



**STATEMENT OF**

**THE MILITARY OFFICERS ASSOCIATION OF AMERICA (MOAA)**

**before the**

**Senate Armed Services Committee**

**on**

**The Military Retirement System**

**January 28, 2014**

**Presented by**

**General John H. Tilelli, Jr., USA (Ret)  
Chairman of the Board  
Military Officers Association of America**

MISTER CHAIRMAN AND RANKING MEMBER INHOFE. On behalf of over 380,000 members of the Military Officers Association of America (MOAA), we are grateful for this opportunity to express our views and appreciate the full Senate Armed Services Committee hosting this hearing on the uniformed retirement system and the recent cost of living adjustment cut for working age retirees included in the Bipartisan Budget Act or BBA of 2013.

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

### **The Uniformed Services Retirement System**

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

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

"The military services are unique callings. The demands we place on our military men and women are unlike those of any other country. Our worldwide interests and commitments place heavy burdens and responsibilities on their shoulders. They must be prepared to live anywhere, fight anywhere, and maintain high morale and combat efficiency under frequently adverse and uncomfortable conditions. They are asked to undergo frequent exposure to risk, long hours, periodic relocation and family separation. They accept abridgement of freedom of speech, political and organizational activity, and control over living and working conditions. They are all part of the very personal price our military people pay.

"Yet all of this must be done in the light of – and in comparison to – a civilian sector that is considerably different. We ask military people to be highly disciplined when society places a heavy premium on individual freedom, to maintain a steady and acute sense of purpose when some in society question the value of our institutions and debate our national goals. In short, we ask them to surrender elements of their freedom in order to serve and defend a society that has the highest degree of liberty and independence in the world. And, I might

add, a society with the highest standard of living and an unmatched quality of life.

“Implicit in this concept of military service must be long-term security and a system of institutional supports for the serviceman and his family which are beyond the level of compensation commonly offered in the private, industrial sector.”

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

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

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

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

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

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

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

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

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

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

### **Military Retirement: "Inflexible and Unaffordable"**

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

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

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

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

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

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

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

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

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

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

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

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

*“Unfortunately, the Commission has embraced the myth that retirement costs will soon rise so high – from \$10 billion this year to \$30 billion in the year 2000 – as to become an unacceptable and unfair burden on the American taxpayer.*

*“Such assertions fail to point out that by using the same assumptions, today’s average family income of \$10,000 will be \$36,000 in the year 2000. The average cost of a home will be \$171,000; a compact automobile will cost \$17,000; and the overall U.S. budget will have increased from \$500 billion to some amount in the trillions.”*

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

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

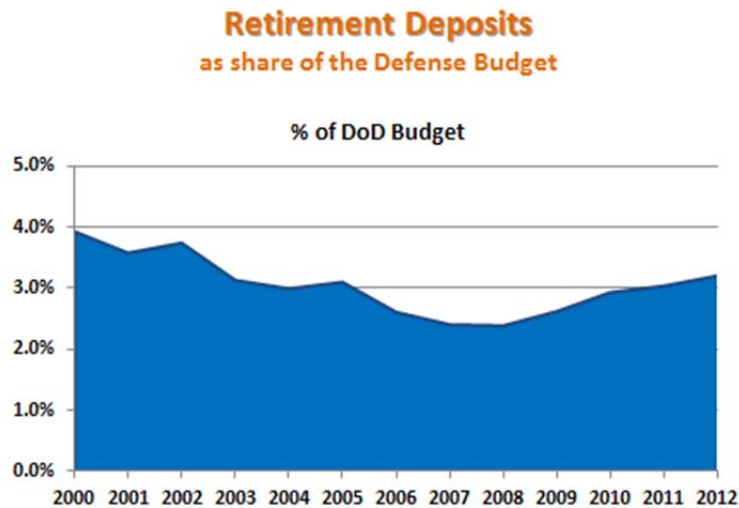
Second, after budget-driven retirement cuts actually were imposed in 1986, Congress deemed restoring the current system as more affordable than continued retention and readiness shortfalls.

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

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

### The Bipartisan Budget Act (BBA)

The recent passage of the BBA was trumpeted as a bi-partisan, two-year sequestration alleviating, budget deal. But in reality, the budget deal was a backroom, 11<sup>th</sup> hour pact that was rushed through both the House and Senate before the holidays, bypassing the committees of jurisdiction.



Even though the budget deal will help ease the harmful effects of sequestration for two years for the Department of Defense – something MOAA supports – doing so by breaking long-standing commitments to service members who serve our Nation for over 20 years is incredibly short-sided and shameful.

