing? Your kids, your sons, your daughters, individuals, will not have to be drafted because others will come forward and do the job voluntarily. Isn't that the deal? I don't know what that's worth to somebody out there, knowing that your son or daughter doesn't have to be drafted. I don't know how you put a number on that. But think about it in terms of the family budget. What would you pay, if you had to, to avoid your family from being drafted?

That's kind of an odd way, I guess, to look at it. But you're trying to put a value on something that's hard to actually put a value on.

So when we talk about retirement—you're a master sergeant, is that right? What was your retirement when you first retired?

Sergeant DELANEY. Right at 21,000 a year.

Senator GRAHAM. Here's the deal. \$21,000 after 20 years of service, multiple deployments, whatever risk comes your way. That is a good retirement, but by no means an exorbitant retirement, given the value to the country. Given the fact that your son, your daughter, your loved one, doesn't have to go, would you be willing to pay somebody \$21,000 or contribute your part to it? I think most Americans would say yes.

Now, having said that, now that we're going to right this wrong—and we will—who is advocating for the defense budget? You're out there talking about the troops and their quality of life and what we should be doing in terms of TRICARE in the future

and how we should be sensitive to any changes we make to the benefit package, because that's who you represent. Who is representing the equipment? Who's representing the number of people? If it's not the Congress, who?

General SULLIVAN. Well, at the risk of breaking in—

Senator GRAHAM. Please.

General SULLIVAN.—I'll tell you, the Association of the United States Army is advocating for that. We're advocating for mission accomplishment, and that is a very finely tuned relationship between young men and women who are developed as leaders and trained to fight and their equipment and the doctrine and so forth and so on.

Senator GRAHAM. Is that true of everybody else at the table?

General SULLIVAN. Well, I don't know.

Senator GRAHAM. No, I'm asking them.

General TILELLI. Yes, sir. Yes, sir, I think it's true of all of us, because when you look at readiness for the country, it's not only people; it's the modernization, the equipment, it's also the training. So it's the triad. I think we all support that, and I think the reason we're not talking about that today is because of the subject of the panel.

Senator GRAHAM. Can I make a proposal to you, that if you believe, as I do, that at the end of the sequestration period of time we're going to have a greatly reduced military capability at a time when we may need it the most, is it unreasonable for a member of Congress to say over the next decade the GDP we spend on defense should be at least consistent with peacetime spending? Is that an unreasonable position?

General SULLIVAN. No, I don't think it's unreasonable. I think it's also not unreasonable to ask all of the people who are suggesting otherwise or that we continue with this sequestration to state, could you please tell me what you think you're getting for a defense establishment at the end of this journey?

Senator GRAHAM. What kind of capability.

General SULLIVAN. What kind of capability are we going to have in 10 years or 15 years if we just have this mindless approach to budgeting and programming?

Senator GRAHAM. As my time is about to expire, I guess what I'm trying to suggest is that historically we've been spending around 5 percent of GDP on defense in time of peace, more in war. I would like some organization out there to start advocating for a ten-year number consistent with the threats we face.

So I know you're here to ask about the COLA changes and they need to be changed. But I'm asking you to think even bigger, to come back up on Capitol Hill and remind us all, who many haven't served who are great people, who kind of defense capability will you have if you keep invoking sequestration? And look where the average has been and see how far away. Would you be willing to help us in that endeavor? I feel incredibly lonely in this exercise.

General SULLIVAN. Sir, I'll be up soon.

General TILELLI. Absolutely.

Senator GRAHAM. Thank you. God bless.

Chairman LEVIN. Thank you so much, Senator Graham.

Senator Vitter.

Senator VITTER. Thank you, Mr. Chairman, and thanks to all of you for your testimony and for your service and for the work of your organizations that is very important.

Certainly, I'm committed with the others to fixing this absolutely as soon as possible, in a responsible way, which certainly includes finding other real and not fake savings.

I wanted to just use my time briefly to highlight another smaller issue, but an important issue, that hopefully can be fixed at the same time. At the urging of me and others, it is already in some of the bills to fix this COLA issue. That is a problem created when CBO changed their scoring rules with regard to VA clinics and how they were scored and worked into the budget.

Not to get into the weeds, but out of the blue CBO changed the rules. It made it far more "expensive," quote unquote, to get these important community-based clinics built, because it scored much more up front. I've been working for well over a year to try to get the VA to respond to this and to put solutions up. Unfortunately, they have not been responsive in a positive way. But many of us on Capitol Hill have been and the House passed a bill that would appropriately deal with this scoring issue so that these clinics are built. 27 clinics immediately slowed down and impacted nationwide, including 2 in Louisiana which should have been already built but for a separate screw-up and delay by the VA.

This House bill has passed 346 to 1. It's very fiscally responsible. It deals with the issue. And at the urging of me and others, this provision is already included in some of the bills dealing with this COLA issue, including the Sanders bill.

So I just urge you all to also put that near the middle of your radar, and I urge my colleagues to get this pretty simple, should be noncontroversial, fix done so we move forward as we had been planning to with these VA community-based clinics. I believe it can and should be done at the same time, which is immediately, as this COLA issue.

Thank you. If you have any response to that, I'd love to hear it. I just wanted to put that on the record.

Thank you, Mr. Chairman.

Chairman LEVIN. Thank you, Senator Vitter.

We've I think had a really good hearing. We appreciate your contribution to it. We thank you all for your service and we thank all the vets for their service, whether they're here within earshot or out there somewhere else. We will now stand adjourned.

[Whereupon, at 12:52 p.m., the committee adjourned.]