



5535 Hempstead Way • Springfield, VA 22151-4094
naus@naus.org -- www.naus.org
Tel: 703-750-1342 • Toll Free: 1-800-842-3451
Fax: 703-354-4380
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Testimony
of
The National Association for Uniformed Services (NAUS)
on
Retirement Recommendations of the Military Compensation
and Retirement Modernization Commission

presented by

NAUS Legislative Director Rick Jones

before the

Senate Committee on Armed Services
Subcommittee on Personnel

Wednesday, February 11, 2015, 3:00 pm
Room SDG-50 Dirksen Senate Office Building

Chairman Graham, Ranking Member Gillibrand and members of the Subcommittee:

The National Association for Uniformed Services honors and applauds the MCRMC Commissioner's decision to hold fast the moral contract for those who have retired and for those currently serving on a career path. The retirement system is not disturbed for those currently retired or those currently serving. Also we applaud MCRMC recommendation for no change in TRICARE for Life. It, too, is held in honor.

Of course, the National Association for Uniformed Services welcomes improvement. We ask, however, that any proposed change to the present retirement system do no harm. The fact that our All Volunteer Force is without peer, the best in the world, has been proven over the past more than 40 years and clearly demonstrated at most other times. The current retirement system has helped sustain the AVF, and we should be guarded not to jeopardize this achievement.

The National Association for Uniformed Services sees nothing wrong with service members being provided a government match to their TSP choice. It might be a good idea to provide a matching Thrift Savings Plan to strengthen the compensation system for those service members who leave the Force prior to a full career.

At present, more than 40 percent of the Force already participates in the TSP program without government participation. Adding a government contribution could make it more attractive. However, we question the "pay for" of this innovation.

The MCRMC report makes a simple but questionable change in the retirement program. In essence, it takes the current system as it stands—a 20-year program with an available TSP—and adds government participation. The government would make a 1 percent automatic TSP contribution and match contributions up to 5 percent. There one more aspect, the report calls for a 20 percent reduction in the retirement multiplier—dropping it to 2.0 from 2.5.

The result is that a service member with a 20-year career would receive a retirement check amounting to 40 percent of his final basic pay, 20 percent less than under the current plan.

Of course, one of the key questions about the Commission's report is why reduce the 20-year calculation. Is it necessary to shave the 20-year program in order to enhance the system for those who leave early?

In recent past testimony, Dr. Jo Ann Rooney, principal deputy under-secretary of Defense for Personnel and Readiness, said the current military retirement system is "neither unaffordable, nor spiraling out of control, as some would contend" noting that retirement costs as a percentage of pay are projected to be relatively constant over time.

There are many valid reasons to keep the current retirement system. It generally takes 15 to 20 years to generate the next generation of infantry battalion commanders and submarine captains. As a result, the department must ensure that the military retirement policy promotes greater retention and longer careers necessary to create these experienced leaders. A civilianized system with the introduction of investment risk many not be the right approach for the military.

Since issuance of the report less than two weeks, the National Association for Uniformed Services has already heard from a number of members and supporters about this proposal.

Let me run down a few of their comments:

-- The difference is this...with the 20-year deal, you knew what to expect. Very black and white. With this "new deal," there are many "what ifs" that can change depending who is running the country ... people like stability on issues like this.'

-- I don't know what I would have done during my transition to civilian life without my immediate retirement pay after 20-years.

--They're basing that 401(k) off past performance. What happens if you retire on a down market, or if the market goes total bust?

--Under the new proposed retirement you're better off being a policeman or firefighter.

--That chart of theirs presumes that the E-7 under the current system is not saving or investing or deferring anything...total hogwash.

--Nothing is stopping the service member from contributing to the TSP right now...other than the fact that it would make the difference in the charts not as great.

--Let's not forget another assumption ... that the future holds no more economic crashes to wipe out the 401 accounts again.

--The blended plan requires service members to actually pay into the account. Basically this cuts pay by 3 percent.

Another questionable element of the package recommends stopping the government's automatic and matching TSP contributions at the 20 year mark. MCRMC officials call this a force shaping item while simultaneously recognizing the heightened costs of sustaining the contribution beyond 20-years.

In 2006-2007, Congress recognized the importance of retirement benefit as an incentive to stay in service. It thoughtfully changed retirement rules to allow the multiplier to run

beyond 30 years for senior enlisted and senior officers. The change was an incentive to encourage these senior people to stick around.

