



Defense Advisory Committee on Military Compensation

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Transcript

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PARTICIPANTS

This list includes members of the Committee participating in the meeting. (Committee members Mr. Joseph Jannotta and General Les Lyles were not present.)

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

SIGNED-IN VISITORS

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

No.	Name	Organization Symbol
1	Christina McCloskey	HQMC (M&RA)
2	Phillip Bonincontri	HQMC (M&RA)
3	Sara Wood	AFIS
4	Steve Strobbridge	MOAA
5	Mike Hayden	MOAA
6	Beth Asch	Rand
7	Patricia Barry	NMFA
8	Lisa Bryes	<i>Stars & Stripes</i>
9	Erin Harting	EANGUS
10	Karen Rutzick	<i>Government Executive</i>
11	Bob Daryle	OSD (PARE)
12	Carl Fisher	OSD (PARE)
13	Jon Florance	OSD (PARE)
14	Jeff Goldstein	OMB
15	Lt Col E. Krenke	OASD – PA
16	Lynn Henselman	The PMA Group
17	Joyce Raezer	National Military Family Association
18	CSM John J. Leonard	NGB – 2A

TRANSCRIPT – MORNING SESSION

SUBCOMMITTEE REPORTS

Admiral Pilling: For the two hours this morning we're going to hear five presentations, which are done by staff, and they're going to present to the committee. And the sequence in which we're going to do this is retirement compensation, health benefits, special and incentive pays, quality of life issues, and then finally reserve compensation. So what I would like to do is, first we have to recognize these are staff papers, this does not represent our views. Second, I would like to have the presentation made, and then have the committee ask questions of the staff member. We can't take questions from the floor. Some arithmetic says we should try and keep each presentation to no more than 20 minutes to include questions at the end.

So with that, the first brief is going to be Dr. Warner on retirement compensation. John?

Dr. Warner: Thanks for having me here today. The retirement subcommittee, comprised of General Lyles and Dr. White, and I have distributed a report to the full committee that summarizes in a more condensed form the paper that was distributed to the committee last month. The report evaluates some past proposals for modernizing the military retirement system, and it's useful for the committee to note what's been said and recommended in the past.

So today I'm going to talk about the issues in retirement reform and what our analysis of these alternatives suggests. I want to stress that we studied these past proposals not so much to devise a particular "best plan," but to illustrate to the whole committee what effects different systems might have and kind of bound the range of feasible alternatives.

Before talking specifically about the retirement system, I think it's useful to remind ourselves about the goals of the compensation personnel system and the constraints it faces. At the center of DOD's capacity to sustain the force in its – or its compensation and personnel policies, DOD must maintain an overall level of compensation sufficient to attract and retain high-quality personnel. It must also identify the most qualified for promotion and motivate everyone to work hard and effectively. And finally, it must encourage them to separate voluntarily when it's in the best interest of the services that they do so.

A couple of institutional constraints limit the range of feasible compensation and personnel policies. One is the military's hierarchical rank structure, which forces a successive winnowing of the force as personnel move up through the ranks. And the other is that the system is a bottom-fed system with very little lateral entry. There are a number of reasons for this, but it means that recruiting is limited to the young, and the future leaders 30 years from now must have grown from today's entrants. The system must generate sufficient turnover at the top to provide opportunities and incentives for junior personnel to stay and seek advancement.

Let me talk for just a minute about the role of the retirement system in all of this. Along with "up or out" promotion system, the retirement system plays a key role in force management and serves two purposes. One is inducing personnel to stay and work hard, and this is what's been called the pull effect. And the other is inducing them to leave voluntarily and on good terms when it's in the interest of the services that they do so, and that's what's been called the push effect.

It's really the second of these, which is inducing voluntary separations at the right time, that's the distinctive purpose of the retirement system.

Just to remind ourselves what the current military retirement system – how it's structured – the current system provides a lifetime, inflation-protected annuity to those who remain for a 20-year career, but nothing for those who separate with less than 20 years. So you can think of the part of the lifetime annuity received from the point of separation to age 60 or 62 as the separation pay part of the system, and the part that's received thereafter is the old-age protection part of the system.

Now the oft-cited reason for the relatively generous second-career payment is the belief that the military skills are not transferable to the civilian sector, and that the pension needs to be substantial to encourage separation prior to full withdrawal from the labor force. The British, however, just cut their second-career annuities in half and cited the fact that so many more skills are now transferable to the civilian sector now than in the past as the reason for doing so. I note here that the system is slightly more generous to officers than enlisted personnel because of the fact that basic pay is a larger fraction of regular military compensation for officers than enlisted personnel, and just the fact that it – the annual accrual charge cost for this system in 2004 was around \$9,000.

