STATEMENT OF

THE JOINT CHIEFS OF STAFF

BEFORE THE 113TH CONGRESS

SENATE ARMED SERVICES COMMITTEE

DEPARTMENT OF DEFENSE PAY AND COMPENSATION REFORM

6 MAY 2014

Chairman, Ranking Member, and distinguished members of the Committee, thank you for your invitation to address the critical issue of pay and compensation. As the Joint Chiefs testified in March and April 2014, we must rebalance the Joint Force to preserve military power and maximize options for the Nation in the face of an uncertain security environment and a declining budget. Achieving the right balance is a significant challenge, but it remains a strategic imperative for the Department of Defense (DoD) and our Nation.

It requires that we carefully allocate our resources across readiness, modernization and force structure accounts, and that we sufficiently compensate the Joint Force – while seeking to restore the readiness and modernization we have already lost. Above all, we must fulfill our sacred obligation to properly train, equip, and prepare the Joint Force to fight and win. We cannot do this alone.

The Department needs Congressional support to achieve institutional reform on all fronts. We cannot continue to expend scarce resources on unneeded and unsustainable weapons systems and infrastructure. These reforms have often lacked Congressional support, notably our requests to reduce infrastructure and weapon systems.

We have examined pay and compensation options within our budget for more than a year. This process included our most senior officer and enlisted leaders and select midgrade service members – leaders who fully recognize that it is our people who make us the most capable military in the world. Our men and women will always be our greatest strength, and they deserve the best possible support we can provide. However, as leaders, we all must exercise good stewardship over the resources entrusted to the Department, including competitive pay and compensation consistent with a ready and modern force.

In our deliberations, we collectively assessed how a wide range of compensation proposals would affect our troops at every rank, and over the course of their service. We concluded that we can no longer put off rebalancing our military compensation. Failure to approve this compensation package will require us to take $31 billion in savings over the Future Years Defense Program (FYDP) out of readiness, modernization, and force structure.

The Joint Chiefs and our Senior Enlisted Leaders support the three Department-wide principles guiding these proposals. First, we are not advocating direct cuts to troops' pay. Rather, this package slows the growth of basic pay and housing allowances in addition to reducing commissary subsidies, and simplifies and modernizes our health care system. Second, we will ensure that our compensation package allows us to continue to attract and retain the quality people we need. Third, the savings will be reinvested into warfighter readiness and force modernization. In all cases, we will continue to prioritize efforts that focus on wounded warriors and mental health.

Our proposals reflect well-informed choices that will reap significant savings over time. They were reviewed by the Administration, have the full support of the Secretary of Defense, and are submitted as part of the President's budget for FY2015. Implementing this compensation package now will help us remain the world's best-trained, best-led, and best-equipped military.

**Proposed Pay and Compensation Proposals**

In the late 1990s and through the post-9/11 period, with the help of the Congress, we substantially increased the glideslope of compensation growth. We are now requesting more modest pay increases in FY2015 to slow the growth rate of basic pay beyond 2015. Flag and general officer basic pay will be frozen for at least one year. We are also requesting that we slow the growth of tax-free housing allowances, reduce the direct subsidy to commissaries, and modernize our TRICARE health insurance program by creating a single plan that promotes wellness and encourages members to use the most affordable means of care. Slowing the rate of growth of these programs will obviously affect buying power over time, but they do not directly cut pay. As noted above, we have the predictive tools and can both assess and illustrate the effect by rank and over time.

We have not requested changes to military retirement benefits. We are awaiting the results of the Military Compensation and Retirement Modernization Commission (MCRMC) before considering reforms in that area. But, we want to reiterate our ardent support of the principle of grandfathering for any future changes to military retirement plans.

Congress has taken some important steps in recent years to control the growth in compensation spending, but we must do more. A holistic and comprehensive approach is required. Continuous piecemeal changes will only exacerbate uncertainty and doubt among our service members about whether important benefits will be there in the future.

The following proposals represent a carefully informed package that enables each of the military Services to invest more in critically-important readiness and modernization while maintaining a well-trained, ready, agile, motivated, and technologically-superior force. These savings will still allow us to offer competitive and sustainable benefits to ensure we recruit and retain the right talent across our ranks. We also preserve special pay and incentive authorities which the Services can use as levers to ensure they recruit and retain the specialties they need.

