



# 10<sup>th</sup> Quadrennial Review of Military Compensation: Volume II



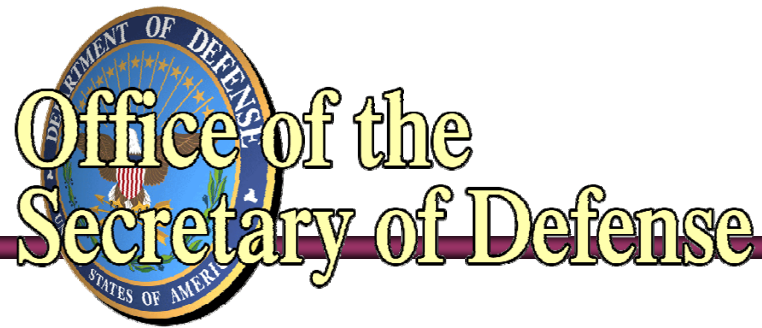
# The Report of the 10<sup>th</sup> QRMC

- **Report has been split into two recommendation volumes**
  - Vol I: Cash Compensation (released March 2008)
  - Vol II: Non-cash and Deferred Compensation



# Non-Cash and Deferred Compensation Topics

- **Retirement**
- **TRICARE premiums and fees**
- **Recruiting and retention of uniformed medical professionals**
- **Quality of life**



# Retirement



# Issues with Current System

## ➤ Equity

- Only those who serve 20 years get anything: less than half of the officers and 15% of enlisted members
  - Rates are even lower for Army and Marine Corps
- Reservists, who are increasingly deploying alongside active duty, are in a system that requires long waits to collect benefits while active duty gets immediate retired pay

## ➤ Flexibility

- 20-year vesting creates one-size-fits-all career patterns
  - Some skills serve too long, others too short
  - Services have different needs as well

## ➤ Efficiency

- Service members discount the value of future benefits making the retirement benefit more costly for government to provide than benefit is valued



# QRMC-Designed Retirement System

## ➤ **Defined benefit**

- 2.5% of high-3 basic pay, vested at 10 YOS
- Payments begin at age 60 for those with less than 20 YOS, 57 for those with 20+ YOS
- Immediate annuity option using FERS methodology (5% penalty per year for early withdrawal)

## ➤ **Defined contribution**

- Automatic government-funded Thrift Savings Plan (not a match) of 0 for first YOS, 2% for YOS 2, 3% for YOS 3 and 4, 4% for YOS 5, and 5% for those with 5 or more years of service
- Vested at 10 YOS

## ➤ **Gate pays**

- Payments to members who serve to specific year-of-service milestones
- Vary by YOS and skill at Service discretion

## ➤ **Separation pays**

- Payments to members the Service wishes to encourage to leave
- Vary by YOS and skill at Service discretion



# Examples of Flexibility of the QRMC Retirement System

- **For Army to maintain the same force profile as it has under its historic retention patterns, they would use gate pay of 15% of annual basic pay at YOS 12 and 18, and a separation pay of one year of annual basic pay for personnel retiring with 20 to 26 YOS**
- **To achieve longer careers, the Army could offer gate pay of 35% of basic pay at YOS 12 and 50% at YOS 18, and a separation pay of one year of basic pay for 20+ YOS**



# Sample Outcomes Under QRMC and Current Retirement Systems

	Percent reaching 20 YOS	Expected Active Years of Service Per Accession	Expected Active Duty Accessions	Average Active Duty Cost per Man year
<b>Army</b>				
Base	10.5	7.0	59,483	\$46,346
QRMC Current	10.8	7.1	58,283	\$43,168
QRMC Long	12.5	7.6	54,964	\$45,839
<b>Air Force</b>				
Base	22.4	9.5	29,380	\$52,873
QRMC Current	23.6	10.1	27,829	\$49,565
QRMC Long	27.0	10.3	27,106	\$51,262
<b>Navy</b>				
Base	14.8	7.7	29,118	\$49,194
QRMC Current	12.6	7.7	29,360	\$44,503
QRMC Long	15.9	8.4	26,906	\$47,925
<b>Marine Corps</b>				
Base	10.0	6.7	26,813	\$46,780
QRMC Current	9.9	7.0	25,723	\$43,809
QRMC Long	12.5	7.8	23,137	\$46,142





