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Making It Personnel

The Need for Military Compensation Reform

Colonel Karl Gingrich, United States Army
FEDERAL EXECUTIVE FELLOW

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EXECUTIVE SUMMARY

The United States is facing a significant financial crisis. The national debt is fast approaching $15 trillion and is expected to continue to grow at an alarming rate for the foreseeable future. Mandatory programs, such as entitlements and obligations on the debt, are largely responsible for the increasing debt and continued deficits, but escalating defense spending over the last decade has also contributed to the problem. To address the current economic situation, the Department of Defense is working to reduce spending by $450 billion over the next decade and, depending on how the debt ceiling issue is ultimately resolved, may face an additional reduction of $600 billion.

A reduction of this magnitude requires a reassessment of US strategy with a discerning eye toward realistic goals and long-term fiscal sustainability. In addition to the efforts to rethink and potentially reset grand strategy, there is a critical need to focus on internal reforms as well. An assessment of how we are doing things is just as important as an assessment of whether they are the right things. DoD appears to be attempting to do both, as evidenced by the release of preliminary 2013 budget decisions. But while all the details have not yet been revealed, the initial assessment is that DoD may not have gone far enough to reform one of its biggest budgetary challenges: military compensation.

Military compensation costs are trending much the way of federal entitlements, effectively crowding out other elements of the defense budget. Even more worrisome, they are accounting for an ever increasing portion of the budget, meaning that painful cuts today will be less effective tomorrow if not accompanied by long overdue compensation reform. Unfortunately, military pay and benefits are one of the most controversial elements of the defense budget and DoD surely faces an uphill battle to see these reforms implemented. If recent history is any guide, DoD will face a daunting challenge to garner the congressional support required to enact reform. Ironically, DoD faces a significant battle to implement reforms that don't go far enough to address the real issues with military pay and benefits. The context today has changed to the point where Congress must seriously consider DoD's proposed reforms instead of treating them like a third rail issue as it has in the past.

Military compensation is composed of a series of cash compensations, noncash benefits, and deferred benefits. The roots of the current compensation system can be found in law dating back to the late 1790s. The Department seeks to provide competitive pay and benefits as part of the human capital strategy while also being fiscally responsible. It is important to recognize that the defense of the entire nation has been underwritten by only a small percentage of the US population. Today, less than one percent serves, and about 23 million veterans and beneficiaries receive benefits for prior service. Military compensation must reflect this fact. Ultimately, the effectiveness of military compensation is measured through the achievement of recruiting and retention goals, which ensure the force is manned with sufficient numbers of personnel with the appropriate skill sets. However, many critics of military compensation identify issues with its efficiency, equitability, and flexibility.

This paper evaluates the various components of military compensation using a construct of transparency, sustainability and perception. For any needed reform to be successful, first, the costs and benefits of compensation must be explicitly stated, easily accessible, and understandable. Second, compensation must be affordable, achieve recruiting and retention goals, and provide an appropriate level of quality of life for the service member throughout his/her career and retirement. And, finally, military compensation must be perceived as fair and effective not just by Congress and the public, but by the individual service member, targeting what he/she values most within the compensation strategy.

Based on this evaluation, a series of policy recommendations are provided for how the current military compensation system might be reformed and updated. Whereas DoD's current proposed reforms will likely generate up to an estimated $70 billion in savings over the next decade, this paper advocates a more robust—not radical—series of policy recommendations that could garner an additional $40 billion dollars of savings over the same period, or $101-$112 billion of total savings. Perhaps more important than the immediate savings generated, these recommendations will also place military personnel costs on a more sustainable path for the future. DoD's less aggressive approach may not adequately control pay and benefit costs in the long run and may lead to additional capability and capacity reductions in the future to offset personnel costs.

In sum, the recommendations slow cash compensation growth and reduce the value of non-cash and deferred benefits by transferring costs to the service member, retiree and their dependents. The recommended reforms were generated within the context of the human capital strategy and do not compromise effectiveness for the sake of efficiencies. The military compensation system will continue to provide competitive pay and benefits and allow the Department to continue to meet its recruiting and retention goals, but will now do so in a more fiscally-responsible manner. The proposed recommendations will also maintain the nation's commitment to the All Volunteer Force by continuing to compensate it at levels commensurate with its sacrifice and commitment to the nation. While the Department's system of compensation may look differently in the coming decade, the United States will still retain a strong and capable defense and trust will be preserved with those who serve the nation.

Summary of Policy Recommendations	Projected 10-Year Savings ($B)
Index future military pay increases to the Employment Cost Index **minus** 0.5 percent annually (as long as ECI>=0.5 percent). This will slow the rate of growth of military pay, allow military compensation to return to approximately the 70th percentile of civilian pay, and reduce internal DoD budgetary tensions.	$17
Increase under-65 retiree TRICARE enrollment fees to an amount equal to 50 percent of the average annual civilian worker contribution, and index future rate increases to this measure. The increase should be phased in, fees should be tiered based on amount of retired pay, and the underlying cost structure of co-pays and deductibles should be adjusted in concert. This recommendation reduces the disparity between military and civilian health care costs, continues to provide generous benefits to military retirees and their dependents, and slows the growth of military health care costs.	$30-40
Introduce minimum cost sharing for TRICARE For Life by reducing coverage and increasing beneficiary out-of-pocket expenses. Index future costs to Medicare cost inflation. This will minimize the potential for over-use, reduce overall demand, and slow health care cost growth.	$33
Increase the co-plays for pharmaceuticals for all beneficiaries. Active duty service members will continue to receive their prescriptions at no cost from military treatment facilities. The new pharmacy cost structure is intended to limit demand, reduce use of the most costly retail option, and incentivize mail-order and treatment facility services, which are most cost effective means of providing pharmaceutical services.	$13
Eliminate appropriated funding for the Defense Commissary Agency (DeCA). DoD divests a non-core service that is no longer required given the expansion of civilian providers and reduces the number of noncash benefits to service members, which are inefficient means of compensation.	$5
Eliminate appropriated funding for post exchanges with the exception of support to deployed service members in remote and/or contingency locations. DoD divests a non-core service and inefficient means of compensation.	$1-2
Update the Department's employee-sponsored child care program to support a greater portion of the active duty force and include subsidies for services that are provided off-post. The update should continue to be need-based and cost neutral.	--
Pass the pending legislation that closes most domestic D0D-run schools and provides subsidies to the affected local school systems. DoD divests a non-core service and inefficient means of compensation.	$2
Make no adjustments to the current military retirement benefit until adequate analytic tools are developed to quantify the effect that adjustments have on overall force management effectiveness, specifically recruiting and retention.	--
Total	**$101-112**

Table 1. Policy Recommendations.

CHAPTER ONE
Introduction

"The fiscal reality facing us means that we also have to look at the growth in personnel costs, which are a major driver of budget growth and are, simply put, on an unsustainable course." -- Leon Panetta, Secretary of Defense[1]

The United States is facing a significant financial crisis. One only has to pick up a newspaper or review online news sources to gain an appreciation for the magnitude and extent of the problem and, more importantly, its implications to the US and the world. At the start of 2012, the US national debt has grown to over $15 trillion. This figure is all the more alarming given that it now exceeds our gross domestic product. The problem is not solely the magnitude of the debt, but also the rate at which it is growing and expected to continue to grow in the near and intermediate terms. The implications are clear—the US must address its fiscal situation or face a reset in its role within the world, especially as the preeminent military power and only true global power.

The US has long committed to a strong and capable defense—one that has served America as the primary guarantor of peace and stability in the world for many decades. Hard power, leadership, and seemingly unlimited resources have maintained international order through its broad system of alliances, which has benefited the larger global community in addition to the US.[2] This paradigm is threatened today as the DoD is being asked to adapt to reduced fiscal resources. While budgets should never drive strategy, strategy must be resource informed- a point that echoes strategist Bernard Brodie's famous 1959 conclusion that "strategy wears a dollar sign."[3] The administration has directed the DoD to reduce current costs by approximately $490 billion over the next decade beginning in 2013 and the Department may face another $600 billion in reductions depending on how Congress responds to the failure of the 'supercommittee' in late 2011. A reduction of this magnitude requires a reassessment of US strategy with a discerning eye toward realistic goals and long-term fiscal sustainability. In addition to the efforts to rethink and potentially reset grand strategy, there is a critical need to focus on internal reforms as well. An assessment of how we are doing things is just as important as an assessment of whether they are the right things.

The DoD is doing both as evidenced by the release of preliminary 2013 budget decisions and more will be known when the complete budget is released and ultimately negotiated on Capitol Hill. But while all decisions have not been revealed, the initial assessment is that the DoD may not have gone far enough to reform one of its biggest budgetary challenges – military compensation.

It is true that the US has the greatest military in the world, but it is also true that it is the most expensive military in the world. The impending budget reductions have driven the DoD to respond by reducing active duty end strength to adjust to the new budget levels in the near-term (one to five years) and to address the excessive growth of military personnel costs in the intermediate-term (6-20 years) in an effort to stave off additional reductions in the future. By controlling personnel costs, the opportunity exists to maintain a larger military force, retain a greater role in the world, and balance strategic risks.

However, any approach to reform within DoD, especially with respect to the pay and benefits of military personnel, must be done with caution and discretion. Less than one percent of the population over the last decade has shouldered the warfighting burden for the nation. The All Volunteer Force must be recognized and compensated for this commitment to the nation, and the viability of the force should never be placed at risk. Further, reforms must not be undertaken solely from an efficiency perspective. In fact, because of the implications to national security, effectiveness of the human capital strategy must be the primary criteria for evaluating reforms. This strategy must be able to identify needs, recruit an appropriate match to the need, train, assign, compensate, develop and educate, evaluate, promote, retain critical skills and capabilities, and retire/separate.

As the debate on compensation reform unfolds in Congress and the media, it is important to discriminate between facts and speculation. The 2013 defense budget will likely generate a series of third-party surveys designed to assess the effect of the proposed reforms on service members and retirees. While the information captured in these surveys will be useful for fueling a considered debate, their utility must not be overvalued. When conducted carefully and scientifically, surveys are useful in assessing an individual's preferences and sensitivities to change but fall well short of predicting behaviors in response to change. For example, while an individual may place high value on commissary privileges in a survey, he/she may not respond to a loss of such privilege by choosing not to re-enlist. Here is where analytic tools are required to assist in quantifying the impact on the force and identifying potential causal relationships.

This paper will outline the need for military compensation reform and, more importantly, show the extent of available reforms—even beyond those proposed by DoD in the 2013 defense budget. However, before we begin to review military compensation and potential reforms, it is important to establish some appropriate context.

