

**Prepared Statement**

**Of**

**William J. Carr**

**Deputy Under Secretary of Defense (Military Personnel Policy)**

**Before the**

**Senate Armed Services Personnel Subcommittee**

**April 28, 2010**

**NOT FOR PUBLICATION UNTIL RELEASED  
BY THE COMMITTEE ON ARMED SERVICES  
US SENATE**

Chairman Webb, Senator Graham and distinguished members of the Subcommittee, thank you for the opportunity to come before you on behalf of the men and women who so ably serve in the uniforms of our nation's armed forces.

I am here today to speak to you about the state of compensation for our uniformed services. I am pleased to report that -- thanks to your support -- Soldiers, Sailors, Airmen, and Marines continue to express healthy satisfaction with the full pay and benefits the military services provide. This is understandable since military compensation competes very well with private sector wages.

Over the past decade, the Department and Congress together have faced a host of challenges in ensuring military compensation is adequate to recruit and sustain America's All Volunteer Force. Together, we have reshaped military compensation to make certain that military service remains an attractive option for today's youth as they enlist, and as they progress through critical points in their careers. The success of our combined efforts is manifest by sustained success in meeting or exceeding overall recruiting and retention goals in almost every year over the past decade, across the Components.

The Department is committed to carefully managing both the compensation tools and the resources provided by Congress. In the years ahead, the Department very likely will continue its focus on restrained growth of mandatory entitlements while leveraging cost-effective discretionary pays and bonuses.

Military compensation consists of five monetary components. Common to every military member serving on active duty is basic pay, the Basic Allowance for Housing, and the Basic Allowance for Subsistence. Combined with the federal tax advantage from the housing and

subsistence allowances, the aggregate of these four components is defined as Regular Military Compensation (RMC). RMC is then used to benchmark against private sector wages. Based on the Ninth Quadrennial Review of Military Compensation in 2002, the Department evaluates the comparability of military compensation by comparing RMC to the 70<sup>th</sup> percentile of comparably educated civilians in the private sector.

RMC is the foundation of military pay. It is the fundamental basis we use to recruit, retain, motivate, and separate our force. When the Department experiences broad-based recruiting and retention problems across occupations and services, it is usually because RMC lags private-sector compensation. To ensure this foundation remains sound, it must keep pace with growth in civilian wages as measured by the yearly change in the Employment Cost Index (ECI). This is why the Department supports an annual basic pay raise for 2011 of 1.4 percent – an “ECI pay raise.” Should we fail to keep pace with private-sector wages, the result could be a repeat of across-the-force recruiting and retention failures witnessed as recently as the late 1990s.

In response to such failures in the late 1990s, Congress and the Department, together, swiftly improved military compensation. Between January 2002 and January 2010, military pay has risen by 42 percent, the housing allowance has gone up by 83 percent, and the subsistence allowance has grown by 40 percent. By contrast, private-sector wages and salaries rose by only 32 percent during the same period. This has been a signature accomplishment both of the Administration and the Congress.

The final component of military compensation– and an area of special interest in today’s hearing – is represented by the Special and Incentive (S&I) pays. It is with these S&I pays that the Department draws upon, as an increment to RMC, when needed to influence human behavior toward the achievement of high levels of manning and unit performance. These S&I pays are

flexible and responsive in affording DoD an ability to respond to external labor market conditions.

The Department provides guidance and exercises continuous oversight over all S&I pays, while delegating significant authority to each of the Military Departments and Services to implement and execute the pays. The S&I pays typically comprise less than 5 percent of the Department's personnel budgets, yet they provide critical flexibility in responding to private-sector market changes. For example, accession bonuses are used to attract America's youth into hard -to-fill specialties, while retention bonuses are used to keep them in those career fields. The Army recently identified an emerging shortage of Judge Advocate majors through fiscal year 2015. In response, the Army requested and was approved for a series of retention incentives targeting specific year groups to address and correct the projected shortfall. Additionally, S&I pays recognize wage differentials in occupations, such as dentistry, aviation, and nuclear specialties. Assignment Incentive Pay is used to fill arduous assignments around the world, and Hardship Duty Pay is used to recognize duty in a remote location.

These pays are essential and the Department maintains its careful stewardship of these resources. For example, in 2009, S&I pays totaled \$6.4 billion, or 4.4 percent of the personnel account. In our recent budget submission for 2011, S&I pays were \$5.6 billion, or 3.6 percent of the personnel account. This decrease does not mean S&I pays are less important; rather, it reflects the Department's recognition that the slow recovery in the economy increases the attractiveness of military service, which in turn moderates our need to use bonuses in meeting recruiting and retention goals.