I'll talk for just a minute about what the force structure outcomes are under the current system. You can see that, under the current compensation system, we get between five and eight man-years per accession for enlisted personnel, and around 12 for officers. Five tends to be the Army, Navy, and Marine Corps average, and eight is for the Air Force. The system has high turnover after the first term, but an increasing pull to the 20-year point, as I noted earlier, with average annual retention between years six and 20 of over 90%, and between 11 and 20 years of service retention rates are in excess of 95%. Factually, about – this is according to the DOD actuary – about 47% of officers who enter stay a 20-year career, and around 15% of enlisted personnel do on average.

The system does have high turnover after the 20th year of service, with about 10% of officers who stay for 20 staying for 30, but less than 5% of enlisted personnel do so. I might add that the “up or out” system has a part to play in the high turnover that occurs after the 20th year of service.

Very briefly, these two graphs show the fraction of entrants into the four services that might be expected to stay to different career points, based on average continuation rates over the 1996-2002 time period. And the curves are based on – curves based on data from the 1980s look remarkably similar to that, so these graphs both illustrate kind of the pull effect of the current 20-year system to the 20-year mark, and then, coupled with the “up or out” system, the push effect that happens thereafter.

Now there – the current compensation personnel systems are certainly not without their virtues, and one virtue is predictability. The retirement system's “golden handcuffs” protect the services from fluctuations in mid-career retention, and no doubt help to induce careerists to work hard and effectively. Nevertheless the system's been criticized in the past on several grounds. One is that it's really not a retirement system, but a system of deferred senior separation pay for personnel who stay long enough to reach the upper ranks. As a result, it does not help young personnel to accumulate for old age, and it appears to be unfair to personnel who for some reason or another leave after a substantial period of service,

but less than – with less than 20 years. I might note that the British, by contrast, vest their personnel in the retirement system after just two years of service, with a benefit that grows proportionally to time served.

Some deferment of compensation is desirable, but the system may defer too much compensation to the second-career period. Personnel discount future compensation two ways. One is by the probability that their going to stay long enough to get it, and the second is by personal discount rate. And there's much evidence that personnel have high discount rates, much higher than the government's. And what this implies is that it might be more efficient to put more compensation up front and defer less to the post-service period.

A third criticism relates to force management, and we heard a lot of discussion about that yesterday from Admiral Talbot, among others. The 20-year system has been characterized as a "one size fits all" system that limits flexibility in force management and more innovative use of active duty pays to shape the force. There's much discussion now about the desirability of longer careers, particularly among officers, and some modification of the system would seem necessary to accommodate that.

Finally, I might note that the system's limitations became particularly apparent during the draw-down period of the early 90s, where it was hard under the current system to separate mid-careerists voluntarily and on good terms when demand declines.

Now because of these criticisms that I've discussed, a number of past presidential commissions and internal DOD study groups have recommended modifications to the system. A common feature of these recommendations is that the system vest personnel much earlier in an old-age annuity than it does today – or in an old-age benefit than it does today. Now in some of these plans, the old-age benefit would take the form of an annuity, while in others it would take the form of a combination of annuity and defined contributions into a Thrift Savings Plan, or TSP, for military personnel, for which military personnel are now eligible.

Now these plans differ in how and when they would provide separation benefits. The most radical was the Grace Commission's proposal, which is this third one, President's Private Sector Commission on Government Cost Control, often known as the Grace Commission. They made a proposal to completely eliminate the second-career annuity, and pay no retirement benefits for old-age, and nothing to replace that annuity. The President's Commission on Military Compensation, 1978, sometimes known as the Zwick Commission, would eliminate the second-career annuity but replace it with a system of separation benefits that individuals could receive in a lump sum or annuitized according to their own preferences. The Defense Manpower Proposal, which was advanced in 1976, was notable for recommending that separation points be varied by skill, so that longer careers could be fostered in occupations that have high training costs or long periods of productivity growth, and be shorter in skills that have a higher need for so-called youth and vigor.

So the retirement committee looked at these past proposals to see what their effects on force structure and cost might be, and to get a sense of the force management improvements that they might offer. The analysis used a model that I previously developed with Beth Asch, sitting back here, and was updated to fiscal 2004. We studied two variants of the Federal Employee Retirement System, or FERS, which on the last slide, as you saw, would provide a combination of

defined benefits in the form of an annuity and Thrift Savings Plan payments. So we studied two variants of FERS, one of which separates – one in which anyone who separates after the 10th year of service would receive a cash separation payment based on rank and years of service, and one in which personnel aren't eligible for a separation payment until reaching a minimum number of years of service and rank, and we used the Army's high-year tenure points to define these eligibility points.