<u>Basic Pay:</u> For FY2015, we have requested a one percent raise in basic pay for military personnel, except general and flag officers whose pay will be

frozen for one year. Basic pay raises in future years will be similarly restrained, though modest increases will continue.

Basic Allowance for Housing (BAH): We request gradually slowing the growth rate of the tax-free basic allowance for housing until BAH ultimately covers approximately 95 percent of the average service member's housing expenses. We also seek to eliminate renter's insurance costs from the allowance. This will result in an average 6 percent increase in out-of-pocket cost from today, but far less than the 18 percent out-of-pocket cost in the 1990s. Such changes will be phased in over several years to allow members to plan accordingly.

Additionally, the rate protection feature already in place for BAH will remain. A service member's BAH will not be reduced so long as that member retains eligibility for BAH at the same location and does not change dependency status or lose rank. Service members in the same pay grade but living in different areas would have their BAH rates adjusted proportionally to ensure members retain the same purchasing power regardless of the cost of housing in their respective areas. Adjusted rates will remain publicly available to allow members to make informed decisions about housing. Just like today, depending on service members' actual housing choices, they may or may not have to pay out of pocket costs.

Commissaries: The Department today operates 245 grocery stores worldwide and spends about $1.4 billion per year to provide subsidized groceries "at cost" plus a 5 percent surcharge. The subsidy pays for employee and overhead costs including transportation. The budget proposal would begin phasing out much of the subsidy over three fiscal years, beginning with $200 million less in FY2015 and totaling $1 billion by FY2017. This phased approach will ultimately provide the Defense Commissary Agency with approximately $400 million per year to continue to pay overhead costs of operating about 25 remote locations in the U.S. and 67 overseas locations.

We recognize the value of commissaries to our service members, military families, and retirees, and our plan does not direct the closure of any location. Once fully implemented, commissary shoppers will receive an average 10% discount compared to most private sector grocery stores – and the level of savings may increase through internal operating efficiencies. Overall, commissaries will continue to be a valuable benefit to our people, particularly to those serving abroad.

Healthcare: The costs to the taxpayer for military healthcare have risen from $19 billion in 2001 to $48 billion in 2013. Increases have been caused both by growth in private-sector healthcare costs and by the creation of a new healthcare program for military retirees 65 and older, TRICARE for Life. We propose simplifying and modernizing our TRICARE health insurance program, as the fundamental structure has not been revised since its inception in the mid-1990s. We would consolidate Prime, Extra, and Standard into a single plan that encourages routine wellness visits and use of the most affordable means of care such as Military Treatment Facilities (MTFs), preferred providers, and generic prescriptions.

Service members on active duty would have no out-of-pocket expenses regardless of the point-of-care delivery (MTFs, network, or out-of-network) and will have the highest priority for MTF care. Without question, we will continue to fully fund and support our wounded, ill, and injured warrior programs. To protect the most vulnerable, the proposal treats survivors of members who die on active duty and those who are medically retired and their family members as active duty family members for purposes of enrollment fees, co-pays, deductibles, and the annual catastrophic cap. Likewise, family members residing with active duty service members in areas remote from MTFs will continue to be treated as "in network" families even if there are no network care providers in the remote location.

In addition to moving to the new TRICARE Single Plan, we have resubmitted our FY 2014 proposal which seeks modest annual enrollment fees for TRICARE for Life coverage and further adjusts the pharmacy co-pay structure for retirees and active duty families. These pharmacy changes provide incentives to use mail order and generic drugs. For pharmacies, the increased co-pays will be phased in over 10 years, while enrollment fees for TFL recipients will only apply to those who turn 65 after enactment.

The cumulative effect of the proposed TRICARE fee increases still ensures beneficiary out-of-pocket costs remain far below costs to military beneficiaries in the mid-1990s, and remain far better than virtually every comparable employer in the U.S. today. By FY2019, a retiree family of three utilizing civilian care providers will pay about 11 percent of total health care costs – well below the original 27 percent of the mid-1990s. Overall, the TRICARE benefit will remain one of the most comprehensive benefits in the country, as it should.