MOAA recognizes the magnitude of the nation’s debt problem and agrees that solving this will require sacrifice from all sectors of the federal government – including the Pentagon.

However, the defense budget didn't cause this problem and it shouldn't carry the brunt of the solution – especially the one weapon system that has consistently answered the call regardless

of the demands we have asked of them – those who serve and have served our Nation in uniform.

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

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

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

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

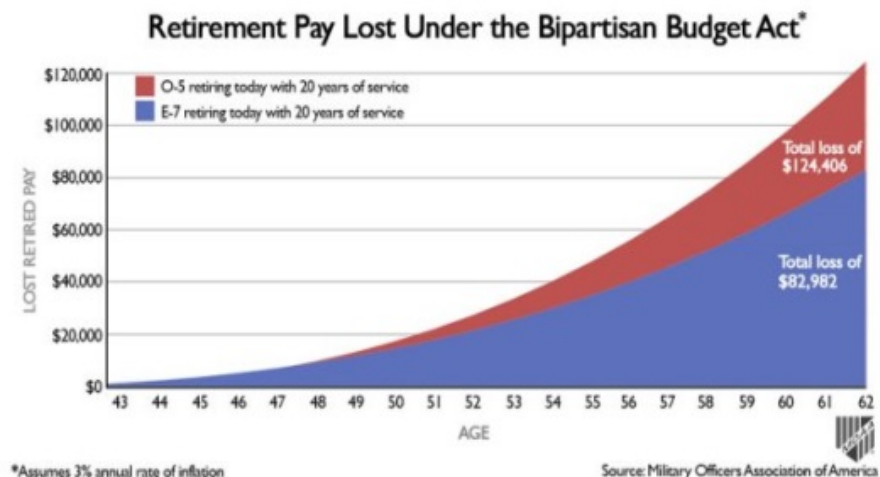
The recently passed FY14 appropriations omnibus bill took the first step towards full repeal by exempting Chapter 61 retirees and survivors. However, this still breaks the retirement contract and it breaks faith with the currently serving and MOAA won’t be satisfied with a partial deal.

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

The financial impact is anything but a “small” adjustment. For example, an E-7 retiring this year with 20 years of service would see an average loss of over \$3,700 per year. By the time he/she reaches age 62, the

cumulative loss is \$83,000; more than three years’ of his or hers original retired pay of \$23,000 annually.

Chairman Ryan further stated, “To be clear, the money we save from this reform will go right back



to the military. Veterans aren't Washington's piggy bank. They deserve fair compensation. And we owe them a benefit structure they can count on."

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

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

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

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

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

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

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

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

### **The Perfect Storm**

The question to ask is, "How did a proposal like this ever see the light of day?" The answer is depressingly simple. The Pentagon's uniformed and civilian leadership have created a perfect



storm providing political top cover to slash pay and benefits with their repeated and alarming – and demonstrably false -- statements on personnel cost growth.

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

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

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

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

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

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

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

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

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

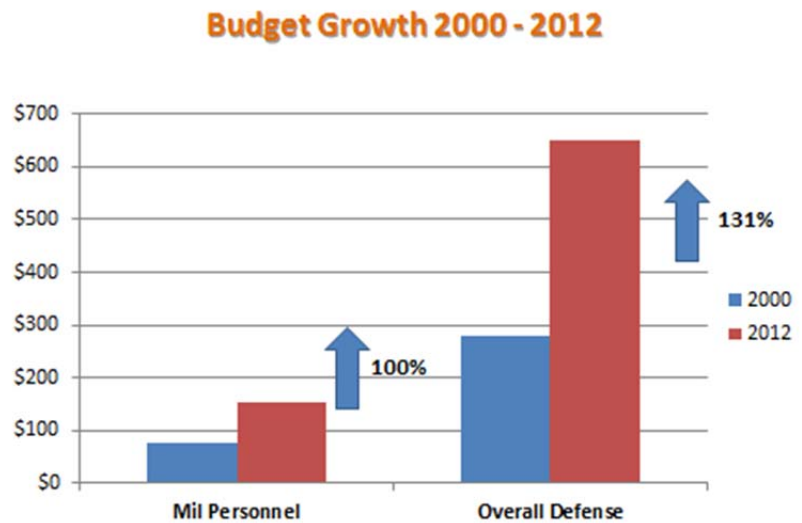
Now, more than a decade later, many of those same officials and their successors express shock that these fixes cost money. They find it convenient to forget that Congress deemed those changes less costly than the continued erosion of our defense capability.