Notes

[1] Leon Panetta, Department of Defense, "Lee H. Hamilton Lecture Woodrow Wilson Center, Washington, DC," Last modified October 11, 2011. Accessed October 12, 2011. http://www.defense.gov/speeches/speech.aspx?speechid=1620.

[2] Michael O'Hanlon, "Defense Budgets and American Power," Brookings Institution, Policy Paper No. 24, December 2010: 11.

[3] Bernard Brodie, "Strategy in the Missile Age," The RAND Corporation, January 15, 1959. http://www.rand.org/content/dam/rand/pubs/commercial_books/2007/RAND_CB137-1part3.pdf. Accessed February 10, 2012: 358

CHAPTER TWO
Goals of Compensation

"*The willingness with which our young people are likely to serve in any war, no matter how justified, shall be directly proportional to how they perceive the Veterans of earlier wars were treated and appreciated by their nation.*" -- George Washington

The military compensation principles that guide our current system of pay and benefits are found in the current version of the Military Compensation Background Papers. This document is the enduring register of the legislative chronology of military compensation and was last updated in 2005. Six basic principles are identified and supported with detailed explanation and sub-principles that provide a framework for military compensation. These principles include manpower/compensation interrelationships; compatibility with technology and tactics; equity; effectiveness in peace and war; flexibility; and motivational aspects.

With this backdrop, the 10th Quadrennial Review of Military Compensation (QRMC) was commissioned by the President to review the principles and concepts of compensation and adopted a similar set of principles. The QRMC established four principles—all-volunteer; flexible and responsive; strategic best value; and support achievement of strategic objectives and outcomes.[1] It effectively distilled six principles down to four and employed them in a similar manner to assess any findings and recommendations. While each set of principles are largely compatible and establish a solid framework for military compensation, many see them as lacking. As the GAO reported, "they do not provide clear policy and doctrine to guide military compensation policy."[2] Evaluating military compensation is therefore difficult without a coherent and comprehensive strategy supported with sound intellectual underpinnings. Perhaps a more simplistic approach to assessing compensation is required—one that is useful for the Department and the individual service member.

The most objective measure of effectiveness of military compensation is the ability to recruit and retain quality personnel in the force. Since 1990, trends in recruitment, quality of recruits and retention have been largely satisfactory, albeit with significant recruiting costs (enlistment bonuses) and a decline in quality recruits between 2004 and 2009 as the Services surged to grow additional temporary end strength. But, for many, there is a moral imperative beyond these indicators. They see the need for a level of compensation of military service members that reflect the acceptance of a professional ethic characterized by sacrifice and commitment to the nation.[3] Determining the real cost of this burden of service remains one of the difficulties in evaluating military compensation and is generally an individual-based value judgment.

Here is where a simplistic construct can be useful in evaluating overall effectiveness of compensation and bridging the quantitative and qualitative gap. The construct includes transparency, sustainability, and perception. Transparency means that the costs (to the government) and benefits (to the service member) of compensation are explicitly stated, easily accessible, and understandable. Sustainability means that compensation in general is affordable for the government achieves recruiting and retention goals and provides an appropriate level of quality of life for the service member throughout his/her career. Perception accounts for Congressional and public opinion whether military service is a viable career and worthy pursuit, while also considering the service member's perspective on what he/she values most within the compensation strategy. It is useful then to apply this construct to each component of compensation. This will allow one to assess the need for any reforms in a more detailed and realistic way and then to evaluate the utility of any recommended reforms.

Reforms to military compensation will not, and should not, be easy to approve and implement. In a political environment where no issue is too trivial to argue over, reforms in this area are likely to cause a great deal of consternation among all the stakeholders. The Department is seeking to implement reforms that address both short and long-term affordability issues; maintain the faith with service members past, present and future; and have at least a reasonable chance of receiving congressional support. In the past, Congress has tended to be near-term focused and default to the status quo. This will likely happen again with the 2013 defense budget unless DoD delivers a compelling argument coupled with a deliberate and forceful engagement strategy (a good example is the one used to terminate the F-22 program). Numerous lobbying organizations, each representing the needs of their constituencies within the larger military community are already attempting to shape the debate and not allow an erosion of benefits, either real or perceived, in an effort to preserve the nation's commitment to service members and their families. These organizations are well-financed, engaged and unfortunately, will not always be deterred by facts or sound policies. Current service members will watch events unfold, reassess their commitment of service to the nation and either renew that commitment or leave service. Individuals considering a military career will perform similar assessments and decide whether or not to serve. While no one can predict how this debate will conclude, the timing of these events may favor the adoption of significant reforms—stakeholders, especially Congress, must recognize conditions that previously did not exist.

Fiscal realities have forced the department to reduce ground forces by 100 thousand troops over the next decade, which in turn reduces recruiting and retention missions and effectively reduces demand for service. On the supply side, the US economy is expected to remain relatively stagnant with a continued potential for a double-dip recession and unemployment unchanged through the near-term, establishing conditions conducive to military service. Additionally, the high cost of college is further limiting options for the segments of the population targeted for military service. With demand decreasing and supply increasing, conditions may mitigate dissatisfaction with compensation reforms and ease any impact on recruiting and retention. A secondary, yet still important factor to consider is that the US population remains largely disconnected from the military and is not likely to engage in significant debate over the fairness of compensation. While the general public acknowledges the sacrifice of the military and their families, a large majority feel that the sacrifice is "just part of being in the military."[4] Finally, the demographics of today's military continue to evolve as the Millennial generation (those born after 1980) enters the ranks. A compensation system based on the characteristics and values of the Baby Boomer generation may not meet the intrinsic needs of Millennials and thus will have to be reformed to be relevant.

Notes

[1] Department of Defense, "Volume1: Cash Compensation," Tenth Quadrennial Review of Military Compensation,

February 2008: xiii. Objectives include: All-Volunteer. Compensation policies should support an all-volunteer workforce and members must perceive their compensation to be fair and equitable. Flexible and Responsive. The Services must be able to quickly and effectively change compensation policies to respond to changing market conditions and mission requirements. Strategic Best Value. Compensation policies must be aligned with other elements of the larger human capital strategies to produce the highest value, maximizing mission contribution and minimizing cost. Support Achievement of Strategic Objectives and Outcomes. Rational compensation policies should support a hierarchy of strategic objectives and outcomes for successfully competing for talent, encouraging and rewarding performance, and recognizing contribution to mission.

[2] US Government Accountability Office, "DOD Needs to Improve the Transparency and Reassess the Reasonableness, Appropriateness, Affordability, and Sustainability of Its Military Compensation System," GAO-05-798. Washington, D.C.: July 2005. http://www.gao.gov/new.items/d05798.pdf. Accessed September 30, 2011: 13.

[3] Charles A. Henning, "Military Pay and Benefits: Key Questions and Answers," Congressional Research Service RL33446, October 31, 2008.

[4] Paul Taylor, et al, "The Military-Civilian Gap: War and Sacrifice in the Post-9/11 Era," PEW Research Center - Social and Demographic Trends, October 5, 2011: 2.

Chapter Three
Structure of Military Compensation

"Good compensation is an important part of a nation's compact with its men and women in uniform." -- Cindy Williams, Principal Research Scientist of the Security Studies Program at the Massachusetts Institute of Technology[1]

The roots of the current compensation system can be found in law dating back to the late 1790s and the system continues to evolve today. In a report cover letter to Congress, GAO analysts summarized military compensation as a system with "the same basic structure since the end of World War II, but over time, it has become a complex and piecemeal culmination and accretion of pay, benefits, and special tax preferences – each designed to meet a specific need in managing an evolving force."[2] Others have not been as kind and describe the compensation system as a 1950s General Motors-like system.[3] Regardless of the characterization, it is important to note that today's basic system of compensation is the result of two centuries of changing context, including the transition from a conscripted force to the All Volunteer Force of today.

Military compensation is composed of a series of cash compensations, noncash benefits, and deferred benefits.

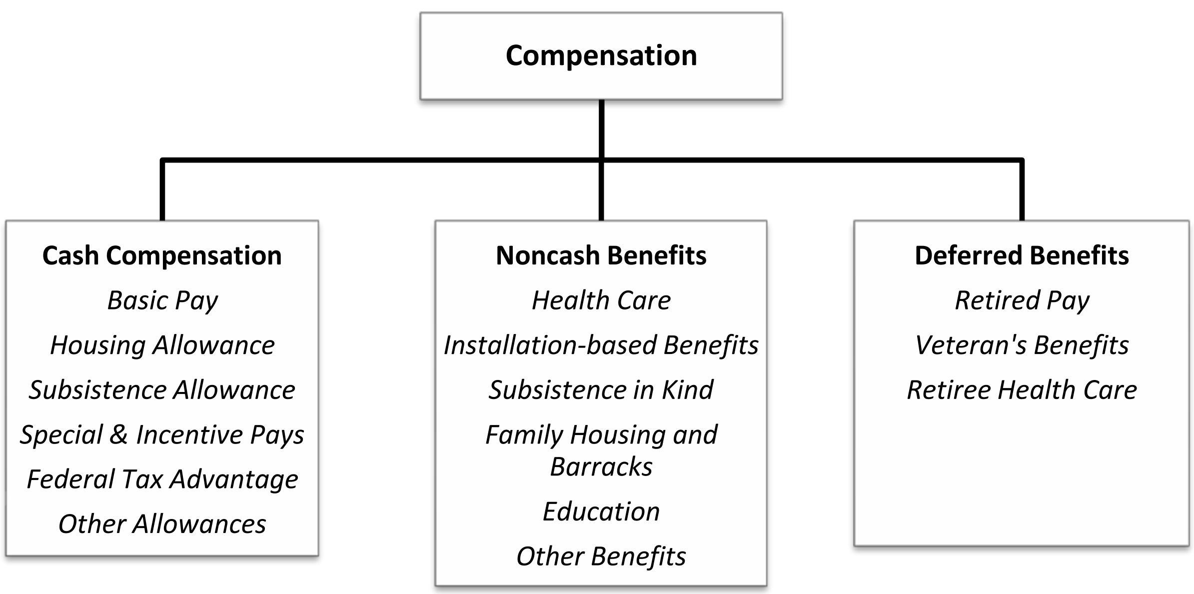

Figure 1. Active Duty Service Member Compensation

In general, prior to the establishment of the All Volunteer Force: military pay was nominal; it was not competitive with civil sector pay at the time; and skill transference from the military to civilian sector was difficult. Congress offset the low pay and acknowledged the sacrifices of the force by establishing a generous retirement plan and commitment to the life-long support of retirees. Health care, at the time, was primarily designed to maintain the un-married service member to ensure availability for duty and deployment.

