

Military Compensation and Retirement Modernization Commission

Testimony Before the
Senate Armed Services Committee
Personnel Subcommittee
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Statement of:

The Honorable Alphonso Maldon, Jr., Chairman

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The Honorable J. Robert Kerrey

The Honorable Christopher P. Carney

Chairman Graham, Ranking Member Gillibrand, distinguished members of the Subcommittee: My fellow Commissioners and I are honored to be here, and we thank you for the opportunity to testify today. We also wish to thank you for your support of the Commission throughout the last 18 months and for your unwavering commitment to and leadership in the protection of Service members' compensation and benefits.

As a Commission, we stand unanimous in our belief that the recommendations offered in this report strengthen the foundation of the All-Volunteer Force, ensure our national security, and truly honor those who Serve—and the families who support them—now and in the future. Our recommendations represent a holistic package of reforms that do not simply adjust levels of benefits, but modernize the structure of compensation programs for Service members. These recommendations sustain the All-Volunteer Force by maintaining or increasing the overall value of compensation and benefits for Service members and their families, and they provide needed options for Service personnel managers to design and manage a balanced force.

We would first like to address the concern that an all-male Commission does not have sufficient diversity to make recommendations on military compensation. As stated previously, the members of the Commission were appointed and had no input on the composition of the Commission. Nonetheless, the Commissioners immediately recognized the need to supplement our experience through selection of our senior staff. Our General Counsel and two of our three portfolio leads are women. One is a retired two-star admiral, one is a retired Lieutenant Colonel, and another is the spouse of a retired Army E-8, with exceptional family members. Beyond our senior staff, many of our diverse Commission staff members are current or former representatives of most key military and family demographics and are current or former beneficiaries of many of the very programs we explored. This internal diversity of insight and personal experience was deeply appreciated and, indeed, essential to our consideration of all relevant issues.

Retirement

The Commissioners recognize that an appropriate and truly beneficial retirement system is fundamental to keeping faith with our nation's heroes. Currently, only 17 percent of enlisted members and 49 percent of officers earn a military retirement. The Commission's blended retirement plan recommendation expands benefits to 75 percent of Service members, and protects recruiting and retention to maintain the Services' current force profiles. It also provides more flexibility for Service members, as well as for the Services that must field a balanced force. The Commission's recommendation also protects, and even improves, the assets of Service members who retire at 20 years of service (YOS), based on reasonable and conservative estimates.

For example, the Commission's model assumes that Service members contribute only 3 percent of their basic pay to Thrift Savings Plan (TSP), even though 75 percent of participants in the Federal Employees Retirement System contribute 5 percent or more of their pay to maximize Government matching contributions. It assumes investment returns of 7.3 percent, consistent with TSP returns since 1989 and lower than the average rate of return estimated by state pension funds. It assumes 2.3 percent annual retired pay cost of living adjustments, consistent with DoD actuarial assumptions. It further relies on discount rate assumptions calculated by our contractor support based on Service member behaviors. To maintain current force profiles, TSP contributions were not recommended beyond 20 YOS; however, the

consideration of matching contributions that continue beyond 20 YOS may be an area the Committee wishes to explore.

Key features of the blended retirement plan include the following:

- Grandfather retired pay for current Service members and retirees, while allowing Service members to opt in to the new blended retirement plan.
- Maintain the majority of the current defined benefit.
 - Vesting at 20 YOS for standard retirement.
 - Defined benefit multiplier of 2.0 (vs. the current 2.5 percent) to maintain 80 percent of the current defined benefit.
- Institute a defined contribution plan for all Service members through the Thrift Savings Plan.
 - Automatic enrollment of Service members to contribute 3 percent of basic pay.
 - Automatic Government contributions of 1 percent of Service members' basic pay.
 - Government matching of Service member contributions of up to 5 percent of basic pay from beginning of 3 YOS to 20 YOS.
 - Vesting at beginning of 3 YOS (2 years and 1 day).
 - Continuation pay at 12 YOS to provide mid-career retention incentives.
 - "Basic continuation pay" of 2.5 times monthly basic pay for active-duty Service members (0.5 of active-duty pay for Reserve Component (RC) members).
 - Additional continuation pay from Services as needed to maintain desired force profiles.
- Provide Service members more choice in how to structure defined benefit payments.
 - Choice to receive all or part of pre-Social Security age defined benefit annuities as lump-sum payments.
 - Full annuities resume at full Social Security receipt age to ensure steady income later in life.
- Provide Services additional career field flexibility.
 - Authority to propose adjustments to YOS to vest for defined benefit annuity for individual career fields.
 - One-year waiting period after YOS adjustment is proposed to the Congress.
 - Enables differing force profiles to resolve long-term manpower challenges.

Joint Readiness

The primary goal of the Commission's recommendations is to maintain the All-Volunteer Force. A critical element of this goal is a focus on sustaining or improving joint readiness. There are challenges to maintaining joint readiness capabilities during peacetime. For example, currently high levels of medical readiness could be enhanced if Military Treatment Facilities (MTFs) had access to a different mix of cases, yet DoD has limited means to affect MTF workload or access to trauma-care cases. The recommended Joint Readiness Command would provide essential high-level focus on readiness for the next conflict and provide a strong advocate to ensure appropriate readiness funding. Key elements of the Commission's recommendation include the following:

- Establish a Joint Readiness Command (JRC).
 - Functional unified command led by a four-star General/Flag Officer.
 - Includes a subordinate joint medical function.
 - Required structure and personnel may be realigned from current Joint Staff functions.

- Participates in annual planning, programming, budgeting, and execution process.
- Establish a Joint Staff Medical Readiness Directorate.
 - Led by a three-star military medical officer.
 - Current Joint Force Surgeon billet transitions to assume the increased authorities.
- Establish statutory requirement for DoD to maintain Essential Medical Capabilities (EMCs).
 - Limited number of critical medical capabilities that must be retained within the military.
 - Secretary of Defense approves, establishes policies related to, and reports to Congress annually on EMCs.
 - JRC identifies EMCs; establishes joint readiness requirements consistent with EMCs; monitors and reports on Services' adherence to EMC policies and standards; and monitors allocation of medical personnel to ensure maintenance of EMCs.
- Protect and improve transparency of medical programs funding.
 - Active Component (AC) family, retiree, and RC health care should be funded from the Services' Military Personnel accounts.
 - Medicare-Eligible Retiree Health Care Fund (MERHCF) should be expanded to cover health-care and pharmacy for non-Medicare-eligible retirees.
 - New trust fund for health care expenditures appropriated in the current year.
 - MTFs funded through a revolving fund using reimbursements for care delivered.
 - MTF operations that exceed reimbursement for care delivered to be funded from Services' operations and maintenance accounts as cost of readiness.

Health Benefits

The health benefit is essential for nearly all military constituencies. The current TRICARE program is beset by several structural problems that hinder its ability to provide the best health benefit to AC families, RC members, or retirees. It has weak health care networks because it reimburses providers at Medicare rates or lower. It limits access to care with a frustrating referral process. It has challenges adopting medical advancements or modern health care management practices in a timely manner. The Commission's recommendations expand choice, access, quality, and value of the health care benefit.

Key features include the following:

- Continue to provide active-duty Service member health care through their units or MTFs to ensure Services can maintain control of medical readiness of the Force.
- Retain current eligibility for care at MTFs, pharmacy benefit, dental benefit, and TRICARE For Life for all beneficiaries.
- Establish a new DoD health program to offer a selection of commercial insurance plans.
 - Beneficiaries include active-duty families, RC members and families, non-Medicare-eligible retirees and families, survivors and certain former spouses.
 - AC families receive a new Basic Allowance for Health Care (BAHC) to fund insurance premiums and expected out-of-pocket costs.
 - BAHC based on the costs of median plans available in the family's location, plus average out-of-pocket costs.
 - Part of BAHC used to directly transfer the premium for the plan the family has selected to the respective insurance carrier.
 - Remainder of BAHC available to AC families to pay for copayments, deductibles, and coinsurance.

