



# **Defense Advisory Committee on Military Compensation**

**PUBLIC MEETING  
CRYSTAL CITY, VIRGINIA  
MAY 11, 2005  
10:00 A.M.**

## **Transcript**

*May 18, 2005*

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## PARTICIPANTS

This list includes members of the Committee participating in the meeting. (Committee member General Les Lyles was not present.)

No.	Name	Role
1	ADM (Ret) Don Pilling	Chairman of the Committee
2	Dr. Martin Anderson	Committee Member
3	Mr. Frederick Cook	Committee Member
4	Mr. Joseph Jannotta	Committee Member
5	Dr. Walter Oi	Committee Member
6	Dr. John White	Committee Member
7	Mr. Paul Hogan	Chief of Staff

## SIGNED-IN VISITORS

This list includes all signed-in (non-staff) visitors to the public meeting.

No.	Name	Organization Symbol
1	Tim Fowlkes	OUSD P&R (MPP) Compensation
2	Kevin Lannon	OSD (Comptroller)
3	Vince Crawley	Army Times
4	CDR Keian Weld	HHS/USPHS
5	LCDR Jen Mosser	HHS/USPHS
6	Lt Col Ellen Krenke	OASD - PA

## TRANSCRIPT

**ADM Pilling:** Good morning. Welcome to the first meeting of the Defense Advisory Committee on Military Compensation. I am Don Pilling, the Chairman of this Committee. This is our first meeting, so we will not be entertaining questions. But we want to take this opportunity to tell you who we are, what we are about, and what we plan to do. And I'll start off.

The purpose of the committee was to -- it was formed by the Secretary of Defense to provide the Secretary, through the Undersecretary of Defense for Personnel and Readiness, with advice on the compensation system of active and reserve personnel.

The current compensation system has helped to produce the most capable fighting force in the world. It has done this in a volunteer environment. Patriotism and competitive levels of compensation have combined to staff the Armed Forces with top quality, highly motivated, men and women who choose to serve. But the Services continue to face new challenges.

The Global War on Terrorism has hastened the transformation of the Selective Reserve from a strategic reserve, one which would be called upon to fill the gap only during a general national mobilization, to an operational reserve, fully integrated with deployments of active forces, and consequently called upon more frequently. Operation Iraqi Freedom has resulted in the longest period of sustained conflict since the inception of the volunteer force.

The compensation system must be sufficiently flexible to meet the challenge of sustained operations, in harm's way, for the active force and more frequent use of the reserve forces. Moreover, it must meet these challenges efficiently and must provide the force management tools to properly shape and balance the force.

Our charge is to review the current system and make recommendations for change where appropriate. Compensation must continue to be sufficiently competitive to attract and retain sufficient number to staff our forces. Further, it should be structured so that individuals within the system are motivated to do their best, and that the incentives provided by the system aid the overall management and shaping of the force, not impede it.

Consistent with this, compensation must be fair to the service member and families. Within the system, those who are asked to bear the burden of deployment, family separation, and other risks and hardships should be compensated for these burdens.

To achieve these goals, we must insure that we get the most out of the resources spent on compensation. We need to do this because budget resources are finite – those compensation dollars that are spent inefficiently are unfair to active and reserve members and their families – and because the higher costs that will result from inefficient compensation policies will be born by the taxpayer. This means, in part that –

– The system achieves the right balance between compensation in cash and compensation provided in-kind. If there is an imbalance, this means that the member would prefer and benefit from a different mix of compensation, and this different mix could be provided at the same or lower cost to the taxpayer.

– That the system also achieves the right balance between current and deferred compensation. The fact is that young men and women, those bearing the burden of deployment to Iraq and elsewhere, tend to value current compensation more than compensation that they will not receive for ten or twenty years, or maybe not at all. If there is an imbalance – if too much, for example, is provided in deferred compensation – the member could be better off by a change in the mix.

Finally, we must help insure that the compensation system has the flexibility to support staffing needs both in peacetime and in war, for both active and reserve.

So the Committee is charged with reviewing the compensation system, with primary focus on three major areas – the balance between cash and in-kind compensation, the balance between current and deferred compensation, and flexibility of the system for peace and war – with an emphasis on providing the flexibility in the system to meet staffing and force management goals both in peacetime and in periods of protracted conflict, both for active and reserve components.

To achieve this ambitious goal, the Secretary has appointed six very distinguished people to this Committee, which I would now like to introduce.

Dr. Walter Oi, who is the Elmer B. Milliman Professor of Economics at the University of Rochester, a member of the Gates Commission which examined the needs and structure of the All Volunteer Force in the seventies, and a recipient of the Secretary of Defense Medal for Outstanding Public Service.

Dr. Martin Anderson, immediately on my left, was a key advisor to the future President Nixon on the need for an All Volunteer Force. He is a member of the Defense Policy Board, and currently the Keith and Jan Hurlburt Senior Fellow at the Hoover Institute.

Mr. Fred Cook, two down from me on the left, Chairman of [the] Frederic W. Cook and Company, a management-compensation consulting firm. He is a member of the Defense Business Board, and a former Marine.

Mr. Joseph Jannotta, former chairman of Jannotta, Bray, and Associates, a career consulting firm. He is also Vice-Chairman of the Chicago State University Foundation, and a former naval aviator.

General Les Lyles is not with us today. He is the CEO of the Lyles Group, a former Vice Chief of Staff of the Air Force, and Commander of the Air Force Material Command.

Dr. John White, on my immediate right, Faculty Chair of the Middle East Initiative at the Kennedy School of Government, a former Deputy Secretary of Defense, a trustee of RAND and the Institute for Defense Analyses, and a former Marine.

Yesterday, our first day of meeting together as a Committee, we heard from each of the Services regarding their issues and vision for compensation, in a fact-finding session. I would like to just briefly provide you an overview of what we learned yesterday.

We had a brief from the Office of the Secretary of Defense, Program Analysis and Evaluation, and they described to us their analytical plans for the Quadrennial Defense Review.

We had a brief from the OSD personnel office on trends in the services with respect to recruiting and retention.

And we met with all four Department of Defense Deputy Chiefs of Staff for Personnel.

And all of those individuals asked for an architecture that allows flexibility rather than mandatory changes in the compensation system. There also was a range of views expressed which we will consider as part of our deliberations.

I would now like to ask Committee members to comment on what they heard yesterday, if they desire, and possible implications for our mission as a Committee. Joe, do you have any views? John?

Dr. White: No.

**ADM Pilling:** Martin? Fred?

Mr. Cook: No, Sir.

**ADM Pilling:** Doctor Oi? Okay, next steps. Our schedule is an ambitious one. We plan to provide an interim report to the Secretary at the end of September, and a final report in April. We will be meeting monthly as a Committee between now and September. And the next public meeting is scheduled for June the seventh.

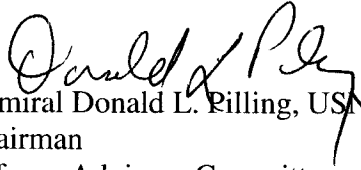
The Committee staff has established a public website regarding the Committee and its activities. Those who would like to keep in touch with the Committee and its progress are encouraged to visit the website. There are cards on the table outside the door that actually list the formal web site address. This web site should be operational before our June seventh meeting.

This concludes our first meeting, and we thank you for your interest in the Committee.

We will convene again in June. Thank you.

# # # END # # #

I hereby certify that, to the best of my knowledge, the foregoing transcripts are accurate and complete.



Admiral Donald L. Billing, USN(Ret.)

Chairman

Defense Advisory Committee on Military Compensation

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