In that period, 4,000 people with greater than 30 years of service stayed—3,000 were senior enlisted and 1,000 were senior officers. As retired Navy Admiral and Commissioner Edmund Giambastiani said, “Having a Command Sergeant Major who's been in for 36 years who will stay for another four really makes a huge difference -- tremendous amount of experience.”

The congressional decision to retain experience during wartime made a difference. Congress rightly concluded retention was more affordable, in lives and money, than retraining.

There remain many questions and considerations—the analysis of this report has only just begun. The National Association for Uniformed Services agrees, however, that we would be better off if the young men and women who served three, four and five deployments were offered something after honorable service other than a pink-slip and the door.

Government participation in the currently available TSP account could be helpful in advancing the present 40 percent service member participation rate. These service members voluntarily contribute without any kind of automatic government contribution.

The National Association for Uniformed Services recognizes, however, that all investing for retirement is subject to risk, including the possible loss of the money you invest. To ensure an adequate retirement, conservative financial advisors believe savings rates need to be between 12 percent and 15 percent of income (including an employer match). That would require a set aside of upwards of 7 percent of present disposable pay.

Investment is often times compared to a yo-yo. The market goes up and down. Historically, however, the market has acted more like a man walking up hill with a yo-yo. It still goes up and down but over time it runs generally uphill, and may it always be so. But the future is uncertain and one must remember that past performance is no guarantee of future results.

We still remember the severity of 2008 and the years it took to regain the loss after the crisis of that period. And we are concerned that altering the certainty of a regular retirement check at 50 percent of base pay may be a disincentive for mid-level officers and top enlisted to continue their careers.

The National Association for Uniformed Services applauds Congress for taking action over the 13-years of war to maintain the powerful pull of the 20-year retirement system, to raise pay, enhance health benefits and enact the Post-9/11 GI Bill. If you had not taken these actions, it is questionable as to whether we would have the military strength we have today.

In recent testimony before Congress, Commissioner and former Senator Bob Kerry said, “I came into this commission believing that it’s likely we’ve got a real problem with pay and benefits.”

But, Commissioner Kerry concluded, “It would be unfair to identify military retirement as the big problem because it isn't. The big problem is Social Security and Medicare, so it seems to me, to address military retirement without going after Social Security and Medicare is basically saying we're going to balance the budget on the backs of our military retirees. And I think that it would be a wrong thing to do and send a terrible signal.”

Many pundits and other so-called experts around the beltway continually write critically about military pay and benefits. As John Finkel writes in *The Good Soldier*, if some of these folks could get out from behind their desks “into the lead Humvee and go out on Route Predator or Berm Road, they could experience, as our troops do, the full ‘pucker’ factor. They could experience it the next day, too, and the day after that and then maybe, they could go back on the job and tell the reality of service—at least we’d hear the truth.”

Defending our national security is a tough job. It is arduous service and demands enormous sacrifice that many Americans are unwilling to commit. Clearly, we need to assure quality recruitment and retention. And we need to retain experienced career personnel. NAUS has concerns that this proposal, which mirrors private sector models, carries the incentives to assure an appropriate retention outcome.

Over the years the current 20-year cliff retirement program has proven its mettle. It works. Though the military retirement system is nearly 70-years old, it is not spiraling out of control. While it may be prudent to upgrade the TSP account, it must not come as a result of cutbacks in the military career incentive package. The strength of our national security depends mainly on three pillars; a vibrant economy, a strong defense and a faith in the nation and support for those who serve.

The question regarding the Military Compensation and Retirement Compensation report is whether faith has been broken. Once the service member’s appreciation of the compensation or care they are given is broken, no matter what “bells and whistles,” it’s going to be difficult to recruit people to serve or to retain their skills.

On the Other Hand, Sequestration is a problem

Sequestration, however, is a problem. We were told sequestration would never happen. But here we are in year three facing the blunt and irresponsible approach to taming our annual deficits and reining in the enormous debt we and future generations face.

Under sequestration, defense, which accounts for less than 15 percent of the budget, is forced to take 50 percent of sequester cuts. It is disproportional by any measure of understanding and incredibly detrimental to our national security.

The results of these cuts have already been devastating to our national security. The Air Force is approaching the smallest it has been since 1946; the Navy is approaching a historic low level of ships; the Army is on its way to the lowest troop level since before World War II; and the Marine Corps will be down two divisions.

Sequestration is a blunt instrument. It was wrong when the President proposed it; it was wrong when Congress accepted it; it was wrong when enacted, wrong when signed; and wrong when implemented.

The National Association for Uniformed Services implores you to end defense sequestration.