However, the context today is much different and has led to the need for reform and change. Specifically, Congress has explicitly addressed the competitiveness of military and civilian pay through significant pay and allowance increases beginning in the 1990s. Today's service members are more likely to have families and retirees have an increased life expectancy that requires retirement benefits for longer durations. To meet the health care needs of this growing population of beneficiaries; DoD is forced to supplement organic capacity with civilian health care services and providers, whose costs reflect decades of inflationary growth well in excess of ordinary inflation. In short, it is costing more to maintain the status quo health care support to the force. These contextual changes when applied to the current compensation system are driving the growth of military personnel costs and, in turn are crowding out other critical programs within the DoD budget.

The compensation systems employed by the civilian sector and military are structured similarly, but the balance within the components differs greatly and must be accounted for in comparative analyses. GAO found in 2004 that military compensation packages were composed of roughly 49 percent cash compensation and 51 percent noncash and deferred benefits. This ratio is an important distinction. In the civilian sector, the ratios are closer to 82/18 and 67/33 for private industry and civilian federal government compensation, respectively. The GAO thus concluded that the military compensation system, heavily weighted to noncash and deferred benefits, is "highly inefficient for meeting near-term recruiting and retention needs" and that cash is more important to younger workers, in general.[4] The breakout of military compensation is also significant in another key way: it reduces the transparency on the true value of the entire compensation package to the individual service member. The larger amount of noncash and deferred benefits make it difficult for the average member to place an accurate value on those benefits that will be incurred in the future or realized through use (i.e., commissary, Post Exchange benefits). The lack of transparency also reduces the Department's ability to market the true value of the benefits package to potential recruits, or existing service members, which may limit the effectiveness of any recruiting or retention marketing strategies.[5]

Notes

[1] Cindy Williams, "Paying Tomorrow's Military," *Regulation* (2006): 26-31.

[2] US Government Accountability Office, "DOD Needs to Improve the Transparency and Reassess the Reasonableness, Appropriateness, Affordability, and Sustainability of Its Military Compensation System," GAO-05-798. Washington, D.C.: July 2005. http://www.gao.gov/new.items/d05798.pdf. Accessed September 30, 2011: 1.

[3] Major General Arnold Punaro (Ret.), "Military Strategy Forum,"Center for Strategic and International Studies, September 8, 2010. http://csis.org/node/26904/multimedia. Last modified September 8, 2010. Accessed December 30, 2011.

[4] US Government Accountability Office, "DOD Needs to Improve the Transparency and Reassess the Reasonableness, Appropriateness, Affordability, and Sustainability of Its Military Compensation System," GAO-05-798. Washington, D.C.: July 2005. http://www.gao.gov/new.items/d05798.pdf. Accessed September 30, 2011: 24.

[5] Cindy Williams, "Paying Tomorrow's Military," *Regulation* (2006): 26-31.

Chapter Four
Cash Compensation

Figure 1 outlines the primary components of military compensation and the individual programs found within each component. Of the three components, cash compensation has typically accounted for the largest portion of overall costs, and within this component basic pay is the largest program, accounting for over 60 percent of all cash compensation costs. Basic pay rates are based on pay grade and longevity of service, and increases come with promotion and years of service. DoD can recommend changes to the basic pay tables annually as part of the budget process and regularly implements across-the-board changes rather than targeted adjustments to specific grades.

By law, basic pay increases are tied to the Bureau of Labor Statistics' Employment Cost Index (ECI)[1], but Congress has often chosen to authorize higher pay raises in recent history. Specifically, between FY2000 and FY2011 Congress enacted pay raises beyond the statutory rates in all but two years.[2] The challenge from a budgetary standpoint is that Congress does not typically appropriate additional resources to accompany the higher authorized pay raise, which forces DoD to offset the increase from other areas of its budget. This is often a significant impact to the DoD budget. For example, DoD requested a 1.4 percent pay raise for 2011 and Congress authorized 1.9 percent resulting in a $350 million increase in 2011 and almost $2 billion over the next four years.[3] This precipitated the migration of resources from procurement and operations and maintenance accounts to offset the increased personnel costs within the DoD budget. The second and third order effects of pay raises, such as the compounding effect they have in future years as you apply them to a higher base, as well as on other forms of compensation like retirement pay, are frequently not evaluated in the decision process or their impact is discounted. Another contributing factor to the growth of pay is that in a majority of years since 1981 the ECI has outpaced GDP growth. Personnel costs in the civilian sector, and therefore the military sector since they are linked, are growing faster relative to the cost of the goods they produce. In essence, it is costing more to produce less.

Housing allowance is another key component of cash compensation. It is provided to service members to attain nongovernment housing that is comparable to their civilian counterparts. Housing allowance is calculated based on grade, dependent (or family) status and, most importantly, location. Housing allowance rates are adjusted annually based on extensive market surveys, and as a result of the timing of these surveys, they reflect the previous year's housing costs. Subsistence allowance is provided to offset the costs of service member's meals. There are standard rates for officers and enlisted personnel that are updated annually based on market surveys conducted by the Department of Agriculture. Special pays and incentives are a series of cash compensations that are used to attract and retain service members in critical military occupational specialties or career fields. Additionally, special pays for combat and other hazardous duty, as well as proficiency pays for special skills are captured here. The last major component of cash compensation is the Federal tax advantage that is realized by service members because they are not required to pay federal income taxes on many of their allowances. In effect, through these tax-free allowances, service members receive additional cash compensation equivalent to the amount of taxes they would have paid on the allowances if they were considered taxable income. On average, this amounts to several thousand dollars for all service members annually. The remaining programs within this component of pay are a series of allowances with marginal associated costs.

In general, cash compensation is fairly transparent with costs and benefits clearly stated and readily accessible. Costs are captured in a small number of appropriations and typically aggregated into a single budgetary line item while benefits are clearly communicated to service members through earning statements. Transparency suffers, however, given the complexity of special and incentive pays, bonuses, and the inclusion of certain contingency-based pays in Overseas Contingency Operations budgets versus base budgets. Further, it is difficult to articulate the value of the benefit that service members receive from avoiding taxes on their allowances. Many dismiss this as a true component of compensation.

Since 2001, military personnel costs (including all components of compensation) have increased by 50 percent in real terms,[4] although some portion of this growth is likely attributable to Overseas Contingency Costs (see discussion on Transparency). However, if we look at the cash compensation component of the costs independently, focusing only on the pay appropriations, we find marginal real growth since FY2001. In fact, between 2001 and 2012 military active duty end strength has been consistent at approximately 1.5 million while the military pay costs have grown only 4 percent.[5] Perhaps a more instructive statistic is per capita costs. Costs calculated in this manner shows the average military pay for an active duty service member in 2001 was $46,000 and in 2012 it was $47,890. In sum, cash compensation is not the primary cost driver of military compensation and is not growing at an unsustainable rate.

The remaining question is whether or not military cash compensation is adequate. Starting in the 1960s, the three basic elements of cash compensation—basic pay, basic allowance for housing and basic allowance for subsistence—have been aggregated and characterized as Regular Military Compensation (RMC) by Congress and DoD. RMC serves as a point of comparison with civilian pay, to ensure military compensation was commensurate with the civilian sector. Since its implementation, the components of RMC have expanded to include the Federal tax advantage, to provide a more accurate comparison of military and civilian compensation.

In an effort to develop a more complete comparison, DoD recommended in 2008 to broaden this aggregation of compensation to include health care, deferred benefits and additional tax advantages. But while numerous studies have used this approach, it has not been formally adopted by Congress or DoD. In fact, over the past decade military and civilian compensation analysis has become almost a cottage industry with the RAND Corporation, the Congressional Budget Office, the Congressional Research Service and the CNA Corporation all producing significant studies.

When comparing military and civilian compensation there are several hard truths. First, civilian compensation levels are not the ultimate arbiter of military compensation. GAO identified the many shortcomings with such comparisons—scope of pay and benefits considered, underlying assumptions, and valuation of benefits—and concluded in testimony to Congress in 2010 that such comparisons "are not sufficient indicators for determining the appropriateness of military compensation levels."[6] Policymakers should use the data and information from these comparisons to inform their decisions, but not as the basis for such decisions.

Second, there are no exact comparisons between military and civilian compensation and therefore, each attempt to create such a comparison will have limitations. Each of the major producers of recent comparisons (identified above) employed varying methodologies. These included direct comparisons of compensation (using different components of cash, noncash and deferred benefits), comparisons of select Military Occupational Specialties (MOS) with commensurate civilian sectors, analysis of the military – civilian pay gap over time, and the assessment of pay based on an index like the Employment Cost Index. Each effort was analytically rigorous and developed sound conclusions and recommendations, but also came with significant limitations.

The final hard truth is that, regardless of the formula or methodology employed in the comparison, military compensation was found to be largely commensurate with civilian sector compensation.

The CNA Corporation, commissioned by DoD in 2008 to compare military and civilian compensation, concluded that compensation levels are comparable. Using just RMC, CNA found that enlisted personnel averaged $4,700 more than the comparable civilian and that officers averaged $11,500 more than their civilian counterparts annually. When military compensation was expanded to include health care, retirement and tax advantages, CNA found that average differences increased significantly to $13,360 and $24,870 higher for enlisted and officers, respectively, when compared to their equivalent counterparts.[7] In 2007, the Congressional Budget Office arrived at similar conclusions: 2006 military compensation exceeded the 70th percentile of civilian compensation, meaning that military pay exceeded the pay of 70 percent of comparable civilians. This is important to note because the 9th Quadrennial Review of Military Compensation identified the 70th percentile as the goal for the Department. Since achieving the 70th percentile of civilian pay in 2006, "military pay raises have continued to exceed the increases of civilian wages and salaries, so that this finding has not changed."[8] In 2011, the RAND Corporation also found that military compensation is higher than that of comparable civilians, concluding that both enlisted and officer pay exceeds the 75th percentile of civilian pay. In summary, the consensus is that Regular Military Compensation pay compares favorably with civilian compensation. Thus, if noncash and deferred benefits are included in the calculus, compensation may compare even more favorably.

Perception also matters here. Given the consensus of conclusions on the competitiveness of military pay, one could assume that DoD and Congress would have similar perceptions. However, as discussed previously, Congress continues to direct increases to cash compensation despite the recommendations of DoD and the continued achievement of recruiting and retention goals by all Services. This is likely attributable to Congress recognizing the commitment of service members and their families during this period of high operational tempo, as well as the fact that it is far politically safer to vote for a pay raise than other options. But this recognition of service is exacerbating internal budgetary tensions.