The final alternative that we considered was based on increased active duty pay, rather than separation payments, to maintain retention. Now rather than basic pay increases, we devised a concept that I'm going to call gate pay, which would make cash payments to personnel at five-year intervals, beginning with the 10th year of service. The gate payments would be more visible than a basic pay increase and would provide a transition benefit to personnel who separate after passing through a career gate. But unlike a separation payment, an individual would not have to leave – would not have to separate to get it. The gate pay alternative also included a government – include a government Thrift Savings contribution vested after the fifth year of service. The other feature of this proposal was that individuals could either take an annuity starting at age 60 or an actuarially reduced annuity upon separation or at any point thereafter.

Now the next slide, that is going to summarize the analysis in the paper distributed to the committee, is going to discuss in more – the paper that we distributed to the committee discusses in more detail the benefits of these plans would provide personnel at different points, and findings about their costs and force structure benefits. But here's a summary of what we found. The first thing we found was that an old-age-only system, such as the Grace Committee proposed, that vests earlier but eliminates the second-career annuity, would cause a serious drop in retention, lower man-years per accession, and cause a significant increase in accession requirements. So maintaining today's average experience level would require cash separation benefits such as those suggested by the President's Commission on Military Compensation or incorporated into our FERS plan, or an active duty pay increase. The various proposals would maintain today's average experience level or even increase it within the constraint that they cost the same as today's system. So that was one of the primary findings of our analysis.

The second thing we found in our analysis, though, was that they tend to alter the experience distribution somewhat by increasing the fraction of the force in the 6-10 year range, increasing it also in the 21-30 year range, while the percent in the 11-20 year range would drop somewhat. And in two of the alternatives that we evaluated, the fraction of the force in the first term would drop. I might add that the plans embed stronger incentives to stay to the 20-year mark, so under several alternatives a – to the 30-year mark, so under several of these alternatives, a relaxation of high-year tenure rules would have a bigger effect on retention of senior personnel than under the current system. And in fact, from an individual perspective, several of the plans that we devised would increase benefits to very long-serving personnel compared with the current system. I might add that our analysis was done under very conservative assumptions about what the returns to a Thrift Savings Plan would be, and if in fact the returns are higher than that, we think that these – the retention effects – the positive retention effects of these plans that include Thrift Savings Plan – benefits would in fact be higher.

So I'm going to end with talking about what these plans might gain over the current system. Given the analysis constraint that the alternative system produces as many man-years per accession as the current system, these alternatives do not

appear to offer the prospect of a significant reduction in personnel costs, but I don't think that that's an objective that we're after. But the plans that we did look at do achieve two things. The first thing is that the earlier vesting addresses the unfairness of the current system and helps many more personnel accumulate for old age, and in fact would expand very substantially what fraction of entrants would ever receive retirement benefits.

The second thing is that I think that these plans give personnel managers better tools for force management and address many of the force management inflexibilities that the system has today. In particular, the – under most of these plans there's smooth benefit growth from the 10th year onward that's going to eliminate the 20-year focal point with the so-called “golden handcuffs” that it has, and eliminating these “golden handcuffs” is going to permit skill-by-skill management of high-year tenure points and eligibility for separation payments. So you could, under these alternatives, push back high-year tenure points and delay the start of separation pay when that's desirable, as I said earlier, in occupations that have, for example, that have high training costs and in particular for officers where longer careers might be desirable, while at the same time you could make separation payments available earlier in the so-called youth and vigor skills to prevent – to induce a young force in those skills, i.e., combat arms skills. So what these plans offer the prospect of are longer careers for some and shorter careers for others. And we think that also under these alternatives that adjustments in force size would be less difficult, so, for instance, the Air Force today might not have as hard a time drawing down its mid-career force as it attempts to reduce its overall force size than it has under today's system with no separation benefits for people in the so-called mid-career zone.

And finally and, I think, importantly, if we reduce the reliance on deferred compensation, that's going to fit – permit a much more proactive use of active duty pays to manage the various parts of the force.

So with that I'm going to finish and entertain questions.

Admiral Pilling: Thank you, John. I just had a question that would be useful to us. Any time you talk about changing the retirement scheme, there's a transition cost.

Dr. Warner: Yes sir.

Admiral Pilling: And I don't know if your data permits you to make some estimates of how many years you would have to transition if you were going to transition – what's the additional cost to the current system?

Dr. Warner: That we haven't estimated yet, but I think with the kinds of sep-, uh, Thrift Savings Plan benefits that we're talking about, you're talking maybe several billion dollars a year for a number of years, for a few years, and then we transition into a steady state where the retirement accrual is what it – probably somewhat less than it is today, because we are moving money from retirement accrual to – more toward active system...

Admiral Pilling: Current compensation.

