



**TESTIMONY OF  
THE RETIRED ENLISTED ASSOCIATION**

**Before  
the  
SENATE ARMED SERVICES COMMITTEE'S PERSONNEL  
SUBCOMMITTEE  
ON THE**

**Recommendations of the Military Compensation and  
Retirement Modernization Commission**

**Presented by  
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**On  
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### **DISCLOSURE OF FEDERAL GRANTS OR CONTRACTS**

The Retired Enlisted Association does not currently receive, nor has it received during the current fiscal year or either of the two previous years any federal money for grants or contracts. All the Association's activities and services are accomplished completely free of any federal funding.

**Chairman Graham , Ranking member Gillibrand and members of the Subcommittee**, thank you for this opportunity to submit testimony on behalf of the men and women of The Retired Enlisted Association concerning the retirement recommendations made by the Military Compensation and Retirement Modernization Commission. The Retired Enlisted Association is the largest veterans organization in the nation that was created specifically for enlisted personnel from all branches of the Armed Services. We were founded in 1963 and congressionally chartered in 1992.

The Military Compensation and Retirement Modernization Commission has outlined a series of recommendations that would result in a blended retirement system that contains elements of defined contribution retirement plan while retaining a good bit of the military's current 20-year, cliff-vesting defined benefit retirement plan.

We are very grateful that you wish to hear our views though a bit breathless as well. We are told that the Pentagon, with all of the resources at its command, is working feverishly to develop a response to present to the President in 60 days. We have only had 13 days to to prepare comments to present to you.

Because of that timetable we must say that even with the fine cooperation of the Commission's members and staff we are far from having the numbers, details and analysis that are needed to accurately and thoroughly be able to assess the recommendations. With that large caveat we acknowledge that the report of the MCRMC is a serious analysis that contains interesting proposals. It is clear that the Commission made an honest attempt to change and, in their view, improve the system as it is now.

But first we should note that the present cliff 20 year retirement system has worked very well for over 40 years in our all volunteer military. It has worked during good and bad economic times, and amazingly well during the last 13 years of war which, after all, is what it its purpose is. Therefore, we believe Congress should adopt the medical motto of "first do no harm" when considering overhauling the present system.

On the other hand we agree improvements should be made whenever possible to the system that is designed not only to attract the personnel in our Armed Forces who are required to

defend our nation, but also *“To care for him who shall have borne the battle and for his widow, and his orphan,”* as President Lincoln said. We recognize, of course, that this is the motto of the Department of Veterans Affairs. But it is equally true when it comes to those currently serving, not just for those who have left the services.

It would be a splendid idea to provide a portable retirement investment account for those who serve in our uniformed services but leave (for whatever reason) before serving 20 years. It is also a first rate idea to provide effective financial education to all those who serve. But neither benefit should be paid for by reducing the retirement of those who serve 20 years or more in the services.

Does this proposal do that? We are worried that it may. Clearly there is a 20% cut in the Defined Benefit Plan value from 50% to 40%. How is that made up? There is the Thrift Savings Plan where the retirees must contribute their own money to receive any of the government’s matching contributions. (It should be noted that currently 40% of the presently serving force is contributing to non matching TSPs to augment their present defined plan. Thus this advantage would be lost.)

Another issue of concern is the 12 year bonus payment, which is listed as part of the retirement calculation but certainly looks like it is present taxable income and not tax deferred. It seems to us that in order for that to be part of the retirement calculation a change in the law would have to go through the Ways and Means Committee. In addition, the Commission says they are leaving the method of calculating the lump sum payment proposal to the Secretary of Defense. We question whether that is appropriate since a new secretary could change the method with a stroke of the pen.

Further, is the discount rate used in calculating present value of future money correct? According to the senior pension fellow for the American Academy of Actuaries, Mr. Donald Fuerst, who is quoted in the Military Times, regarding the Commission’s use of a 12.7 discount rate and I quote: "Twelve percent! My gosh, that is an outrageous rate to use for something like that." The article went on to say private sector companies would normally use a 4% or 5% but Mr Fuerst said that he would use an even lower rate (perhaps 2% Or 3%) because the U.S. government is considered the safest lender in the world.