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

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

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

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



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

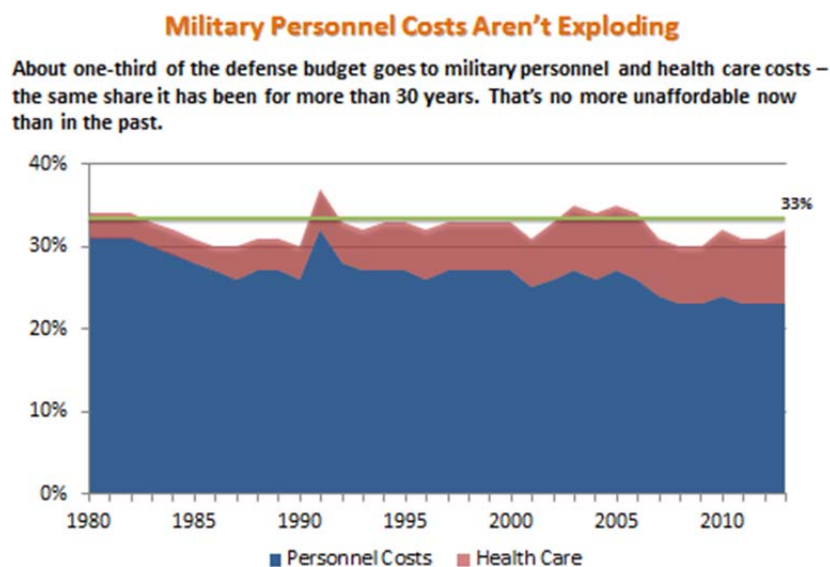
Additionally, hardware cost overruns have been left unchecked. A recent Government Accountability Office report issued in October 2013 highlighted that the Pentagon's 85 major acquisition programs were a collective \$411 billion over their initial cost estimates in 2012 – a sum that could wipe out the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

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

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

The Pentagon’s math simply does not add up.

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



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

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

Just this month in a National Public Radio interview, GEN Dempsey reemphasized this point by stating, “I have one sacred obligation to the young men and women who serve. And only one. If I ask them on behalf of the president to go to places like Afghanistan or some other conflict, they must be the best trained, best equipped and best led force on the planet. I don't want to

win 5 to 4; I want to win 50 to nothing. To do that we've got to make the appropriate investments in training, readiness, leader development, modernization and manpower. But I can't have the manpower account so out of proportion that it precludes me from making sure that if they go into harm's way they're ready to go.”

Leveraging people programs vs. readiness is simply a false choice. The key to a ready force is sustaining the top-notch, 10-year, mid-level NCO and officer for another 10 years. Without existing military career incentives over the past 12 years of protracted wartime conditions the sustainment of the all-volunteer force would have been placed at serious risk.

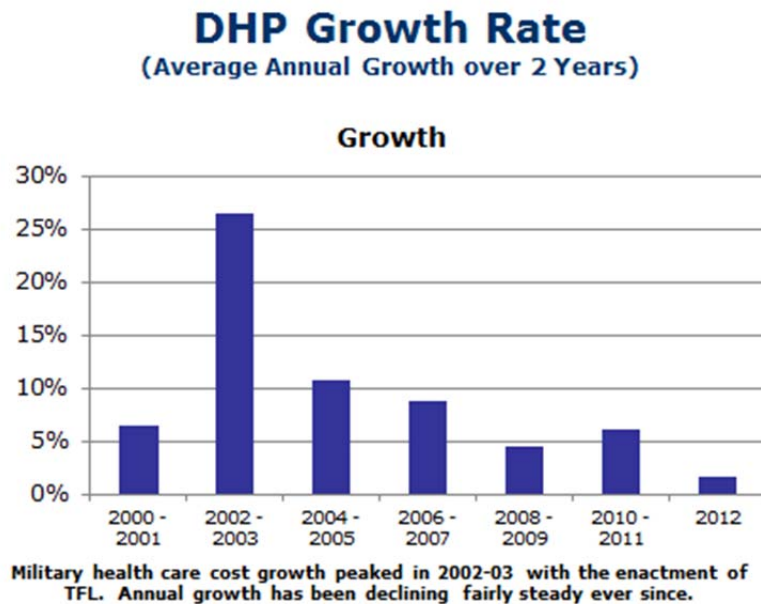
But because of the rhetoric, pay and benefit dominoes have already begun to fall – all of which have started to bend the curve on personnel costs.