Dr. Warner: ...current compensation, but I haven't done any kind of formal analysis of that yet.

Admiral Pilling: Okay. I'll open it to the committee members, if you have any questions.

Mr. Cook: Admiral, this is a great area of interest to me, and I think it's an excellent brief, and I have a number of questions for the purpose of clarity and information, but I'm not sure how much time you have available and whether you want to...

Admiral Pilling: We're just about out //laughter// but if you can ask them quickly and then get a rapid response.

Mr. Cook: It seems to me the major negative, looking at from the point of view of current personnel, is the – in the last proposal, which I think is very interesting – is the actuarial reduction if you take it before age 60. That's the big negative. As a matter of fact, it's kind of the only negative. The positives are earlier vesting, a Thrift Savings Plan contribution where none exists now, and the gate payments. But because of the big negative, it would probably be that this would either be voluntary or only for new people who join the military, right? So that would be a – this is the transition period the Admiral is talking about. Oh, the other positives could be, as you mentioned, higher current active duty pay, which switches the balance more toward current and less toward deferred

But implicit in your proposal – is the retirement formula the same? Namely, after 20 years 50% of the high three?

Dr. Warner: That was maintained constant in the...

Mr. Cook: That's maintained.

Dr. Warner: Right.

Mr. Cook: And the pension, once you get it, does it maintain being inflation protected?

Dr. Warner: Yes. Yes. The pension in our analysis was inflation protected.

Mr. Cook: Okay.

Dr. Warner: Now, I have to clarify one thing. In the first proposals that we analyzed, you would get under the Federal Employee Retirement System a combination of fairly substantial Thrift Savings Plan contributions and an old-age annuity. So the old-age annuity component of the old-age retirement part of the federal employee system plan would imply a smaller annuity, defined benefit annuity, than personnel get under the current formula. But what we found, though, was that for very long-serving personnel, the combination of the Thrift Savings – of the annuity that a person could get at age 60 by annuitizing their Thrift Savings Plan and the defined benefit annuity would in many instances exceed what they get under the current formula. And that was done under the – what I consider to be a conservative assumption of a 4% real rate of return on the Thrift Savings Plan. In fact, federal employees have averaged quite a bit more than 4% real. But I assumed that for conservative – to not oversell what these plans would do in terms of retention compared to the current system.

Mr. Cook: Thank you, sir.

Admiral Pilling: Thank you, John. Anybody else? Okay, thanks, John. Next up we're going to talk about health benefits, with Dr. Sue Hosek.

Dr. Hosek: Good morning. This is a result of a conversation that Admiral Pilling and Dr. Anderson and I had, and, like John, this represents, you know, a paper to the committee and – I would point out that it's interesting that we were put together, and I'm sure that the reason is that this is the other component of the substantial deferred compensation. And just to give you an idea, the accrual rate is only for the over-65, and so it would take a little bit of calculation to figure out how much we're paying for retiree health benefits per active duty person, but one figure I have heard that I think is notable is that in the next few years, the military health system will be spending 70% of its dollars on retirees and their dependents, and so that's a very substantial amount.

Just to review, in case there's anybody here who doesn't know this, there are actually – although, it appears that there are three options under TRICARE, there are really two. One of them is an HMO plan, TRICARE Prime. The other is – looks exactly like a Preferred Provider Organization plan in the private sector, and it is a combination of Extra and Standard. Junior enlisted personnel are automatically put into the HMO, but others are in the PPO unless they opt to go into the HMO. The – these plans cover active duty, who are all in the Prime option, their dependents, retirees under age 65 and their dependents.

In the past few years, two other plan benefits have been added to the TRICARE benefit, which has been around in one form or another for a long time. One of them is TRICARE for Life, which has received a lot of publicity. It is a comprehensive Medicare supplement, so basically it pays for almost everything that Medicare does not. There are a few notable exceptions, one of which is nursing home care. The more recent one is TRICARE Reserve Select, which just was offered a couple months ago for the first time. This is to cover reservists when they're not on active duty, but it requires enrollment and a substantial premium contribution, which the other plans by and large do not. Retirees pay a very small premium if they want to enroll in TRICARE prime, but it's, as you'll see in a second, it's quite modest. So TRICARE Reserve Select is the first option that's been offered with a substantial out-of-pocket contribution up front by the beneficiaries who want to participate.

Health care costs have actually been increasing for a long time at a very steady real rate. It turns out that health care costs have been increasing at 4% real for at least 50 years. And that's true in the military system and also in the US health system as a whole. So one of the things that have been happening is that the Defense Department has been experiencing the same rate of real growth in costs that everybody else has. In addition, on top of that, however, are these new benefits, and the TRICARE for Life benefit, which is paid through an accrual like the retirement benefit, has added substantially to the budget. Most people, including myself, do not believe that TRICARE Reserve Select, as it is designed currently, will increase costs by as much, because of the premium contribution, but the number that you see for 2013 was actually the result of a CBO analysis, and it has drawn a lot of attention because it really does show that this is becoming an even more important part of the DOD budget and will continue to do so if something doesn't change.