Service members perceive cash compensation positively given the transparency and ease of determining the true value of the benefit. However, one long-standing inequity of cash compensation is the differentiation of housing allowance by marriage status. Addressing this inequity is not as simple as moving to a single rate that discounts marital status because of the subsequent implications to on and off-post housing, privatized housing, and barracks. The relatively small cost of aligning the rates would likely lead to significant costs increases in the identified housing programs.

Finally, DoD needs to continue to look to the future when assessing the perception of the compensation system. As stated previously, Millennials or Generation Y are becoming the target demographic for military recruiting and service. While it is too early to draw definitive conclusions or extrapolate the effect these factors may have on military service, early results from PEW Research may foreshadow the need for future rebalancing of the compensation system to retain relevancy and effectiveness. Millennials' views on employment and national security may require the enhancement of tangible benefits, specifically cash compensation, to overcome their disaffection with the intangible benefits of military service. Briefly, PEW data shows that Millennials see themselves as far more likely to switch careers, less likely to remain loyal to an employer, and generally support a less assertive national security stance than previous generations.[9]

Resultant Policy Recommendations

- Index future military pay increases to the Employment Cost Index minus 0.5 percent annually (as long as ECI >= 0.5 percent). This will slow the rate of growth of military pay, allow RMC to return to approximately the 70th percentile of civilian pay, and reduce internal DoD budgetary tensions. The potential cost avoidance associated with this recommendation is dependent on future inflation, but could save approximately $17 billion over the next decade.[10] In most years service members will still receive a pay increase; however, their effective buying power will be reduced as the raises will not offset normal inflation. A secondary advantage will be the slower growth of retirement benefits, which are calculated based on the service members' base pay at the time of retirement. DoD supports the control of future pay raises, but will not implement any reform until 2015, effectively avoiding cash compensation reform and postponing any potential savings. The delay fails to capitalize on the prevailing conditions and leaves open the debate on cash compensation reform for two years, increasing the chances that the reform will never be implemented. Further, it is important to reassert that if this reform were implemented in 2013, service members would still receive annual pay raises, albeit smaller, because of the latest ECI trends.

Notes

[1] According to Charles A. Henning in CRS Report RL33446, "Permanent law (37 U.S.C. 1009) provides that monthly basic pay is to be increased by the annual percentage increase in the Employment Cost Index (ECI). The ECI, calculated by the Department of Labor's Bureau of Labor Statistics, measures annual percentage increases in wages, salaries and employer costs for employee benefits on all private sector employees, although it can be subdivided to measure increases in specific categories of such employees. Indexing the annual military pay raise to the annual increase in the ECI was established by Sec. 602 of the FY2004 NDAA (P.L. 108-136, November 24, 2003; 117 Stat. 1498, amending 37 U.S.C. 1009). Previously, the annual military pay raise was linked to the annual percentage increases in the General Schedule (GS) federal civil service pay scale."

[2] Charles A. Henning, "Military Pay and Benefits: Key Questions and Answers," Congressional Research Service RL33446, October 31, 2008: 6-8.

[3] Carla Tighe Murray, "Statement on Evaluating Military Compensation," Given to the Subcommittee on Personnel Committee on Armed Services, United States Senate, Congressional Budget Office, http://www.cbo.gov/ftpdocs/114xx/doc11463/04-28-MilitaryPay.pdf, April 28, 2010.

[4] The Sustainable Defense Task Force, "Debt, Deficits, and Defense: A Way Forward," Last modified June 11, 2010. Accessed October 12, 2011. page 25.

[5] Calculated using the National Defense Budget Estimates for FY2012 found at http://comptroller.defense.gov/defbudget/fy2012/FY12_Green_Book.pdf.

[6] Brenda S. Farrell, "Statement on Military Personnel: Comparisons between Military and Civilian Compensation Can be Useful, but Data Limitations Prevent Exact Comparisons," Given to the

Subcommittee on Personnel Committee on Armed Services, United States Senate, Government Accountability Office, http://www.gao.gov/new.items/d10666t.pdf, April 28, 2010: 7.

[7] US Government Accountability Office, "Military Compensation," GAO-10-561R. Washington, D.C.: April 1, 2010. http://www.gao.gov/new.items/d10561r.pdf. Accessed September 30, 2011: 15-16.

[8] Carla Tighe Murray, "Statement on Evaluating Military Compensation," Given to the Subcommittee on Personnel Committee on Armed Services, United States Senate, Congressional Budget Office, http://www.cbo.gov/ftpdocs/114xx/doc11463/04-28-MilitaryPay.pdf, April 28, 2010.

[9] PEW Research Center, "Millenials: Confident. Connected. Open to Change." Last modified October 2010. Accessed October 12, 2011. http://pewsocialtrends.org/files/2010/10/millennials-confident-connected-open-to-change.pdf.

[10] Congressional Budget Office, "Reducing the Deficit: Spending and Revenue Options," March 2011, http://www.cbo.gov/ftpdocs/120xx/doc12085/03-10-ReducingTheDeficit.pdf. Accessed November 1, 2011: 76.

CHAPTER FIVE
Noncash Benefits

"I think we need to lay out for Congress how health care is eating the Department alive." --Robert Gates, former Secretary of Defense [1]

To focus on cash benefits is to miss much of the story of compensation. Military personnel receive approximately 20 percent of their compensation in the form of noncash benefits. More importantly, this proportion is increasing rapidly compared to the other components.

Noncash benefits are composed of six programs or groups of programs: health care, installation-based services, subsistence in kind, Family Housing and barracks, education and other. With no less than 23 individual programs aggregated into these six program groupings, it is best to focus on the two largest cost drivers—health care and installation-based services—which constitute approximately 10 and 5 percent annually of the DoD budget, respectively. This is a deliberate decision in an effort to limit the scope of this paper and because many of the issues that will be discussed in these two areas are applicable to other programs, but on a smaller scale. Also, it is important to note that even though health care is discussed in this section (as a noncash benefit), military retiree health care is actually considered a deferred benefit because it is not realized until after service is complete. However, it makes sense to discuss health care in a comprehensive sense rather than try to present it as two differentiated programs when, in fact, it is a single program.

Health Care Benefits

The military health care benefit is the largest noncash benefit and is believed to be one of the most important noncash incentives for recruiting and retention, according to the 10th Quadrennial Review of Military Compensation.[2] This benefit is provided through the military medical program, or Defense Health Program (DHP), which is one of the fastest growing programs within the Department's budget.

What is lost in much of the dialogue about DoD health care costs is that the program is not solely designed to provide health care to active duty service members. In general terms, the Defense Health Program is a comprehensive health care system responsible for: ensuring the readiness of the force; in times of conflict, meeting the needs of our wounded in a timely and effective manner; ensuring the health and well-being of active duty dependents (including activated reservists and national guardsmen and their dependents); providing care to military retirees and their dependents and survivors; and responding to humanitarian assistance missions, as needed.[3] While it is important to understand the scope and scale of DHP, this paper will focus only on the specific compensation aspects of the program that benefit the service member. Further, any recommendations that may be made in the later sections of this paper are based on the assumption that they must not affect medical support for our service members in combat or contingency operations or limit the ability of the Department to respond to humanitarian crises in support of our national interests.

In order to understand why the military health system is what it is today, a brief historical review is in order. Congress authorized the Army and Navy to establish the medical departments through legislation on March 2, 1799. The focus was to provide adequate medical support to service members assigned to remote (wilderness) outposts. As conditions changed and service members were able to bring their families to their posts and bases, dependents were authorized to be seen on a space-available basis. Eventually, retirees who remained subject to recall to active duty were also authorized space-available access to ensure adequate readiness was maintained. The active duty, dependent and retiree populations grew exponentially following World War II and Korea and far exceeded existing capacity. This prompted Congress to authorize civilian medical care for dependents and codified the right to space-available treatment in military treatment facilities for retirees and their dependents.

In 1966, Congress authorized additional benefits by establishing the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) program. This provided active duty dependents, retirees and their dependents with low-cost—to the service member—civilian medical care. All populations continued to have space-available access to military medical treatment facilities and gained greater access in 1987 when the military departments were authorized to contract for civilian capacity.

TRICARE replaced CHAMPUS in the 1990s in an effort to improve the quality of care and expand accessibility and choices for all populations served. Significant changes have been made to TRICARE since it was established, including the reduction (or elimination) of fees, deductibles and caps; expansion to include reservists and National Guard when mobilized; additional plans to support individual choice; and enactment of TRICARE for Life. TRICARE for Life provides supplemental coverage to Medicare-eligible retirees and their dependents, which reduces out of pocket expenses and eliminates the need for gap coverage.

Today, TRICARE provides nine different programs and serves all populations (active, reserve, retiree and dependents). TRICARE is similar to any major health care program in that it offers very specific services dependent on the individual plan. Indeed, it would be impossible to articulate the complete coverage provided to each population served. However, it is instructive to generalize the coverages to the various populations to gain a sense of the scope and scale of the benefits received by the individual. Active duty service members and mobilized reserve component members continue to receive medical care at no cost. Their dependents receive low cost care with limited exceptions when covered under the most popular plan – Prime. Retirees who are under the age of 65 and their dependents receive care through a choice of plans at costs well below those found in the civilian sector. Retirees who are 65 or older and their dependents can enroll in TRICARE for Life for free to supplement Medicare coverage—resulting in an annual savings of between $500 and $2,500 when compared to comparable civilian plans. Dependents, retirees, and dependents of retirees also retain the access to space-available services at military treatment facilities in addition to their TRICARE coverage. In sum, it is reasonable to conclude by any fair measure that military personnel and their dependents receive generous health care benefits.[4]

The military health benefit comes at great cost though and, in fact, is doing to the DoD budget what mandatory health care costs are doing to the national budget—crowding out other budget items as it consumes a greater portion of budget authority. The Department has requested $52.5B for military health care costs in the FY2012 budget, or about nine percent of the base budget. If these trends continue unabated, by 2016 these costs could grow to $59 billion and by 2030, CBO projects the costs to exceed $92 billion.[5] In sum, no other program in the DoD budget is growing at a faster rate than health care and steps are necessary to arrest program growth.