# Benefits to Separating/Retiring Personnel under the Current and QRMC Retirement Systems

	E-5 10 YOS	E-7 20 YOS	E-8 24 YOS	E-9 30 YOS	O-3 10 YOS	O-5 20 YOS	O-6 24 YOS	O-6 30 YOS
<b>Current System Annuity</b>	<b>0</b>	<b>120</b>	<b>183</b>	<b>330</b>	<b>0</b>	<b>233</b>	<b>354</b>	<b>541</b>
<b>QRMC Immediate Annuity Option</b>								
<b>Defined Benefit</b>	<b>0</b>	<b>23</b>	<b>78</b>	<b>227</b>	<b>0</b>	<b>45</b>	<b>150</b>	<b>372</b>
<b>Defined Contribution</b>	<b>11</b>	<b>40</b>	<b>57</b>	<b>93</b>	<b>22</b>	<b>76</b>	<b>108</b>	<b>169</b>
<b>Separation Pay</b>	<b>0</b>	<b>67</b>	<b>98</b>	<b>0</b>	<b>0</b>	<b>131</b>	<b>190</b>	<b>0</b>
<b>Gate Pays</b>	<b>0</b>	<b>9</b>	<b>10</b>	<b>12</b>	<b>0</b>	<b>20</b>	<b>23</b>	<b>28</b>
<b>Total</b>	<b>11</b>	<b>138</b>	<b>243</b>	<b>333</b>	<b>22</b>	<b>271</b>	<b>470</b>	<b>569</b>
<b>QRMC Deferred Annuity Option</b>	<b>12</b>	<b>128</b>	<b>198</b>	<b>226</b>	<b>25</b>	<b>252</b>	<b>384</b>	<b>394</b>

Notes: Entries are in thousands of dollars and reflect the present value of benefits, assuming a 15-percent personal discount rate.

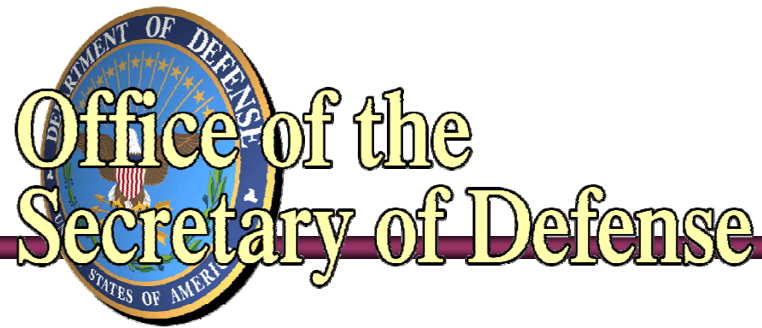
Totals may not add due to rounding.

Chart represents payments under first option presented on chart 7. Other options will produce other earning streams.



# QRMC Recommendation

- **Conduct a multi-year demonstration project of the QRMC proposed retirement system**
  - Use all 4 DOD Services, active and reserve components
  - YOS 1-8, multiple skills
  - Solicit test volunteers who would be paid the TSP contributions, plus make-up contributions, and any applicable gate pays
  - Program's vesting rules would apply, so separating test personnel would have full portability once vested
  - Run demonstration project for minimum of 5 years
  - At end of test period, allow 'new' system participants to remain in test system or revert to current system



# TRICARE Fees



# Underlying Principles of This Recommendation

- **TRICARE's first priority is the care of active duty personnel and their families**
- **All retiree fees should relate to the value of the plan selected**
- **Fees should be fair to all retiree populations (proportionality)**
- **Fees should reflect the beneficiaries' ability to pay**
- **The TRICARE system should be biased towards prevention rather than treatment**



# History of Retiree Shares of TRICARE Health Care Costs

- **When TRICARE began, under-65 retirees paid 27% of their health care costs**
  - By 2006, share had declined to 12%
  
- **From 2001 to 2006, Medicare beneficiaries (including the over-65 military retirees) were, by law, required to pay 25% of the program cost**
  - Beginning in 2007, higher income beneficiaries' share of program began to rise, and, when three-year transition ends, they will be expected to pay 35%, 50%, 65%, or 80%