We have heard that the reason for this dramatic disparity is because the Commission is not using actual value of an E-7’s retirement (which DoD pegged as \$1.1 million last year) but rather the service member’s “perceived value” of the benefit. It appears to us the thought behind this is that if the service members’ perception is favorable, even if it is incorrect, retention will not be harmed. That assumption may be correct - but is it appropriate? Doesn’t Congress have a moral duty not to mislead men and women who have served this Nation in danger,

inconvenience and loneliness for 20 or more years? The Commission has proposed that servicemembers be given effective financial education, and we agree. Shouldn't this education occur before they are asked to make these crucial and complicated decisions? We believe that honor requires members understand what these changes would mean to them even when these changes are being proposed, in part, to protect the interests of others who have served 6 or 8 or 10 years in the same uniformed services.

We recognize there is real concern about the lack of fairness in the current retirement system when it comes to military members who leave after 10, 12 or other multiple years of service but have no savings or investments to show for that service. This seems especially unfair to those who may have served multiple combat tours in Iraq and/or Afghanistan.

We agree that the current retirement system needs to be changed in order to give service members an investment portfolio they can take with them when they leave the service, even if they do not stay for a 20 year career. However, we strongly oppose any reduction in the retirement benefits career military personnel currently receive as a way a paying for a new benefit for those who leave prior to 20 years.

The retirement recommendation of the MCRMC gives us concern because it appears to provide a greater incentive to leave at critical retention points, especially during periods of great stress for personnel such as they have experienced since 2003. It also appears to give less incentive to those who stay for a 20 year career to remain in the service after the 20 year point. That's because the government contribution to the TSP ends at 20 years, which means the only addition to the TSP that would occur after 20 years would be contributed by the service member. It seems to us that any Senior Non-Commissioned Officer or any officer who is an O-5 or O-6 would be smart to leave at that point. And if that happens the services would lose the cadre that are their very backbone and the resulting loss of expertise and leadership would severely harm them.

We also question the wisdom of putting additional financial pressures and worries on senior personnel deployed to a combat zone should the market drop, as happened in 2008. The stress of serving and providing leadership in a combat zone, as well as keeping in touch with family members and dealing with family issues should not be increased by adding on additional pressures regarding retirement financial matters.

The Commission's recommendations for changes in the Guard-Reserve pay and retirement generally follow those recommended for active duty personnel. However, there are some exceptions and we believe, as has happened so often in the past, Guard-Reserve members could end up that is not equal, in terms of treatment, to the active duty in spite of their exemplary performance during the past 12 years of war.

Specifically, the recommendation for continuation pay at the 12<sup>th</sup> year of service is for an amount that is equal to 0.5 times the serve member's monthly basic pay, as if the member were on active duty. However, the active duty continuation pay is recommended to be 2.5 times monthly basic pay. We believe this is unfair and discriminatory and the Guard-Reserve amount should be 2.5 times monthly basic pay, the same as the active duty.

In addition, the commission's recommendation calls for the Guard-Reserve member to earn basic pay in a "given period" to make TSP contributions and to receive government contributions into their TSP accounts. This "given period" needs to be clearly defined and needs to take into account varying drill periods among Reserve Component members, depending on their type of drill status.

There also needs to be clarification regarding whether Reserve Component members would get the lump sum payment when they enter the Retired Reserve, just as active duty members would.

As we have stated before, many aspects of the Commission's proposal deserve much more study before it would be appropriate to come to any sort of definite conclusion as to its merit. But it is readily apparent to TREA that the Commission's proposals seek an equivalency between military occupations and those in the private sector. On this we simply do not think that the proposals hit their mark.

It is laudable that the Commission has made such a serious attempt at making sure every servicemember leaves with "something" at the end of their time in service. But this proposal will simply not accomplish the mission of creating a smooth transition between the military and civilian sectors. We agree that a system like this will make the transition into the private sector easier for those who fail to complete twenty years of service, but it will not erase the vast gulf that already exists between the military and the private sector.

When a servicemember with a Military Occupational Specialty (MOS) of 19-K, which is an M1A1D/A2 tank crew member, transitions out of the service they are told that "there is no civilian equivalent" in the private sector. The mission of DoD is ostensibly to provide for the national defense. But many servicemembers are trained in war-fighting skills and it is not surprising that for those individuals the private sector has difficulty in translating military skills and placing value on military experience.

The Commission's proposals are a welcome attempt to rectify this inequity. The fact is, however, that this incongruity between military service and the private sector will never be erased. Servicemembers who get out after one or two enlistments, usually at the four to eight year point of time in service, will still be junior to their age cohort when they eventually take private sector jobs. This "seniority delta" will remain for their entire career, as will reduced

salaries and wages when compared to their age cohort. As all human beings are limited to a finite number of working years, there is simply no way to overcome this fact of military service.