The value of the S&I pay program lies in its ability to significantly, yet cost-effectively, influence behavior. A \$340 million investment in the S&I pay program, for example, would

allow the Department to offer more than 11,000 members with specialized skills or training a bonus of \$30,000. That's a big amount to be sure, yet nonetheless efficient when it serves to retain someone who otherwise would walk away with enormously valuable training and experience that will take years to regenerate. Special Operations forces are a great example of that, which explains our heavy investments in that vital segment of today's military.

An alternative would be to apply that same \$340 million to generate a bigger pay raise in the form of a ½ percent across-the-board hike. For a corporal at 4 years of service, this translates to about \$11 per month before taxes. For an officer with 6 years of service, it means about \$22 per month. This does not mean that overall pay raises are the wrong answer – simply that they are not the best answer when the general status of pay is healthy as it is today. With the great help of this Subcommittee, we have elevated military pay above the 70<sup>th</sup> percentile for similarly educated and experienced workers in the private sector – well into the top third of earners – and that shows up in the types of strong retention we have witnessed in recent years. For that reason, we feel strongly that, while we never can offer enough to offset sacrifices of the military and their families, we are in a generally solid position. But we are not in a solid position in certain hard to fill and hard to keep areas like Special Operations.

Furthermore, the Services continue to face challenges in recruiting and retaining certain health professionals so vital to a nation in battle. And certain skill sets are very troublesome. For example, the nature of injuries in Afghanistan and Iraq has increased demand for mental health professionals, yet physicians holding that skill are in short supply nationwide. Here, again, we must and we do turn to S&I pays to preserve our military effectiveness. In 2009, the Department implemented the special bonus and incentive pay authorities for officers in health professions as provided in the 2008 National Defense Authorization Act. These incentives have

improved staffing in behavioral health, social workers and psychologists. Additionally, in 2009 the Health Professions Scholarship Program (HPSP) filled all medical and dental student positions by offering an Officer Critical Skills Accession Bonus (OCSAB). This will greatly assist in meeting future medical and dental recruiting goals. It will save lives.

Remaining with the health area, the Services continue to witness shortages in general dentistry and nursing specialties. To attack and control that problem, we continually monitor, adjust and expand medical special pay plans and bonus structures. For example, to attract general dentists in 2010, the Army has an accession bonus of \$75,000 for a four-year active duty service obligation. Each Service also offers loan repayment programs to recruit and retain general dentists. As for nurses, the Services offer a three or four-year accession bonus, a loan repayment option, or a combination of the two to attract nurses. An advanced nursing training program is another tool the Service to recruit nurses. Currently the Department offers an incentive special pay to several nursing specialty and a nurse anesthetists incentive pay for retention contracts of one-to-four years. Due to a continuing shortfall for nurse anesthetists, the incentive pay next year for a four-year retention contract will increase to \$50,000.

Turning now from occupations to military Components: We know that setting compensation at an appropriate level is critical to sustainment of a robust Guard and Reserve. We remain attentive to the need to treat Active and Reserve colleagues equitably. For example, while on active duty for more than 30 continuous days, Guard and Reserve members are paid the same as Active members. Congress and the Department have worked closely to ensure that Reservists are not financially disadvantaged when involuntarily called to active duty. In 2006, Congress authorized the Reserve Income Replacement Program, enabling Reservists to maintain the same or nearly the same monthly income. In 2009, Congress created the Reservist

Differential Pay Program, an additional income replacement program to cover all Federal government employees, further strengthening the Total Force. Congress has also recognized the sacrifices of mobilized Guard and Reserve members by reducing the retirement age for qualifying service in support of contingency operations. Furthermore, the Eleventh Quadrennial Review of Military Compensation has been tasked by President Obama to specifically review Guard and Reserve compensation.

Let me now turn from money paid today to the many non-cash and deferred benefits. Non-cash benefits include medical, education, commissary, and Morale, Welfare, and Recreation benefits. These are critical to maintaining quality of life for members and families, directly influencing the family's impression of the military life, and more directly, the retention decision that emerges from that impression. Deferred compensation, namely the retirement program, provides a strong retention incentive, particularly for personnel with over 10 years of service. We recognize non-cash and deferred benefits are important components in the total compensation package.

In summary, Mr. Chairman and members of this Subcommittee – you who have so aggressively and attentively watched over our military – I underscore the Department's request for a basic pay increase of 1.4 percent since it well maintains compensation levels competitive with the private sector. But for all the reasons just enumerated, we ask your special consideration this year in supporting our S&I pay program since that specific act will make sure the Department is able to channel resources where needed as the nation's economy moves forward and pockets of critical – and often unexpected – shortages emerge. I thank you again for the opportunity to testify and for your continued support of our military members and their families. I look forward to your questions.