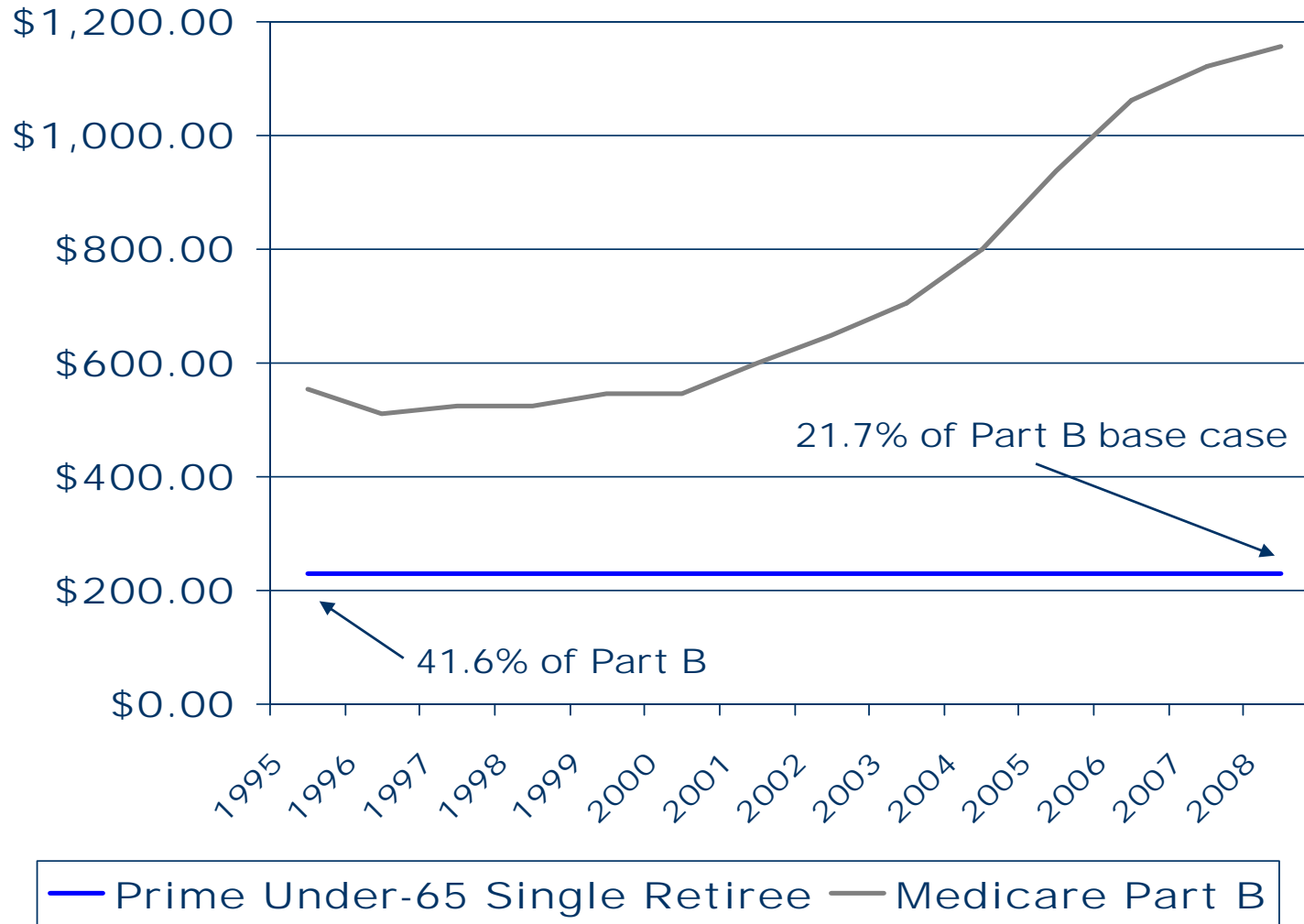


# An Approach to Establishing Equity Among Retirees

- **To receive TFL, we require our older retirees, who are the least likely to hold jobs, to pay Medicare Part B premiums, far exceeding TRICARE Prime premiums**
  - They are receiving Social Security payments, but their total incomes are smaller than those of younger retirees
  - TFL is, however, more generous than Prime
  
- **We should return to some sense of parity between the older and younger retiree populations**
  - Those younger retirees who are in positions to pay more should do so as the older ones must



# Annual Single TRICARE Prime and Medicare Premiums





# QRMC Retiree TRICARE Premium Recommendations

- **Under-65 retirees using Prime should pay 40% of the Medicare Part B premium using the same tier structure**
  - Returns to a level of parity between retiree populations
  - Also reflects the relatively more generous nature of TFL compared to Prime
- **Under-65 retirees selecting Standard/Extra should pay 15% of the Part B premium**
- **Family premiums should be set at twice the individual premium regardless of family size**
- **Premium increases should be phased in over a 4-year window with beneficiaries paying 25% of the increased fee plus additional Medicare program growth each year**





# Under-65 Retiree TRICARE Program Recommendations

- **Deductibles should equal the Medicare deductible (\$135 per person in 2008), but should only be doubled for families**
- **Copays/coinsurance for preventative services should be abolished (DoD to decide what constitutes preventative)**
- **DoD should establish an open enrollment period with provisions for modification/enrollment under life changing events (e.g., loss of private insurance, marriage, birth)**