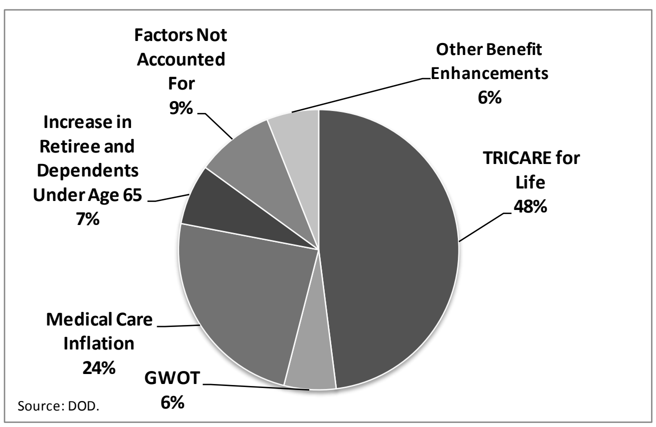

Figure 2. DOD Estimates of Factors Contributing to Increases in DOD's Health Care.[6]

There are various factors for the cost growth, but the primary causes are four: medical inflation; expansion of benefits; growth of covered population; and pharmaceutical costs (see Figure 2.).[7] Medical inflation continues to outpace overall inflation and the Department is not immune from this phenomena. Real health care spending per capita grew on average 4.9 percent annually since 1960 and the Department has realized this through the contracted services it uses to supplement direct care.[8] Secondly, Congress continues to expand benefits and resist the rollback of any benefit. For instance, enrollment fees for retirees under the age of 65 have remained constant since 1995, although a modest increase was approved in 2012. Co-pays, catastrophic caps and deductibles for services and prescriptions have been eliminated, reduced or held constant over the same period. This has resulted in retired TRICARE beneficiaries paying only 12 percent of their health care costs in 2006 compared to 27 percent in 1996.[9] It is the other parts of the Defense Department budget that are making up the difference. Additionally, the largest expansion of benefits, and thus costs, was the authorization of TRICARE for Life, which accounted for 48 percent of all DoD health care cost increases between 2000 and 2005.[10]

As benefits expanded, so did the number of beneficiaries. Today, there are 9.6 million beneficiaries of the medical health benefit to include an increasing number of activated reserve component service members mobilized in support of contingency operations. In fact, active duty service members and their dependents only account for 42 percent of beneficiaries today, as depicted in Figure 3.

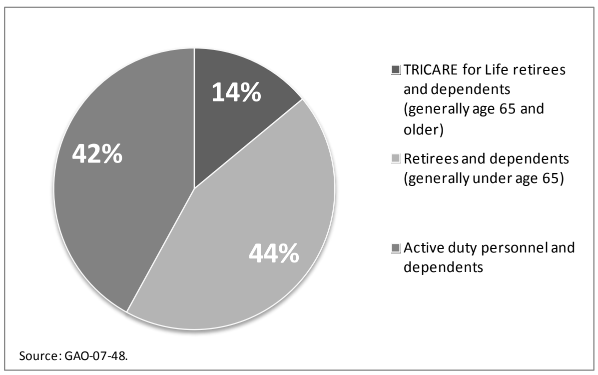

Figure 3. TRICARE Beneficiaries in FY 2005.[11]

Finally, pharmaceutical costs are growing dramatically, impacting the Department in much the same way they affect the civilian sector as a majority of TRICARE beneficiaries purchase prescriptions through retail outlets. DoD costs for pharmaceuticals have grown from $1.6 billion in 2000 to $7.5 billion in 2009 with almost two-thirds of those sales through more costly retail outlets versus military treatment facilities or the TRICARE mail order service.[12]

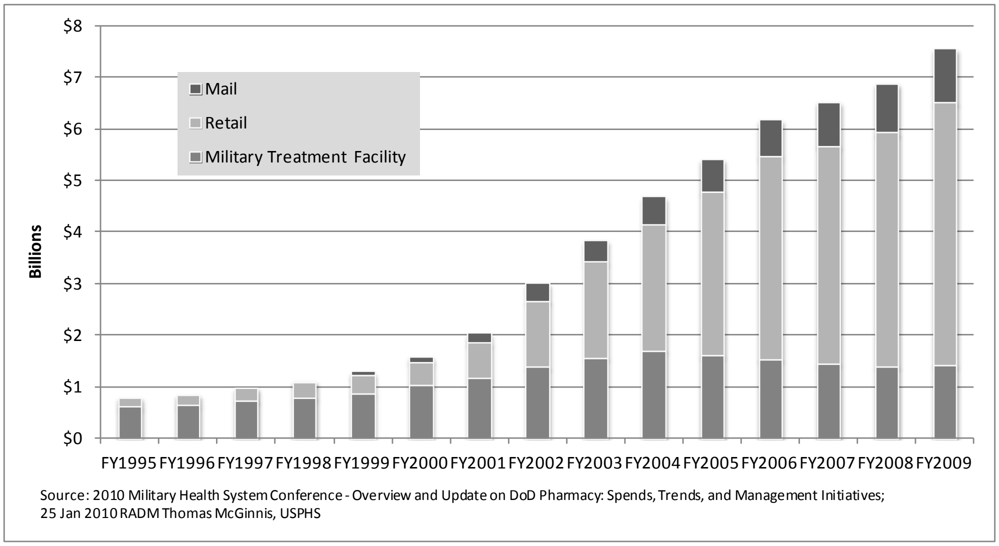

Figure 4. DoD Drug Outpatient Expenditures.[13]

With the crowding-out effect that health care costs are having on force structure, procurement, and operations, the Department has tried to implement changes to health care costs over the years. Specifically, DoD requested reasonable changes to TRICARE in its 2007, 2008, 2009, 2011, and 2012 budget requests that it felt were necessary, yet still maintained the commitment to the active and retired service members and their dependents. Congress has for the most part not adopted these changes and only implemented modest adjustments to the existing programs. The last significant change directed by Congress was in the National Defense Authorization Act of FY2007, where employers of military retirees, by law, could no longer offer incentives to these employees to choose TRICARE instead of the employer-sponsored plan. While the impact of this section of law has not been assessed formally, there appears to have been no significant change to the trends of retirees opting for TRICARE coverage.

In addition to being on an unsustainable path, DoD health care costs lack transparency and suffer perception issues. Health care costs are spread across multiple appropriations within the DoD budget, mostly within operations and maintenance accounts even though they are personnel-based costs, and DoD transfers resources to external accrual accounts—such as Medicare—that provide health care to retirees. Beyond the aggregate cost of the Defense Health Program, little information is readily accessible on the key components of the program and their impact on costs, which is likely hampering effective decision-making. The valuation of health care benefits is also difficult because the serviced population is insulated from national health care trends. The result is service members who greatly under-value these benefits as a component of their compensation. Public rhetoric on health care benefits is also affecting the perception of individual service members. Numerous organizations that advocate on behalf of military service members and retirees are distorting the issue with absolute (e.g., no changes to health care benefits) and unsubstantiated (e.g., the promise of benefits for life) positions. This is only adding difficulties to finding adequate solutions to an already problematic issue.

Resultant Policy Recommendations

- Increase under-65 retiree TRICARE enrollment fees to an amount equal to 50 percent of the annual worker contribution as derived by Kaiser Family Foundation and the Health Research and Educational Trust annual survey, and index future rate increases to this measure. The increase should be phased-in over several years and fees should be tiered based on amount of retired pay. For 2011, the highest enrollment fee would be approximately $2,000 annually based on a $4,129 average civilian worker contribution[14] for family health care coverage. Currently, non-Medicare eligible retirees pay $520 for TRICARE Prime family coverage. The underlying cost structure of co-pays and deductibles should be adjusted in concert. This recommendation begins with the 2013 DoD budget proposal, based largely on CBO's work for increasing medical cost-sharing for retirees not eligible for Medicare and proposes a higher fee structure, which would generate additional savings.[15] This recommendation reduces the disparity between military and civilian health care costs while still maintaining generous benefits to military retirees and their dependents. Specifically, military retirees would have the option to stay with TRICARE and pay no more than half of what the average civilian would pay for family health care coverage or opt for another employee-sponsored plan. There would be no impact to active duty service members or their dependents. The potential savings is $30-40 billion over a ten-year period.[16]

- Introduce minimum cost sharing for TRICARE For Life by eliminating coverage of the first $550 of out-of-pocket expenses, only cover 50 percent of the next $4,950 in costs, and index future cost increases to Medicare cost inflation. TRICARE For Life requires no enrollment fee and therefore is a 'free good'. By introducing cost sharing, the potential for overuse is minimized and overall demand reduced. Retirees will continue to retain the option to be seen on a space-available basis at military treatment facilities to supplement Medicare treatment. The potential savings is $33 billion over ten-years (Medicare would also realize savings with this option).[17] The 2013 defense budget establishes an enrollment fee for TRICARE For Life, but the details have yet to be released. While establishing an enrollment fee is commendable, unless the underlying cost-sharing structure is amended, DoD will only marginally reduce the $8.4 billion it spends annually on Medicare eligible retirees.[18]

- Increase the co-pays for pharmaceuticals for all beneficiaries. Active duty service members will continue to receive their prescriptions at no cost from military treatment facilities. New co-pays of $3 for generics and $9 for name-brand prescriptions would be instituted for military pharmacies. Retail prescription co-pays for a 30-day supply of drugs would increase to $15 for generics, $25 formulary, and $45 for non-formulary from $3, $9 and $22, respectively. Mail order prescription co-pays for a 90-day supply of drugs would increase to $9 for generics, $27 formulary, and $45 for non-formulary from $3, $9 and $22, respectively. This cost structure is intended to limit demand, reduce the use of the most costly retail option, and incentivize mail-order and treatment facility services, which are more cost effective means of providing pharmaceutical services. Retirees and their dependents use retail outlets for over half of their prescriptions and would be most affected by this change; however, the availability of mail order pharmacy service will mitigate the impact. The potential savings is $13 billion over ten-years to the Department with additional savings in Medicare costs.[19] The 2013 defense budget appears to include all provisions of this recommendation.

Installation-Based Benefits

Installation-based benefits are the second largest expenditure within the category of noncash benefits. They capture the range of services available on military installations (although some programs have limited reach beyond the installation) that support military personnel. The benefits derived include defense commissaries, post/base exchanges, child care services, dependent schools and other, smaller morale, welfare, and recreation (MWR) programs.

The biggest caveat of these services is that because they are installation-based, they do not service all military personnel assigned to the base or provide significant benefits to those personnel assigned to locations where no installation exists. Also, the benefits available are not applicable to every service member because some of the benefits apply to service members with family, but not single service members. This is one of the difficulties in assigning a monetary value to noncash benefits of this type because of the lack of universal access or applicability to the service member. However, every major study has derived an average cost (or worth) of the benefits in assessing total compensation values for military personnel regardless of the different values that service members would place on these benefits. For example, a single service member may not use the child care services available on post, whereas a service member with a dependent child may. Conversely, the married service member likely does not use the MWR benefits designed to enhance the quality of life of single service members. While there is broad agreement and acknowledgement on the limitations of this methodology, the practice of applying the value of installation-based benefits equally to all service members is a standard practice. With this stipulated, we can now address the benefits derived from the larger programs within this category.