**Domino one** – TRICARE Prime changes: Beneficiaries have already seen increases to TRICARE enrollment fees over the past several years and they will continue to rise at the rate of a retiree’s cost of living adjustment. TRICARE Prime Service Area restrictions will shift nearly two hundred thousand

beneficiaries to the less-expensive TRICARE Standard. TRICARE

Service Center closures and the standup of the Defense Health Agency also will contribute to the large projected savings in this area.

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



**Domino two** – Major changes have been enacted to double and triple pharmacy copays for military beneficiaries, and these will continue to increase in future years at the rate of inflation.

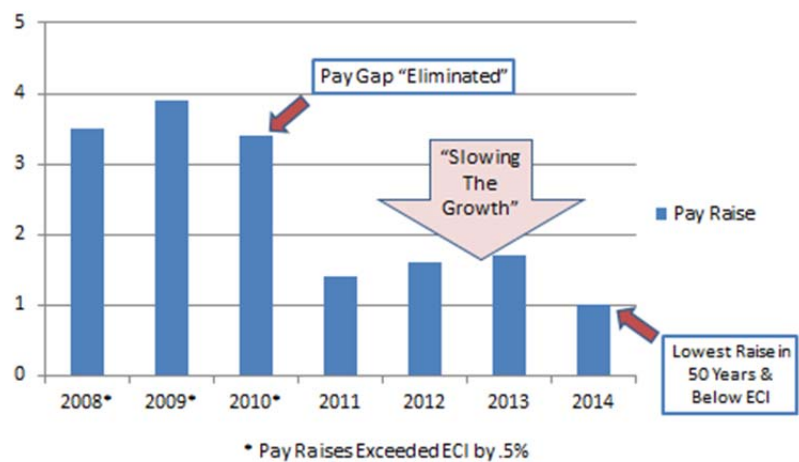
TFL beneficiaries are being required to use the far-less-expensive mail-order system for refills of maintenance medications, which will dramatically reduce pharmacy costs.

**Domino three** – End strength: Cuts to the tune of 124,000 service members over five years are planned for the active and reserve forces. These cuts will definitely bend the personnel cost growth curve.

**Domino four** – Pay: This year military members will see the lowest pay raise in over 50 years with their pay capped below private sector pay growth, and this may not be a one-time cap. In the FY 13 budget submission, the Administration and the Pentagon rolled out a plan to cap pay raises for three years.

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

### Pay Raises – The Past Seven Years



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

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

- Capping pay raises or even freezing pay
- Additional end strength cuts
- Changing Basic Allowance for Housing to make members assume more of the costs

- Curtailing or eliminating the commissary benefit
- Limiting tuition assistance
- Means-testing TRICARE fees and establishing TFL/TRICARE Standard enrollment fees
- Restructuring the retirement benefit to resemble civilian-like plans (401K)

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

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

### **The Grandfather Clause**

For several years, the Administration, the Pentagon, the CJCS, and members of Congress have stipulated that any change to the current retirement system should grandfather current retirees and currently serving members.

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

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

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

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

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

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

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

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

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

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

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

### **The Military – Civilian Divide**

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

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

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

The entire military family makes tremendous sacrifices on the road to retirement. Military spouses seldom establish their own careers because of frequent and involuntary separations

and relocations. Due to frequent moves, military couples rarely spend enough time in one place to build equity in a home.

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

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

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

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

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

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

This kind of rationalization is particularly aggravating to career service members.

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

### **Keeping Faith with the All-Volunteer Force**

The most important element of national security is sustainment of a dedicated, top-quality career military force. That reality is underscored by consistent surveys showing our armed



forces are America's most-respected public institution.

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

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

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

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

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

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

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

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



THE SECRETARY OF DEFENSE  
WASHINGTON, THE DISTRICT OF COLUMBIA

15 NOV 1985

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

Dear Mr. Speaker:

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

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

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

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

Sincerely,

Enclosure



**General John H. Tilelli, Jr., USA (Ret)**  
**Chairman of the Board**

General Tilelli graduated from Pennsylvania Military College, now Widener University, with a degree in economics and was commissioned as an Armor Officer. He earned a master's degree in administration from Lehigh University and graduated from the Army War College. He was awarded honorary doctoral degrees by Widener University and the University of Maryland. He served two combat tours in Vietnam, commanded the 1st Cavalry Division during Operations Desert Shield and Desert Storm, and served four times in Germany. He served as the Vice Chief of Staff of the Army, and concluded his active duty career as Commander in Chief of the United Nations Command, Republic of Korea / U.S. Combined Forces / U.S. Forces Korea. He was then appointed as President and CEO of the USO Worldwide Operations and currently is Chairman and CEO of Cypress International, Inc. He lives in Alexandria, Va.