**Costs of Delay or Inaction**

Current and future funding levels require adjustments to pay and compensation now to avoid further degradation of readiness and modernization. We are working with and waiting for the MCRMC recommendations with regard to retirement, where we believe special study is required. However, based on multiple internal and external analyses as well as our review of Quadrennial Review of Military Compensation (QRMC) efforts since the late 1990s, we possess the needed information and senior leader consensus to make proposals now on other aspects of compensation.

If Congress delays these pay and compensation changes by one year, we would forfeit $10 billion in savings over the FYDP. Moreover, waiting for the Commission would likely cause a two-year delay in implementation, and we will be forced to restore approximately $18 billion in lost savings over the FYDP. Conversely, if we make these modest changes now, we will see annual savings of nearly $12 billion by the mid-2020s. If Congress rejects all of the proposals, we will not only have to find $2.1 billion in 2015, but we will also have to find $31 billion over the FYDP to pay for the shortfall. In the near-term, we will be forced to take these funds out of readiness. In the mid-term, it will diminish our ability to rebalance during the FYDP. Beyond the FYDP, we will see substantial impacts to modernization and our ability to field the Joint Force we need in the future.

It is also worth noting that today's readiness problem will be tomorrow's retention problem. Young men and women who join the U.S. military to lead a tank crew, fly an F-16, or serve on a submarine will soon lose interest in joining or staying in the military if they lack training or proper equipment to complete their mission.

Again, we have enough information to request these nominal pay and compensation changes now. We are not infringing on the Commission's charter. In fact, implementing these proposals this year will allow the MCRMC to account for them in their recommendations in February 2015. We look forward to working with Congress and the Commission when the MCRMC recommendations are released.

We know that this budget features difficult choices. They were difficult for us. Understandably, they are difficult for Congress. But we have created a balanced package of changes that meets budgetary limits and enables us to fulfill the current defense strategy, albeit with increased risk in some areas.

**Part of Broader Institutional Reform**

Our pay and compensation proposals are only a part of a wider effort to achieve balance across the Joint Force. Before recommending these changes, we first focused on implementing management reforms and reducing overhead and operating costs. This has included eliminating duplication, reducing management headquarters, and pursuing efficiencies from contracting and weapons systems to infrastructure.

We were successful in identifying approximately $94 billion in efficiencies across the FYDP. This included a 20 percent cut in headquarters' budgets, reduction in contractor funding, civilian manpower restructuring, healthcare cost reductions (separate from those affecting beneficiaries), terminating or deferring weapons programs and military construction projects, a Base Realignment and Closure (BRAC) round for 2017, continued acquisition reform, and auditable financial statements. These efforts are in addition to continuing to implement the $245 billion in efficiencies we have submitted over the last three budget cycles.

Reducing overhead continues to be important, but such savings will not by themselves permit us to meet targets under either the President's budget or sequestration levels. To meet reductions of the scale required, we also had to reduce the size of our military force. As a result, relative to levels expected by the end of this year, total active duty military personnel will decline by about 6 percent by the end of the FYDP in 2019; Guard and Reserve personnel will decline by 4 percent; and civilian personnel will decline by 5 percent.

Notably, although military pay and benefits account for about 33 percent of the budget, our pay and compensation proposals account for only 10 percent of the planned cuts. The remaining 90 percent of the cuts come from readiness, modernization, and force structure – making the need for a balanced application of cuts across accounts, wherever possible, even more urgent.

**Conclusion**

As a global leader, the United States requires a robust national defense strategy and a military that can implement that strategy effectively and sustainably.  We face increasing risk if we do not adapt to provide more responsible stewardship of our Nation's resources and security interests.  This can only be achieved by strategic balance across the Joint Force enabled, in part, by the compensation package the Department is presenting to Congress. It will require Congress' partnership with DoD in making these and other difficult choices.

The opportunity is ours in the months ahead to carry the hard-earned lessons from our Nation's wars into the context of today, to set the conditions to prepare the Joint Force to address the challenges of tomorrow, and to sustain and support our dedicated men and women in uniform and their families.  We look forward to seizing this opportunity together.