



DEFENSE ADVISORY

COMMITTEE ON

MILITARY COMPENSATION:

Preliminary
Findings/Recommendations



Background

- Defense Advisory Committee on Military Compensation was chartered in March 2005
 - Chairman: ADM Donald L. Pilling, USN (Ret)
 - Dr. John P. White
 - GEN Lester L. Lyles, USAF (Ret)
 - Mr. Frederic W. Cook
 - Dr. Walter Y. Oi
 - Dr. Martin Anderson
 - Mr. Joseph E. Jannotta



Background

- Preliminary Recommendations—January 2006
- Final Report—April 2006



Findings

- Current compensation system has produced a force of trained, experienced, and motivated volunteers without peer
- Current system generously rewards on the order of 15% of the enlisted force and 50% of the officer corps that serve 20 or more years and retire
 - Lifetime, inflation-protected annuity
 - Lifetime medical care for member and dependents
- “Cliff-vesting” retirement at twenty years limits force management options and fails to recognize service of less than 20 years (inflexible and inequitable)



Findings

- No incentive to serve beyond 30 years
- Immediate Lifetime retired pay was designed for another era and force
- There is growing sentiment in the Department for “Pay for Performance,” but changes are necessary to address this sentiment
- Compensation differences not related to mission demands or performance remain in today’s system
- Special and Incentive pays exceed 60 in number and are complex to administer; they represent less than 5% of cash compensation



Findings

- Lifetime medical care for retirees crowds out the private sector for second career retirees
- Current use of Guard and Reserve as an operational reserve versus a strategic reserve argues for greater symmetry in active/reserve compensation schemes (and leads to questions about the size of the Guard and Reserve)
- Demand for Quality of Life (QoL) programs increasing due to operational tempo and changing demographics



Framework for Changes to the Compensation System

- Recent, costly changes have been made with no direct relationship to force management or readiness
- A set of “principles” for the evaluation of proposed changes for both active and reserve compensation is needed



Framework of Nine Principles to Evaluate Changes

- Force management (should serve a specific force management purpose)
- Provide flexibility (should increase DoD flexibility, not reduce it)
- Simplification (should reduce complexity, not add to it)
- Systems approach (e.g., consider Active/Reserve implications)



Framework of Nine Principles to Evaluate Changes

- Expand choice, volunteerism, and market-based compensation
- Efficiency (pick least costly option that achieves objective)
- Cost transparency and visibility (recognize all possible costs over time)
- Leverage (use private sector options where available)
- Fairness (commitments should be honored)



Compensation Architecture: Retirement

- Services need ways to improve management flexibility within the current system, in the near term
 - Services should have the authority to “buy-out” members with more than 10 years of service who are not yet vested
 - “Buy-outs” would be purely voluntary
 - Plan similar to the Voluntary Separation Pay recently proposed by the Navy would be one way to do this



Compensation Architecture: Retirement

- In the longer term, the military retirement system should be restructured under a vision that increases its overall flexibility and efficiency
- This vision would include:
 - Earlier vesting of retirement
 - Incentives in some occupations to serve beyond a 20 or even 30 year career
 - Reassessment of high year tenure policies



Compensation Architecture: Retirement

- **A revised retirement scheme with:**
 - **Government contribution to a thrift savings plan (TSP) or 401K-like plan**
 - » Percentage of Basic Pay in the range of 5-10%.
 - » Government contributions to accumulate immediately upon entrance to active duty
 - » Vest no later than year of service 10 (but not before year of service 5)
 - May receive vested contributions in cash
 - **Retirement annuity that begins at age 60**
 - » Computed under a formula similar to the current retirement annuity.
 - » Annuity would vest at the completion of year of service 10
 - » Annuity formula would be extended through 40 years of service
 - **Additional compensation in one or more of the following forms:**
 - » “Gate pay” at various years of service
 - » Transition pay upon separation
 - » Basic pay increases and bonuses
 - **The retirement health benefit would continue to vest at the completion of 20 years of service**



Compensation Architecture : *Pay Table*

- Current pay table, based on grade and time in service:
 - Provides only modest financial incentives for early promotion
 - Offers no financial incentive to stay beyond 30 years
- The pay table should become a function of time in grade, rather than years of service
- Time-in-grade increases in Basic Pay should extend beyond the career lengths currently implied by the time-in-service pay table



Compensation Architecture: Pay by Dependency Status

- Members with dependents receive **Basic Allowance for Housing (BAH)** on average 25% greater than members without dependents
- The distinction in the payment of **BAH** should be eliminated
 - Pay the allowance to all at the “with dependents” rate
 - The **Overseas Housing Allowance** should also eliminate the distinction
 - All members should receive **BAH**
 - » Those in government housing should pay fair market rental rates for the housing they receive
- Consolidate the **Family Separation Allowance** with **Special and Incentive Pays** related to deployment or hardship tours
 - Appropriate compensation for deployment or the nature of the tour should not differ between those with dependents and those without dependents



Compensation Architecture: Special and Incentive Pays

- Special and Incentive (S&I) pays are powerful in that they can target specific staffing issues efficiently, but:
 - Over 60 different pay categories
 - Many are fixed in law, with little flexibility
- S&I pays should be consolidated into a smaller number of categories
 - Budget should be fungible across areas included in the broad category
 - Secretary of Defense and Service Secretaries should have authority to determine criteria, amounts, within broad legislative authority
 - » Particularly, should have authority to respond to wartime conditions and other contingencies with appropriate compensation
- Share of total S&I pays in total compensation should be increased
 - The effects of increase should be evaluated



Compensation Architecture: Health Benefit

- TRICARE costs, especially for the pre-65 retiree population, are growing rapidly
- The premium and cost sharing provisions for TRICARE retiree pre-65 Prime beneficiaries should be restored to more competitive levels with premiums and cost sharing in civilian employer plans
- The premium and cost-sharing provisions once adjusted should grow at the same rate as the annual cost-of-living adjustment to the military retirement annuity
- The retiree pre-age 65 TRICARE plan should be funded on an accrual basis



Compensation Architecture: Quality of Life

- Two difficult areas associated with the quality of life, spouse employment and dependents' schools, may be improved by providing greater choice in assignments, including use of voluntary assignment incentives
- Quality of life programs should be subject to periodic, rigorous evaluation
 - Office of the Undersecretary of Defense (Personnel and Readiness) should develop a framework and guidelines
 - Programs should be periodically and systematically evaluated, using these guidelines



Compensation Architecture: Reserve Compensation

- Mobilized reserve members and any reserve member on active duty should receive the same pay and benefits as otherwise equivalent active duty members
- Reserve members who are called to active duty but who choose not to participate in TRICARE should be offered a stipend or payment to help defer the cost of their alternative insurance
- The reserve components should have the flexibility to solve recruiting and retention problems as they arise
 - A systems approach is critical to recruiting in that active and reserve recruit from the same non-prior service market and prior service reserve accessions are active duty losses