A major reason in the military health system, why we're seeing these costs grow at such a – at a high rate – is the increasing participation of retirees and dependents, particularly the group under age 65, who are in the regular TRICARE

program. What this graph shows is an increase in the number of unique individuals using the system in a year, from – over a five-year period from 55% to something like 73%. So that's a 50% increase in that participation rate over a brief period of time. When a retiree under age 65 decides to use TRICARE, especially if they haven't been using it before, most likely the reason is that previously they were using an employer health plan and they've elected instead to use TRICARE. And when that happens, the DOD costs go up substantially, particularly if the retiree has dependents, DOD might pay roughly \$7,000 a year for that family, and the beneficiary will save some costs, as I'll show in a minute, but those are very small relative to the savings that the employers are reaping from this – from TRICARE. So, as is the case with some other public health benefits, what we're seeing here is a phenomenon that health people call "crowding out," where the public benefit is crowding out the private benefit. And that, of course, raises the public costs.

Actually what's happening is, there is a shift in reliance on the military health system by this group of beneficiaries that's across the board. So, this [chart] breaks down the population into several groups, depending on, first, on whether they have access to other insurance, which usually means they're employed or not, and, depending on whether they have access to other insurance, what their decision is regarding using TRICARE versus the other insurance, or both. And we end up with people who are reliant – what we call reliant users. Those are people with no other insurance, so they're totally dependent on TRICARE. We have people who are using both, so they may use different – TRICARE may pay for different amounts of their care, and there has been an increase of both the reliant users and the amount of care those who are using both systems are getting through the TRICARE system. And then there is a shift, as I already showed you, from non-use to use.

So this is – this shift is really, I think, primarily driven by a decrease in the value of employer benefits in the United States, which is very well documented, and is a reaction to the rapidly increasing costs that employers in the private sector are experiencing.

I didn't put the year down, but I believe these are 2004 numbers. In 2004, a typical employer health plan cost the employee over \$200 a month, over \$2,500 a year, for family coverage. The Standard/Extra combination in TRICARE costs nothing, and the Prime option, HMO option, only costs \$460 for the year. That \$460 figure has not changed since 1996, roughly, when the program was put in place.

Another change that's been occurring in the private sector, that is not shown here, is employers are dropping their retiree benefits, and that is probably increasing the costs under the TRICARE for Life program.

There are certain other advantages – financial advantages – to the TRICARE benefit, but really the most notable one is free care in military hospitals and clinics. If you look at the cost-sharing arrangements for civilian care under TRICARE, either Prime or Standard and Extra, they look roughly comparable to what employer health plans are charging, but care in the MTF continues to be free, and the MTF provides – the Military Treatment Facilities, for those who don't know that acronym – provides, I think, today just under half the care. So that's a substantial benefit. And that applies not only to health care services but also to prescription drugs, which are an increasing share of the health care budget. MTF care – actually I forgot to put that on this slide – but it is also free. Prescription drugs are free at the MTF, just like everything is. In this case, however, the TRICARE cost sharing is somewhat lower than in civilian health plans, and so there is – for

those who are using substantial amounts of prescription drugs in a year, this actually can add up to a fairly significant benefit difference.

There have been in the past a number of efforts, and these continue, to try to make the system, particularly the in-house system of military treatment facilities, more productive and therefore more cost-effective. But those efforts, although I'm sure they paid off in some savings, those have not stopped this continuing real growth in health care costs, so it's likely that future cost containment will require some benefit changes, particularly if this shift of costs in employer health plans to employees continues the way it has been.

There are two kinds of changes that can be considered. The first is just simply change the cost sharing. The most obvious change is to increase the premiums so that they look more like what are being charged in other health plans, or at least to begin to move to decrease that gap in the premium contribution that I showed on the earlier slide. There are also opportunities for changes in cost sharing, particularly in the MTFs, but – and for pharmaceutical drugs. And importantly, any changes that are made need to be indexed somehow, so that we don't have the problem that has been around forever in the military health system, which is the benefits are changed and then 20 years later, when the cost sharing is way out of the range of other health plans, then you have to face a very substantial change – decrease in the benefit in order to, if you will, catch up with what's going on elsewhere.