Another inconvenient fact about military service is that the longer one serves in the military, the greater the impairment their career suffers when they inevitably transition out. The vast majority of military retirees are not four star admirals or generals with \$500,000 defense contractor consulting jobs lined up; they are E-7s with many fewer options. They are unable to build up equity in a home because they are moving every two to three years, and their educational accomplishments are often lacking as well.

Frankly, this proposal disincentivizes these individuals from serving any longer than exactly twenty years in the military. Every month longer that they serve is another month that they are missing out on an employer match to their TSP, or to a 401(k). As rational actors (as the vast majority of individuals who serve 20 years in the US military are) most people are going to move to a situation that is the greatest benefit to them. For servicemembers to serve any longer than 20 years sizeable bonuses or other inducements are going to be needed to get them to stay in the military when they realize they may be missing out on a matching employer contribution to their TSP or 401(k).

If a servicemember decides to stay in the military for more than 20 years, they are taking on an even greater risk that the TSP portion of their retirement may not be there when they retire. One need not go back to 1929, only to 2008 for an example of what can happen. It has taken nearly five years for the average 401(k) to return to the level that it was at in 2008 – not to mention all of the growth potential that has been lost. It seems unfair to ask servicemembers, even after they pass the 20 year point, to bear the risk of their TSPs declining in value even as they volunteer to die in defense of this great country.

In the final analysis, this proposal from the Commission attempts to bridge the gap between military and civilian employment, but does not accomplish what it sets out to do. Wage and salary gaps that result in lessened career earnings will still persist. Further, in attempting to save money by ending the DoD's matching contribution to the TSP at 20 years it actually disincentivizes the vast majority of servicemembers from spending any more than 20 years and one day serving their country. As DoD knows, many of these servicemembers have skills and knowledge that the military cannot afford to lose, en masse, at exactly twenty years.

One aspect of the Commission's proposal that we think Congress should strongly consider supporting is the one that makes ability to transfer the Post-9/11 GI Bill to dependent family members vest once the servicemember reaches 10 years in service.

The Post-9/11 GI Bill is one of the great legislative accomplishments of the 21<sup>st</sup> century because it shows how America honors those who have committed to defend her. By covering the full cost of in-state public school tuition to attend any accredited school in the country as well as providing money for books, housing, and a monthly stipend returning servicemembers are permitted to concentrate their full attention on their studies while they successfully reintegrate back into American Society.

Recognizing the vast value that the Post-9/11 GI Bill has to servicemembers in this way will strengthen the morale of America's fighting force far into the future. That being said, we have grave concerns about the part of the proposal that would take away the housing stipend from dependents that have had the benefit transferred to them. Making college less affordable, even if it only refers to housing costs, for the dependents of servicemembers who have served our country honorably for over 10 years seems an odd way to honor their sacrifice.

We look forward to participating in more debate about how to strengthen the current system to overcome these obvious hurdles and we are happy to answer any questions on these issues.

### **Biography of Deirdre Parke Holleman, Esq.**

Washington Executive Director

The Retired Enlisted Association

Deirdre Parke Holleman, Esq. is the Washington Executive Director of The Retired Enlisted Association. She is the Co-Chairman of The Military Coalition's (TMC) Survivors and MWR & MILCON Committees as well as the Chairman of the Health Care and Retiree/Survivor Committees for the National Military and Veterans Alliance (NMVA) where she was Co-Director for several years. In all three organizations and as a member of TMC's Health Care Committee Mrs. Holleman focuses on healthcare, financial and benefits for the members of the United States' Uniformed Services whether retirees, the active duty, the National Guard and Reserves and their families and survivors.

Prior to joining TREA Mrs. Holleman was the Washington Liaison for The Gold Star Wives of America, Inc. There she represented the concerns of active duty widows and widows of Military members who die of service connected disabilities before Congress, the Department of Defense, the Department of Veteran Affairs and other Veteran Service Organizations.

Mrs. Holleman is an attorney licensed to practice in the State of New York and before all Federal Courts. She argued many cases before all the Appellate Courts of New York including the New York Court of Appeals, the highest appellate court in the state. She successfully argued **In the Matter of Marie B.**, a case that struck down a New York statute as unconstitutional. For years she was a civil trial attorney in New York primarily handling Domestic, Family and Juvenile cases. She was the Associate Director of The Legal Aid Society of Mid-New York, Inc. This charity represents people who cannot afford to hire counsel in civil matters over nine counties in Upstate New York. She has a B.A. in History and Journalism from George Washington University and a J.D. from Vanderbilt University School of Law.

She lives in Rosslyn Virginia with her husband Christopher Holleman, an Administrative Judge for the Small Business Administration.