The Defense Commissary Agency (DeCA) operates 252 commissaries around the world and has recently begun expanding reach to reserve component personnel through outreach sales. The agency achieved approximately $6 billion dollars in total sales in 2010, which they translated to $2.8 billion in savings to the customer, or an average savings of about 30 percent over comparable civilian stores. The agency believes that these savings translate to an annual savings of about $4,400 for a family of four, over $2,400 for a couple and more than $1,500 for a single service member.[20] However, in a 1997 report the CBO states that "DoD overstates the savings they provide patrons in the United States" and concludes the true benefit is closer to 20 percent over a civilian provider.[21]

There are several issues to consider when evaluating this benefit to the service member. The commissary serves not only active duty military personnel, who self-reported a 90 percent utilization rate of the commissary in 2007,[22] but also retirees who have outnumbered active military service members since the early 1990s. This skews the true value of benefits that can be attributed to the service member in addition to the limited population of service members that have access to, or choose to patronize, commissaries. DeCA does not capture the status of its patrons—retiree or active—or at least has not made this data public making any calculation of value for service members of questionable utility. Moreover, commissaries are no longer the sole option for many service members.

To be direct, they have outlived their initial purpose of providing food services to military posts and bases that had limited or no access to this type of service. Commissaries continue to provide valuable support to overseas locations where access to American foodstuffs is extremely limited and to remote CONUS locations; however, the expansion of civilian companies has enhanced the range of choices for many service members beyond the commissary. A tangential benefit of commissaries is that a majority of their employees in the U.S. are service members, dependents and/or retirees. Finally, the commissary system does not support today's prevalent contingency operations, other than the continued support to those family members who have access to a commissary.

DeCA operations are funded through a combination of appropriated dollars and surcharges. DoD requested $1.4 billion of appropriated dollars in FY2012 to support commissary operations, of which a majority will go to employee salaries. In constant dollar terms, DeCA appropriations have been generally flat over the previous decade. Surcharges are generated through sales and provide the balance of operating resources and allow the agency to execute capital improvements and provide support to service members through various MWR activities and events. Similar to the trends with appropriated resources, the surcharge has not changed in the near-term. DoD does not address Defense Commissary Agency reforms in its 2013 budget.

The Post and Base Exchange service is actually three independent, world-wide exchange systems that operate 297 retail complexes. They do not belong to DoD or any other government entity. In addition to retail sales, these services also provide resale and telecommunications to support military missions on board ships and in 93 contingency operations, including deployed locations and disaster relief areas. The FY2011 budget request for the exchange services was approximately $217 million, of which 86 percent was budgeted for the transportation requirements to ship U.S. procured goods to overseas locations—a requirement established by law. The balance of operating costs is funded through non-appropriated funds while capital investments are part of the military construction appropriations. As with commissary funding, exchange funding has been mostly flat in recent years. A secondary benefit, as previously noted with commissaries, is that 29 percent of the 62,000 exchange workforce is composed of family members of service members and provides job opportunities for wounded warriors and veterans.[23] The same CBO report that concluded that commissary savings were overstated found exchange savings to be even more overstated, amounting to about 20 percent below commercial prices and excluding taxes which are an additional cost savings to exchange patrons.[24] Self-reported utilization rates of exchange services are also consistent with commissary services at 90 percent.[25] As is the case with DeCA, the DoD does not address Post Exchange system reforms in its 2013 budget.

The Department of Defense also operates the largest employee-sponsored child care program in the United States. It consists of 800 Child Development Centers (CDC) and 9,000 Family Child Care (FCC) providers that offer in-home services.[26] Both of these options provide low-cost (tiered) quality child care services based on priority of need (single service member, dual military parents, etc), but only to a small minority of the dependent population. Thus, few service members actually receive any benefits at all. According to the 10th QRMC, only seven percent of service members with young children use CDCs and only four percent use family child care services. These rates go even lower the farther a service member lives from the post or base. The cost to operate these services is in excess of $500 million dollars annually, with a majority of the resources used to subsidize CDCs. Depending on the situation, per-child subsidies for CDC services can exceed $10,000 while average FCC per-child subsidies are approximately $1,000.[27] No support is provided to subsidize off-post child care expenses. Calculating the benefit received from this service as part of overall compensation is difficult given the percent of families with school-age children eligible to use this service, the utilization rates of those with eligible children, and the installation-based nature of the services provided. Again, DoD does not address child care reforms in its 2013 budget.

Similar factors are at play when assessing the benefits service members derive from DoD schools. The Department of Defense Education Activity (DoDEA) operates 194 schools worldwide that educate 86,000 school age children, a majority of whom are dependents of service members. 130 of these schools are operated overseas by DoD Dependent Schools (DoDDS) servicing about 59,000 students in areas where English speaking schools are not available. 64 schools are operated inside CONUS or U.S.

Territories by the Domestic Dependent Elementary and Secondary Schools (DDESS) system, serving about 28,000 students.[28]

As with the commissary system, a bit of history is required. Domestic schools were originally established to provide adequate schooling for military dependents in areas where free education was not available, where funding could (or would) not be provided by local authorities to educate individuals residing on federal property, or where schools remained racially segregated.[29] It is obvious that the domestic educational landscape has changed dramatically since DoD domestic schools were established. Few, if any, DDESS schools continue to operate under these circumstances. DDESS schools appear to be fundamentally redundant with local resources, may not actually be providing any benefit other than a reduced commute time for the students and only benefit those service members who reside on post with school-age children. Statistics show that only 18 percent of service members reported using DoD-run schools.[30] However, as discussed earlier, this noncash benefit is applied to all military service members regardless of whether they or their dependents utilize the services provided. The overall operating budget for DoDEA is $1.9 billion with approximately $468 million dollars spent on domestic operations.[31] Legislation is pending in Congress to close most DoD domestic schools at a projected savings of $39,000 per student after factoring in a $12,000 payment per student to local school systems that accept these students. Overall savings are estimated at about one billion dollars over five years, but these reforms are not taken up in the DoD's 2013 proposed budget.[32]

The balance of programs that constitute installation-based benefits—various morale, welfare, and recreation (MWR) programs—have marginal associated costs and provide benefits that are somewhat unique to military bases and not often provided by the civil sector. The relatively low costs do not warrant additional evaluation and assessment.

Resultant Policy Recommendations

- Eliminate appropriated funding for the Defense Commissary Agency (DeCA) by pursuing other business models (i.e., out-sourcing) or eliminating commissaries. Remote and overseas locations where like-services are not available would not be considered for elimination. This benefit, similar to all noncash benefits, is not an efficient means of compensating service members given the difficulty in determining the value of the benefit. Additionally, this service is not a core-competency for the Department and in many locations; ample civilian-based providers are available to service members. The potential cost savings from this option is $5 billion over ten-years.

- Eliminate all appropriated funding for post exchanges with the exception of support to deployed service members in remote and/or contingency locations. With the exception of support to deployed service members, this service is not a core-competency for the Department and should be divested. The savings from this recommendation would be $1-2 billion.

- Update the Department's employee-sponsored child care program to support a greater portion of the active duty force and include subsidies for services that are provided off-post. The update should be need-based and cost neutral and result in no additional costs over the next ten-years.

- Pass the pending legislation that closes most domestic schools and provides subsidies to the affected local school systems. Retain overseas and remote location schools where adequate services are not available. Potential savings over the next ten-years is $2 billion.

Notes

[1] Secretary of Defense Robert M. Gates during Media Roundtable with and General James Cartwright, Vice Chairman Joint Chiefs of Staff and selected reporters, April 7, 2009.

[2] Department of Defense, "Volume 2: Deferred and Noncash Compensation," Tenth Quadrennial Review of Military Compensation, July 2008: xiv.

[3] Ibid.

[4] Numerous resources exist that outline the complete coverage and cost structure associated with each TRICARE program. See Tenth QRMC, Volume II.

[5] Congressional Budget Office, "Long-Term Implications of the 2012 Future Years Defense Program," June 2011, http://www.cbo.gov/ftpdocs/122xx/doc12264/06-30-11_FYDP.pdf. Accessed September 30, 2011: 17.

[6] David M. Walker, "DOD's 21st Century Health Care Spending Challenges," Congressional Budget Office, June 2011, http://www.cbo.gov/ftpdocs/122xx/doc12264/06-30-11_FYDP.pdf. Accessed September 30, 2011: 14.

[7] See Center for American Progress' Restoring TRICARE, Regulation's Paying Tomorrow's Military and the numerous CBO reports on DoD Budget and Health Care.

[8] David M. Walker, "DOD's 21st Century Health Care Spending Challenges," Congressional Budget Office, June 2011, http://www.cbo.gov/ftpdocs/122xx/doc12264/06-30-11_FYDP.pdf. Accessed September 30, 2011: 8.

[9] Rachel Foster, and Robert Opsut, "Rising Defense Healthcare Costs," The Journal of American Military Comptrollers, Winter 2011: 15-19.

[10] David M. Walker, "DOD's 21st Century Health Care Spending Challenges," Congressional Budget Office, June 2011, http://www.cbo.gov/ftpdocs/122xx/doc12264/06-30-11_FYDP.pdf. Accessed September 30, 2011: 14.

[11] Ibid, 15.

[12] RADM Thomas McGinnis, "Overview and Update on DoD Pharmacy: Spends, Trends, and Management Initiatives," Briefing at the 2010 MHS Conference Briefing on Pharmaceuticals, January 25, 2010, http://www.health.mil/Libraries/2010_MHS_Conference_Presentations/M36_T_McGinnis.pdf. Accessed November 1, 2011: 10.

[13] Ibid, 10.

[14] Kaiser Family Foundation, Health Research & Educational Trust, and National Opinion Research Center, "Employer Health Benefits," September 2011. http://ehbs.kff.org/pdf/2011/8225.pdf. Accessed December 5, 2011: 1.

[15] Congressional Budget Office, "Reducing the Deficit: Spending and Revenue Options," March 2011, http://www.cbo.gov/ftpdocs/120xx/doc12085/03-10-ReducingTheDeficit.pdf. Accessed November 1, 2011: 78.

[16] Final savings would be determined by the fee structure (I am proposing 50 percent of civilian rates for family coverage as a benchmark for the highest TRICARE rate) and the rate at which military retirees choose to stay with TRICARE or move to another provider.

[17] Congressional Budget Office, "Reducing the Deficit: Spending and Revenue Options," March 2011, http://www.cbo.gov/ftpdocs/120xx/doc12085/03-10-ReducingTheDeficit.pdf. Accessed November 1, 2011: 19.