# Under-65 Retiree Annual TRICARE Prime Premiums Based on 40% of Estimated 2009 Part B

## Income Criteria

	<u>Single</u>	<u>Family</u>
Individuals with MAGI of \$82K or less		
Married couples with MAGI of \$164K or less	\$462.70	\$925.40
Individuals with MAGI above \$82K up to \$102K		
Married couples with MAGI above \$164K up to \$204K	\$648.50	\$1297.00
Individuals with MAGI above \$102K up to \$153K		
Married couples with MAGI above \$204K up to \$306K	\$927.10	\$1854.20
Individuals with MAGI above \$153K up to \$205K		
Married couples with MAGI above \$306K up to \$410K	\$1206.50	\$2413.00
Individuals with MAGI above \$205K		
Married couples with MAGI above \$410K	\$1485.10	\$2970.20

Note: Modified Adjusted Gross Income (AGI) is a combination of adjusted gross income and tax-free interest income.



# TRICARE Program Recommendation

- TRICARE reimbursement rates should be periodically reevaluated to ensure sufficient provider access



# Recruiting and Retention Incentives for Health Care Professionals



# Additional Congressional Tasking to the 10<sup>th</sup> QRMC

- **The Conference Report of the 2007 NDAA contained the following language:**

The conferees are concerned that shortfalls in recruitment and retention of medical, dental, and nurse corps personnel could undermine future medical readiness. The conferees believe it is critical that the Tenth Quadrennial Review of Military Compensation include a careful examination of compensation issues pertaining to the uniformed medical personnel of the Department of Defense.



# Recommendations for Medical Professionals

- **Improve the Health Professions Scholarship program by**
  - Providing TRICARE coverage
  - Adding a BAH
  - Paying for required equipment
  - Expanding opportunities for foreign-trained U.S. health professionals
  
- **Improve active duty nurse recruiting by**
  - Expanding market into non-degreed RNs as is done in the reserve components
  - Adding opportunities for active duty members to obtain BSNs
  
- **Improve recruiting and retention of all health professionals by**
  - Increasing the mandatory retirement age to 68
  - Expanding the enlisted PA training program into other HP areas
  - Recruiting non-citizens with U.S. health care degrees
  - Leveraging the inter-Service transfer bonus program to encourage health professionals in overage skills to transfer to Services with shortages in those areas



# Quality of Life



# QOL Recommendations

- **Adopt Dependent and Health Care Flexible Spending Accounts**
  - Will require modification of rules to prevent loss of account funds due to PCS and deployment
- **Create education vouchers from Impact Aid, and fully fund the IA program for military dependents**
  - Will require transfer of funds from DoEd to individual military members
- **Alter rules to permit formation of military charter schools**
  - Waiting lists must be allowed to prioritize based on dependent status
- **Allocate child care spaces based on force management needs**
  - Deployment, high-TDY skills, retention-critical skills
- **Implement a child care voucher system in lieu of current CDC-based funding**
  - Remove inequity, create choice





# QOL Recommendations (Cont.)

- **Increase investment in family child care**
  - Particularly useful in solving child care shortages if targeted to infants and toddlers
  
- **Develop relationships with national and regional grocery chains to provide military discounts**
  - Would benefit reserve component families, and active duty families who live far from military installations (e.g., recruiters)
  
- **Fix on-base/off-base spending shares used in OCONUS COLA rate development based on size of commissary/ exchange**
  - Consistent with CONUS COLA
  
- **Develop education programs for COLA and QOL benefits**
  
- **Perform periodic QOL evaluations to assess effectiveness**

# Backup Slides



# Under-65 Retiree Annual TRICARE Standard/Extra Premiums Based on 15% of Estimated 2009 Part B

## Income Criteria

	<u>Single</u>	<u>Family</u>
Individuals with MAGI of \$82K or less Married couples with MAGI of \$164K or less	\$173.50	\$347.00
Individuals with MAGI above \$82K up to \$102K Married couples with MAGI above \$164K up to \$204K	\$243.20	\$486.40
Individuals with MAGI above \$102K up to \$153K Married couples with MAGI above \$204K up to \$306K	\$347.70	\$695.40
Individuals with MAGI above \$153K up to \$205K Married couples with MAGI above \$306K up to \$410K	\$452.40	\$904.80
Individuals with MAGI above \$205K Married couples with MAGI above \$410K	\$556.90	\$1113.80