But if – but the other options are to begin to think about some new benefit options, and I think the major purpose of those would be to induce beneficiaries of this system to take advantage of other insurance when they have access to it. So rather than picking up 100% of their health care costs, it might be wise to pay a quarter of costs so that they're having to contribute to their employer plans. Employers appear to be now doing this the other way, that is, providing inducements for military beneficiaries to use TRICARE, so again this is in some sense trying to keep up with the private sector.

There also was some discussion, when the accrual system was set up for TRICARE for Life, about including retirees under age 65, the benefits for that group in the accrual system. I believe the reason that this wasn't done is that it would have increased the budget in the short run. But in the long run, this is a deferred compensation system, this is essentially an entitlement, and when you bring people on board today you are paying their future health care costs, and so there is a lot to be said for considering that cost as part of the cost of current personnel.

I want to just say two things briefly about these benefit changes. Premium contributions would make a huge difference, but the kind of premium contribution that you would need to change the current situation are large enough that this really would represent a significant benefit cut, so it would have to, I think, be considered along with a package of changes. Cost sharing would have some effect, particularly increasing the co-payments for pharmaceutical drugs, but the effects probably would be modest. This is based on the body of health service research on the effects of cost sharing. So, and again, these are viewed as a benefit cut, so the advantages, in terms of controlling costs, would have to be weighed against the change in the value of the benefit.

These new options, and there are a number of ways that people have thought of, of trying to incentivize participation in employer health plans – these offer, I think, a lot of potential, but if they're not well designed, they could backfire easily,

and the reason is that there are enough beneficiaries who are not using TRICARE and are using their employer health insurance, who would participate in what for them is a new and valuable benefit. I can tell you that many of my colleagues at Rand, who are military retirees, participate in the Rand system, and they're paying a significant premium contribution, that would then become a DOD cost if you went this route – that you have to make sure that what you gain with the people you shift back to the employer plans is at least as much, if not more, than what you lose by paying out these benefits to these other people. But this does appear to be a promising option, and so...

Admiral Pilling: Any questions from the committee? Okay, thank you very much, Sue. Dr. Mackin is going to talk to us about special and incentive pays.

Dr. Mackin: Thank you. The subcommittee on special and incentive pays is comprised of Dr. Oi and Mr. Jannotta, and we're looking at a couple different things with the special and incentive pays, but it really boils down to a couple of key issues. The first is, how big a share of total compensation should the special and incentive pays comprise, and the second one is, how should those pays be structured and should that be different than the current system. So what I'd like to do is – in the report we first looked at what the current system looks like, how those pays might be categorized for analysis. We looked at some of the strengths of the current system, what some of the weaknesses are, and then looked at some potential ways to address those identified weaknesses.

First, by way of background, the committee has had previous briefings from OSD, in particular, on special and incentive pays, but to review, there are over 60 pays in force right now. The budget for the active component in 2004 was about \$4 billion. That makes up about 3% of total compensation, about 5% of cash compensation. An important thing to note, that even though there are over 60 different pays, large chunks of those are concentrated in a few areas. First, reenlistment bonuses, which were about \$765 million in 2004, that's about 18% of the total. Next would be flying duty pay. This is things like aviation career incentive pay, flight deck pay, and so forth. That's about \$711 million, or 17% of the total. Sea duty and foreign duty pay comprise about 17% as well, 17-18%, and that's \$743 million. Medical pays also make up a substantial portion, about \$550 million, or 13%. And then finally, in 2004 in particular, hostile fire and imminent danger pay were nearly 13% as well at \$536 million. The remaining pays comprised about 21% of the total budget.

Well, before we looked at how to categorize the special and incentive pays, we recognized they've been categorized by many others in the past. In particular, OSD's scheme breaks them up into recognition pays – those are pays that recognize different aspects of the duty or assignments that individuals have to serve under – and incentive pays, which seek to get individuals to volunteer to stay in a skill or maintain proficiency in a skill, for instance.

The 7th QRMC also looked at special and incentive pays in some detail. They broke the pays up into three categories: hazardous duty, career incentive, and skill incentive. Career incentive is perhaps a longer term type of pay. Skill incentive would be targeted more at short term fluctuations in supply and demand in a particular skill.

What we did when we began to look at these was go at a slightly different manner. We used, again, the three categories here for the purpose of the pays, and those are: recruiting, retention, and skill incentives; compensating differentials – and this is again pay for differences in working conditions or living conditions in different jobs; and then finally assignment or

location pays. But then we added another dimension, and that is the degree of discretion that the services have in the amount that they pay to individuals, depending on the severity of the condition that they're under or the degree of the discrepancy in the market conditions.