[18] Congressional Budget Office, "Reducing the Deficit: Spending and Revenue Options," March 2011, http://www.cbo.gov/ftpdocs/120xx/doc12085/03-10-ReducingTheDeficit.pdf. Accessed November 1, 2011: 19.

[19] Ibid, 82.

[20] Joseph H. Jeu, "Statement on Defense Commissary Agency," Given to the Military Personnel Subcommittee of The Committee on Armed Services, United States House of Representatives, http://www.commissaries.com/foia/documents/director_statement_before_congress_2010.pdf. February 10, 2011: 2-3.

[21] Congressional Budget Office, "The Costs and Benefits of Retail Activities at Military Bases," October 1997, http://www.cbo.gov/doc.cfm?index=158&type=0&sequence=1. Accessed November 1, 2011: xv.

[22] US Government Accountability Office, "Military Personnel: Military and Civilian Pay Comparisons Present Challenges and Are One of Many Tools in Assessing Compensation," GAO-10-561R. Washington, D.C.: April 1, 2010. http://www.gao.gov/new.items/d10561r.pdf. Accessed September 30, 2011: 44.

[23] Maj Gen Bruce Casella, "Military Resale Programs Overview," Given to the Military Personnel Subcommittee of The Committee on Armed Services, United States House of Representatives, http://armedservices.house.gov/index.cfm/files/serve?File_id=9a697925-1b77-45d9-96ee-7eb41811d924. February 10, 2011.

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CHAPTER SIX
Deferred Benefits

"…[military] retirement program needs to be fundamentally different than anything you find in the civilian sector…" -- General Martin Dempsey, Chairman of the Joint Chiefs of Staff[1]

Deferred benefits comprise approximately 31 percent of military compensation.[2] These benefits include retired pay, retiree health care and Veteran's Benefits, which are composed of several smaller programs with marginal associated costs.[3] Retiree health care costs were discussed previously within the context of overall health care and therefore, this section will focus on retired pay – the largest cost of deferred benefits. Similar to noncash benefits, deferred benefits are considered less efficient, in that the value of the benefits are based on the individual's assessment of the discounted worth of the future benefit. This is a non-trivial endeavor given the low percentage of service members who actually serve 20 years, even though retirement benefits are explicitly stated.

Military retirement is a non-contributory, defined-benefit system that incentivizes the completion of a 20-year career. The officially stated purpose of military retirement pay (and other post-service or separation pays) includes: "the provision of a socially acceptable level of payments to members and former members of the Armed Forces during their old age; the provision of a retirement system that will enable the Armed Forces to remain generally competitive with private-sector employers and the Federal Civil Service; and the provision of a pool of experienced military manpower that can be called upon in a time of war or national emergency to augment the active duty forces of the U.S., and the establishment of a mechanism whereby persons in this pool can move in and out of the active duty force smoothly."[4]

The two key policy differences between military retirement and other systems then is that retired service members are subject to recall to active duty and thus regular, retired members are subject to the Uniform Code of Military Justice (UCMJ), which enables them to be recalled to active duty. Additionally, military retirement is contingent on 20-year 'cliff' vesting, where no benefits are received unless a full 20-year career is completed. This is based on the closed nature of the personnel system and the lack of personnel migrating into (and out of) the military beyond initial accessions.

Here again history matters. The military retirement system originated in the 1860s, with significant adjustments to the legislation made in the 1940s, 80s and 90s.

Critics of the system argue that the facts and assumptions that were used to establish the current system, such as shorter life expectancies, non-competitive pay, and the rarity of second careers for military personnel, are no longer valid and the system must be overhauled. Many of these same critics have offered numerous alternative retirement plans or reforms to the current system, but none have clearly linked the need for reform to the effectiveness (or lack thereof) of the system. The dubious nature of some of the assertions that the costs of the military retirement system warrant major reform will be discussed following a brief outline of the key elements of military retirement pay.

There are three major military retirement systems based on the status of the service member – active duty, reserve component and disabled. The active duty system provides monthly pay, based on one of three methods of calculating benefits, immediately upon retirement following a minimum of 20-years of service. For active duty service members who entered service before 8 September 1980, retirement pay is the final monthly base pay before retirement multiplied by 2.5 percent for each year of service. This is considered the Final Pay plan. A service member who retires with 20-years of service receives 50 percent of their final base pay, whereas a 30-year veteran receives 75 percent and a 40-year veteran receives 100 percent. It is important to note that the calculation is based on base pay only and does not include any special or incentive pays, which effectively yields a retired pay amount of about 35 percent of normal, pre-retirement pay. Further, the population of service members eligible for retirement under this plan is quickly diminishing as many are retirement-eligible. Current estimates are that all service members eligible for the Final Pay plan will leave service by 2016. This is significant because the Final Pay plan is the most generous (and expensive) plan in effect today.

Service members who entered active duty after 8 September 1980 and before 1 August 1986 are eligible for retirement benefits calculated using the average of the final three years (36 months) of base pay and the same 2.5 percent multiplier for each year of service. This is commonly referred to as the High-3 program or plan. Congress enacted the High-3 plan to reduce costs with the savings originally estimated at 13 percent below the projected costs of the Final Pay plan.[5] The Military Retirement Reform Act of 1986 revised the calculation methodology based on the assessment that retirement pay was too generous. The new methodology, termed Redux, used the High-3 calculation for pay, but a different multiplier scheme.

Service members retiring with 20-years receive 40% of their calculated base pay and then earn 3.5 percent additional per year of service between years 20 and 30. The multiplier reverts back to 2.5 percent per year after 30 years of service. Congress essentially repealed Redux in the National Defense Authorization Act of 2000 with the belief that the pre-Redux level of compensation was more appropriate. This repeal allowed service members who entered active duty after 1 August 1986 to opt for the

High-3 plan or the Redux plan with a one-time cash payment or series of installments of $30,000, (the Career Status Bonus (CSB)). Cost of living increases for service members who opted for Redux is reduced by one percent (CPI minus 1%) up to age 62. At age 62 the multiplier is altered via a one-time adjustment to equal the Final Pay and High-3 plans, but future annual increases are reduced by one percent. Retirement benefits are greater with the High-3 plan when compared to Redux, leading most service members to not opt for Redux. In fact, recent data from the Navy and Marine Corps shows a steady decline in the number of service members opting for Redux with only 16 percent choosing this option in 2010, down from 41 percent in 2003. As more decline the Redux option, the two means of cost savings—pay factor (40%) and post-62 cost adjustments (CPI minus 1%)—have less impact on overall retirement costs.[6]

Reserve component retirement pay is similar to active duty in that it requires 20 years of service to vest, uses the same 2.5 percent multiplier per year of service, and uses the final pay or High-3 methods for calculating retired pay. However, unlike their active counterparts, reserve component service members use an activity-based point system to calculate qualifying years of service. This accounts for the part-time nature of reserve component service (drills and annual training) as well as for active duty service of these service members when mobilized. Additionally, reserve component service members do not (usually) receive retired pay until age 60; however, they do receive service credit for each year between entering the Retired Reserve and becoming eligible to receive retired pay. The final retirement system is for service members who become disabled during military service. These service members are also eligible for retired pay with their benefits calculated based on base pay, years of service and percent of disability.

There are several notable provisions of military retirement pay that are applicable regardless of the system of retirement. Unlike most federal and private sector retirement plans (defined contribution plans), service members do not contribute to the retirement system. Service members do pay social security taxes throughout their careers and are eligible to receive social security benefits in addition to (and not offset by) their retirement benefits. Military retirement pay is subject to federal income tax, but not social security tax. Finally, existing law mandates annual cost of living increases for retired pay based on the Consumer Price Index (CPI-W specifically), although the methodologies are somewhat different for retirement pay based on Redux. This is designed to prevent the erosion of benefits over time, but also ensures that the overall cost of military retirement grows continuously.

Like many other elements of military compensation, military retirement costs lack transparency. Through 1984, the Department budgeted annually for the actual retirement costs being paid to retirees. DoD adopted a revised methodology in 1985 when it began contributing to the Military Retirement Fund an amount "sufficient to finance retirement payouts to current uniformed personnel when they retire" —equal to about 30 percent of base pay annually.[7] These funds and all accrued interest are used to pay retirement benefits to current retirees.

Today, the Military Retirement Fund does not have sufficient funding to meet all projected requirements (by design) and the shortfall is addressed annually by a transfer from the Treasury Department's General Fund. This practice should continue through FY 2033 before the fund is self-sustaining. To track total military retirement costs, one must track outlays from the federal budget since DoD appropriates only a portion of the total annual costs. For example, the Military Retirement Fund paid out $45.5 billion in 2008, while DoD only paid $14.9 billion into the retiree accrual accounts.[8]

Speaking to current and projected trends of military recruitment costs, Dr. Jo Ann Rooney, the Principal Deputy Under Secretary of Defense for Personnel and Readiness, perhaps best summarized the financial situation of the military retirement system during her testimony before the Personnel Subcommittee of the House Armed Services Committee. She stated that it is "neither unaffordable nor spiraling out of control."[9] Figure 6 captures the actual (then-year) Annual DoD Obligations or Expenditures as presented by the Defense Business Board (DBB), which shows massive growth of obligations from 1960 to present. However, if the data is adjusted to constant FY1960 dollars the growth slope over the same time horizon is generally flat. What is more, the average expenditure per retiree in constant FY1960 dollars was $2,716 in FY1960 compared to $3,555 in FY 2010—a modest increase over a 50 year time horizon. These trends are expected to continue for the next 50 years as well, with most growth coming from cost of living and other annual adjustments.

From a strict cost perspective, the military retirement system does not require deliberate reform to remain viable and sustainable. This has not stopped reform-minded critics or chartered panels from offering lower cost military retirement options or characterizing military retirement benefits as overly generous. Of note to the perception measure, Dr. Rooney's testimony came only days after the Defense Business Board presented their findings on Modernizing the Military Retirement System, where they presented a largely misleading picture of the costs of the current system.[10]

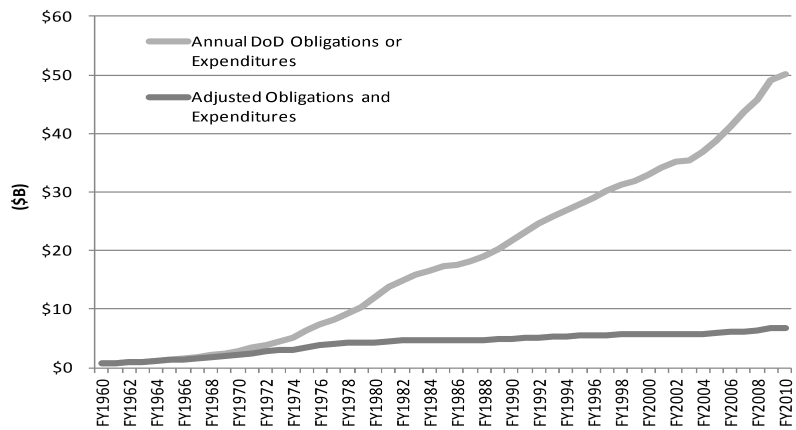

Figure 5. Military Retirement Fund Obligations and Expenditures.[11]

This is not meant to single out the DBB. No less than ten major reviews of the military retirement system have been undertaken in as many years with some citing concerns not just with costs, but also with efficiency, fairness and effectiveness as a force management tool. Unfortunately, little empirical evidence exists to show any linkage between retirement pay and the effectiveness of the Department's human resource strategy. This can also be stated for most of the other components of military compensation. Until the Department develops models and tools that can directly assess the impact of a benefit (cash, noncash, or deferred) to the effectiveness of the overall human resource strategy, assessment of the impact of any reforms will remain largely qualitative.