- Establish a program to assist AC families that struggle with high-cost chronic condition(s) until they reach catastrophic cap of their selected insurance plan.
 - RC members can purchase a plan from the DoD program, at varying cost shares.
 - Reduce cost share for Selected Reserves to 25 percent to encourage RC health and dental readiness and streamline mobilization of RC personnel.
 - When mobilized, RC members receive BAHC for dependents; select a DoD plan or apply BAHC to current (civilian) plan.
 - Non-Medicare-eligible retirees' cost contributions remain lower than the average Federal civilian employee cost shares, but increase 1 percent annually over 15 years.
 - Leveraging its experience, Office of Personnel Management administers the program with DoD input and funding.
- Institute a program of financial education and health benefits counseling.

Survey

In an effort to gather input from key stakeholder groups, the Commission surveyed current and former Service members' preferences for possible changes to military compensation. This survey was designed to be statistically representative of key active, reserve, and retired subgroups. Some important aspects of this survey include the following:

- More than 155,000 current and former Service members completed the survey.
- Results are statistically representative the overall populations and key substrata (95 percent confidence interval).
- Unlike other military surveys that measure satisfaction with current benefits and other aspects of service, the Commission's survey explored Service member preferences for alternatives to their compensation.
- Survey participants manipulated sliders (scaled 0 to 100) on a set of web-enabled interactive screens to express their preferences for alternative levels of a benefit's feature (e.g., preferences for alternative TSP contributions matched by DOD).
- Preference scores were standardized into measures of relative importance across all benefit features (24 items in the active force survey) to enable comparisons and rank ordering of benefit features.
- The system's analytical tools also calculated a measure of perceived value which identified how much of a basic pay raise would be required to match the perceived worth Service members assigned to alterative levels of a benefit feature (such as alternative TSP percent's matched by DOD).
- The survey analysis tools also calculated aggregate preference measures for alternative configurations of compensation (including retirement, health care, and quality of life benefit changes), providing insight into how compensation changes could alter Service member preferences for an overall pay and benefits package.
- Analysis of the survey results revealed considerable support across key Service member groups for the Commission's modernization recommendations.

- The survey results underscore the Commission's position that efforts to modernize military compensation must be undertaken in an integrated, holistic manner.
- The Commission considered the insights gained from this survey valuable, yet it was just one of several sources of data and analysis available to support its deliberations.
- In addition to the material on the survey included in the Commission's Final Report, a separate report on the survey, along with extensive data files on the results, are available on the Commission's web site (MCRMC.gov).

We offer one additional note as you review and contemplate these and the full complement of our recommendations. Our recommendations look beyond the immediate and incorporate a substantial consideration of potential second- and third-order effects. The implementation timelines in our report are a direct result of these considerations. We ask, therefore, that the members of the Subcommittee work to ensure the most effective possible implementation of any enacted recommendations.

For example, our recommendation related to DoD commissaries and exchanges has a multiyear implementation timeline. The Commissioners are concerned that DoD budget constraints may create pressure to accelerate the backend operational efficiencies recommended in our report. An inappropriate acceleration, however, may lead to unanticipated costs, implementation challenges, or even failed consolidation of the military resale system. We ask that you give such concerns your full consideration as you move forward in your review and implementation of any recommendations.

In closing, my fellow Commissioners and I again thank you for the opportunity to testify here today. It has been our honor and privilege to serve American Service members and their families as we have assessed the current compensation and retirement programs, deliberated the best paths to modernization, and offered our recommendations. We are confident that our recommendations will indeed serve our Service members in a positive, profound, and lasting way. We are pleased to answer any questions you have.