And in this slide here, this is obviously not an exhaustive list, but at the intersection of those we've shown some examples. For instance, under recruiting and retention skill incentives, ACIP – Aviation Career Incentive Pay – there's no discretion the way the pay is structured now. It can't be varied if market conditions vary. But other aviation pays, like Aviation Continuation Pay, can be varied to reflect changes in market changes, and, in fact, have. And then kind of at the other extreme, pays like Selective Reenlistment Bonuses and Enlistment Bonuses allow a great deal of discretion to the services to react to market conditions, and they can in fact change those levels, not only across occupations, but zones of reenlistment, and change them multiple times within a fiscal year.

Another example of a pay with a large amount of discretion, in the lower right corner, is the Assignment Incentive Pay. That's actually being implemented by the Navy right now as an auction for different positions, so the sailors are actually bidding on positions, and the amount of the pay is based on those auction bids that are submitted.

And there are a number of strengths to the current system of special and incentive pays. It is the major way that the current system can provide some flexibility to meet staffing requirements that the across-the-board, you know, in general the regular military compensation can't meet. It is a way to compensate for arduous, unpleasant, or hazardous jobs, and also to respond to variations in supply and demand conditions across occupational specialties, and as those change across time. And also there are pays there that encourage members to acquire and maintain essential skills.

But we were able, as well, though, to identify some weaknesses in the current system. One of those weaknesses may just, in fact, be proliferation. There are over 60 pays now, and that can make the system difficult to manage and monitor – so many different pays for so many different reasons. That proliferation can also lead to inflexibility, because many of the pays are narrowly defined – they function almost as entitlements, which makes it very hard to adjust the levels of the pay to react to market conditions. And the third problem is motivation. The majority of the special and incentive pays that are in place now don't have any structure that allows them to motivate personnel to perform. There are exceptions. For instance, sea duty pay varies by pay grade, so to the extent that the promotion system rewards performance, the sea pay levels would encourage further – provide a further incentive to seek promotion and perform better. But the majority do not, and therefore they could actually flatten the pay differentials across pay grades, to the extent that they're a substantial part of the pay package.

Having identified those weaknesses, we then looked at some alternatives, or ways in which the current system could be changed. And we identified actually five different areas to look at. The first one is consolidating special and incentive pays, reducing from 60 pays to some smaller, perhaps more manageable number.

The second is increasing the share of special and incentive pays in total military compensation – so making more of the total compensation package discretionary and flexible.

Third would be looking at ways to modify the pay-setting mechanisms to allow these special and incentive pays to reward performance, either through the rank structure or more directly.

And then the final two grow out of some of the proposed changes that we're looking at, and that is, establishing general principles for setting pay levels and developing general rules for adjusting the budget for these pays. And that is that if – under the current system, where we have a large proportion that are perhaps entitlements, these two issues are not as great. If there's a move away from that, then the issues of setting the budget and setting the pay levels become more important.

To look first at the issue of pay consolidation, the idea here would be to establish broad authority for a few distinct types of pays. A current example is the Critical Skills Retention Bonus, where the levels are not preset in law, and it's up to the services to justify and budget particular levels to meet particular needs. The benefits of this type of approach is that it's simpler, it's more flexible. The disadvantages – primarily, this would require a substantial increase in justification for pay levels. Current pays that are entitlements require much less justification, simply showing who is eligible for the pay, the amount of pay, that gives you the budget. Now all – under this system, virtually all pays would require a detailed justification.

What we've presented here and in the paper is one possible consolidation scheme. We don't go as far as to say that this is the right one, but to just give an idea of how this might be done. And in this case we've actually used seven different pays. Occupational differential and retention pays are both designed to adjust for differences in market conditions. The key differences would be that the occupational differential pay is for more long-term discrepancies that we know exist – for instance, for medical physicians, dentists, and so forth. Retention pays would be for more short-term fluctuations. Correspondingly there would be greater discretion there, more flexibility in adjustment across time.

The third pay is related. It's – again, it's a market based pay – accession pay, to attract new members to specific jobs. Also it could be used to level-load recruits across the fiscal year and reduce training infrastructure requirements, and finally also to target individual jobs.

We've added the fourth pay, conversion and separation pay, with the caveat that if you're considering substantial changes in the retirement system, some aspects of the separation pay as a special and incentive pay may not be required. But the idea here is actually a little broader, and that is that it could be – this pay could be used as an incentive to transition from one component to another, or even from one service to another.

Then we have skill retention and proficiency, and rather than paying people who have particular skills to stay in those skills, we're actually directly paying individuals to acquire and maintain those skills even if it's not in their primary job. And that would include current pays like foreign language proficiency pay, for instance.