Recent reform efforts have focused on the fairness of the retirement system, concluding that the system is inequitable because only 15 percent of all enlisted personnel and 47 percent of officers who serve eventually retire. To put it another way, 83 percent of all who serve receive no retirement benefit. The fact that service members receive benefits immediately upon retirement and the system's apparent inflexibility as a force management tool has also been questioned. All of these concerns will be addressed in turn.

First, the perception that it is unfair that so few service members receive any retirement benefit is largely generated by people outside of the military and no data exists to corroborate these assertions with the perceptions of current or former service members. Given the closed personnel system of the military, portability of retirement benefits is neither necessary nor warranted. Also, the structure of the military requires a greater proportion of junior enlisted personnel and officers with the expectation that many will not serve a 20-year career and will exit the military at some point short of retirement eligibility. Offering a benefit that incentivizes an act that is likely to occur regardless is simply not necessary from a force management perspective. If there is concern with service members leaving without benefits, especially today as many join despite the near certainty of a combat deployment, then additional programs may be warranted. However, they should be viewed as additive and the existing retirement system should not be modified to accommodate these programs without a clear understanding of the impact on the overall human resource strategy. In short, the current retirement system, as part of the overall compensation plan, appears to be effective in meeting the goals of recruiting and retention. Given the inefficient nature of deferred benefits, the Department must develop more sophisticated tools to better assess the impact of alternative (perhaps cheaper) retirement systems.

Second, the perception that military retirement is overly generous because service members receive benefits immediately after retirement (usually at an early age) is also unfounded when compared to retirement plans for other hazardous professions—none of which require the same level of sacrifice or hazard required for military service. The Federal Employee Retirement System provides a unique plan for employees who perform jobs that are hazardous. Specifically, federal law enforcement professionals, fire fighters, air traffic controllers, and nuclear waste management workers are eligible to receive retirement benefits immediately after retirement, regardless of age and with 25 years of service. Federal workers outside of this category are not eligible to receive benefits until specific age and years-of-service requirements are met. The five year difference in eligibility does not seem overly generous compensation for what the nation asks of our service members.

Third, the inflexibility of the military retirement benefit as a force management tool is overstated. On numerous occasions, the Department and Congress have amended law to achieve specific outcomes in shaping the force. The latest example of this is the National Defense Authorization Act of FY1993 that allowed for early retirement (15-20 years) as a "temporary additional force management tool with which to affect the drawdown of military forces through 1995."[12] The timelines associated with previous force reductions do not appear to require additional flexibility in adjusting retirement benefits as part of overall force management.

Finally, the nation must not lose sight of the moral imperative it has to compensate service members in a manner that recognizes their sacrifice and commitment, an imperative that does not end at the conclusion of an individual's career. The military retirement system must ensure reliable, adequate, and risk-free compensation of military retirees to avoid the consequences of seemingly undervaluing their service. Failing to meet this moral imperative would likely have disastrous effects on current and future service members.

Resultant Policy Recommendation

- Make no adjustments to the current military retirement benefit until adequate analytic tools are developed to quantify the effect that adjustments have on overall force management effectiveness, specifically recruiting and retention. In the 2013 defense budget, DoD recommends the establishment of a commission, with Base Realignment and Closure Commission type authorities, to review military retirement. While DoD should be commended for not hastily implementing retirement reform, it should be equally criticized for abrogating leadership on the issue to an independent commission. DoD has proposed pay and medical benefit reforms, albeit modest, and should do the same for retirement reform. Service members deserve leadership in all situations—not just the convenient ones.

Notes

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3 Key components of Veteran's Benefits include the Survivor Benefit Plan, Thrift Savings Plan and VA Health Care system (not retiree care).

4 Under Secretary of Defense for Personnel and Readiness, "Volume 1: Military Compensation Background Papers," Last modified May, 2005 (6th Edition). Accessed September 26, 2011. http://www.loc.gov/rr/frd/mil-comp.html: 682-683.

5 Charles A. Henning, "Military Retirement Reform: A Review of Proposals and Options for Congress," Congressional Research Service R42087, November 17, 2011: 6.

6 Ibid, 9-10.

7 Charles A. Henning, "Military Retirement: Background and Recent Developments," Congressional Research Service RL34751, July 27, 2010: 10-11.

8 Ibid, 12.

9 Dr. Jo Ann Rooney, "Testimony on Military Retirement Reform," Given to the Subcommittee on Personnel Committee of House Armed Services, US House of Representatives, http://armedservices.house.gov/index.cfm/2011/10/military-retirement-reform, October 25, 2011.

10 Defense Business Board, "Modernizing the Military Retirement System," Report FY11-05, October 2011, http://dbb.defense.gov/pdf/DBB_Military_Retirement_Final_Presentationpdf.pdf. Accessed October 31, 2011.

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Chapter Seven
Conclusions

"I am solemnly aware of the commitment this nation has made to the men and women who have served in the military regarding health care and benefits. This nation has made promises for many years and has endeavored to keep those promises. But we are faced with a set of dire circumstances regarding the long term viability of entitlement programs that threatens to undermine a whole range of promises we have made to every American." -- Senator John McCain (R-Arizona), Ranking Member of the Senate Armed Services Committee[1]

The magnitude of the reductions directed against the Defense budget over the next decade have resulted in the proposed termination and modification of numerous programs and reduction of over 100,000 service members. But, in the face of this challenging budgetary environment also comes an opportunity—an opportunity to reform military compensation and generate savings without reducing capability or capacity. By seizing on some modest pay and benefit reforms, DoD can now better meter the impact of austere budgets and, more importantly, mitigate risk.

DoD's proposed reforms will likely generate up to an estimated $70 billion in savings over the next decade. This paper advocates a more robust—not radical—series of policy recommendations that could garner an additional $40 billion dollars of savings over the same period, or $101-$112 billion of total savings. Perhaps more important than the immediate savings generated, these recommendations will also place military personnel costs on a more sustainable path for the future. DoD's less aggressive approach may not adequately control pay and benefit costs in the long run and may lead to additional capability and capacity reductions in the future to offset personnel costs. Further, any delay to implementation increases the risk that the reform never comes to fruition, that savings are never realized, and that an opportunity is lost.

The recommendations outlined in this paper affect every population eligible for military compensation—active duty service members and their dependents, and retirees and their dependents. Future pay raises for active duty service members will be controlled by a more stringent growth index, while pharmacy co-pays are introduced and increased for their beneficiaries, and several installation-based benefits are eliminated or modified. Military retirees and their beneficiaries will pay more for the same health care services they receive today through enrollment fee adjustments and increases to cost sharing and pharmacy co-pays. In sum, the recommendations slow cash compensation growth and reduce the value of non-cash and deferred benefits by transferring costs to the service member, retiree and their dependents.

Policy Recommendations	Projected 10-Year Savings ($B)
Control Future Military Pay Raises	$17
Increase Medical Cost-Sharing for Retirees not Eligible for Medicare	$30-40
Increase Medical Cost-Sharing for Retirees Eligible for Medicare (TRICARE For Life)	$33
Increase Pharmacy Co-Pays	$13
Eliminate Appropriated Funding for Defense Commissaries	$5
Eliminate Appropriated Funding for Post/Base Exchange Services	$1-2
Update the Department's Employee-Sponsored Child Care Program	--
Close Domestic Dependent Elementary and Secondary Schools	$2
Maintain Existing Retirement System	--
Total	$101-112

Table 2. Summarized Policy Recommendations and Projected Savings.

The recommended reforms were generated within the context of the human capital strategy and do not compromise effectiveness for the sake of efficiencies. The military compensation system will continue to provide competitive pay and benefits and allow the Department to continue to meet its recruiting and retention goals but will now do so in a more fiscally-responsible manner. Any reform implemented by the Department should be carefully and closely monitored to minimize unintended consequences. Further, the Department must continue to develop analytic models that provide quantifiable measures of compensation policy alternatives to aid future decision-making. Broadening the understanding of the impact of alternatives beyond qualitative measures is critical to achieving greater agility, reducing decision timelines, and overcoming policy inaction.

The proposed recommendations will also maintain the nation's commitment to the All Volunteer Force by continuing to compensate it at levels commensurate with its sacrifice and commitment to the nation. While the Department's system of compensation may look differently in the coming decade, the United States will still retain a strong and capable defense and trust will be preserved with those who serve the nation. The Department must carry this message forward to the force, to the public, and to Congress. It must be prepared for challengers to characterize any reform as an erosion of benefits and an affront to trust. It must offer a compelling rationale for reform that causes current and future service members to remain committed to uniformed service to the nation. The Department cannot afford to lose this debate – literally and figuratively.

Notes

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About the Author

Colonel Karl Gingrich is an Operations Research/Systems Analyst (ORSA) in the U. S. Army with over 22 years of service. He has just returned from an operational assignment with NATO Training Mission—Afghanistan/Combined Security Transition Command—Afghanistan (NTM-A/CSTC-A) where he served as the Chief of Assessments from June 2010 to June 2011. Prior to his latest operational tour, he led the Army's POM development while serving on the Army Staff in G-8, Program Analysis and Evaluation Directorate. He has also served on the Joint Staff, J-8, and was the senior cost analyst on the 2005 Base Realignment and Closure Commission. His other operational tour was as the Chief of Force Management for Iraqi Army Forces while assigned to the Multinational Security Transition Command—Iraq (MNSTC-I).

Colonel Gingrich graduated from Temple University with a Bachelor of Science in Civil Engineering. He holds master's degrees in Industrial Engineering from the University of Louisville and in National Resource Strategy from the Industrial College of the Armed Forces. His military education includes the Air Command and Staff College and Industrial College of the Armed Forces.