Then we have assignment or duty pay, and this is an incentive to accept hard-to-fill jobs voluntarily. This would be analogous to the current assignment incentive pay. And it's distinct from the final pay, which is hardship or hazardous duty pay. Even though both of those final two pays compensate members for aspects of jobs that are unpleasant or difficult or dangerous, the distinction would be that the hardship/hazardous duty pay is for the unpredictable aspects. For instance,

you're sent into combat, you're sent into a dangerous area, as opposed to the assignment/duty, which would be a more voluntary measure, more market-based, an incentive to fill a job where there's a predictable difference in the working conditions.

And, you know, again, this is one possible scheme. Certainly you could think of another scheme that has fewer pays – for instance, lumping the first three into recruiting and retention pays, lumping the final two into a single assignment type pay. And it's certainly an area that could use some further study as to what the right number is.

Okay, some of the other issues that we looked at, again, increasing the special and incentive pay share. Actually when you look at private employers, the current share is not out of line. I believe civilian employers average 6-8% of total compensation, as opposed to 5% in the military. But the difference is that the private employers aren't constrained to a single pay table, so what we're – a big chunk of what the military is paying is for occupational differentials. They would not appear as special and incentive pays in civilian compensation. So really the share that the military is paying is substantially lower than what the civilian does. The difficulty is, how do we determine the proper level if we are going to increase it. You know, is more better? Well, how much more? Perhaps one place to look is at private sector variation across occupations. I think this is going to require a lot of work to try to find that, and perhaps some trial and error. And then finally, if the share does increase, how do we transition to that? Well, if we're constrained by budget neutrality, this would necessarily entail increases at the expense of at least nominal increases in other compensation elements – for instance, regular military compensation. That's just a fact of life.

Again, we also looked at rewarding performance. One way to do that is, where possible, simply to make the pays a function of grade. This allows us to maintain a significant relationship between performance and promotion and compensation. In addition, there are some pays, for instance, proficiency pays, where we could more directly recognize performance, for instance, by having the pay vary across apprentice, journeyman, and master levels, or some sort of skill levels there. Another thing that may be important to note here is that, if S&I pays do become a significantly larger portion of total compensation, if we don't also restructure them to reward performance, the net effect may be to flatten compensation even further if more pay is coming from these pays than from the basic pay table, for instance.

As far as setting the pay levels, again there are a number of ways that they can be set – directly in legislation, by OSD, by the services, or even using market mechanisms like auctions. And we don't want to pretend that there's one way that's going to work for all of them. The best method, really, may depend on the purpose of the pay. For instance, pays that offer a type of insurance, like the hazardous duty pay, against unforeseen conditions or unpredictable conditions, may in fact need to be fixed and known to the member in advance. If it's advertised that a member going into combat is going to get some additional premium, but the member doesn't know what that is, it's unclear what the benefit of having that pay advertised in advance is.

Setting the special and incentive pay budget – again, the concern is that if these pays become more flexible, more discretionary, the burden of justification increases, the danger of budget cuts increases. One solution may be to tie the increases in the budget to increases in basic pay. There are a number of problems with that potentially. It's not necessarily desirable or in line with changes in market conditions or fluctuations in staffing demands, so this again is an area where I

think a lot of thought is necessary. There may be a second order effect to going to a more flexible system. And that's what we have for today.

Admiral Pilling: Okay, thanks, Pat. The bullet that strikes me is – I think we got into 60 of these pays because nobody wanted to put it all in one pot, because that's more susceptible to budget cuts – it makes it much easier. And the service budgets get reviewed at so many levels. Questions from the committee? Dr. White?

Dr. White: Pat, when we talked about rewarding, or you talked about rewarding performance, do you see in such a proposal any change in behavior on the part of recipients of these incentives?

Dr. Mackin: Possibly. I think it's more that we don't want to reduce the returns that we have elsewhere to performance and to promotion, that – I don't know how much additional effect. Certainly in some of the proficiency pays we might see a significant effect if we're directly rewarding performance.

Dr. White: But mostly what it would do would be fail to dampen the current performance-based system?

Dr. Mackin: Correct.

Dr. White: Thank you.

Admiral Pilling: Dr. Oi had a question.

Dr. Oi: I'd be interested – I've been a bit derelict in my responsibility, Dr. Mackin, but I'd like to see the recruitment and retention part separated out from special and incentive pays, and move that into regular military compensation – the bonuses, medical pay, and so forth. Have a compensating differences for sea duty, other types, and then recognition pay. And then we have not really discussed the issue of death benefits and benefits for disability and so forth, which ought to be incorporated somewhere in our discussion as to what the appropriate levels and allocations should be, and whether they should be benchmarked to the basic pay tables, but not to inflation, and how do you deal with the recognition pays. And that one is hard.

Admiral Pilling: Thank you. Any others?

Mr. Cook: I had one, Admiral. Proliferation – is that a relatively new phenomenon? Or has it existed for some time? Getting to 60 – have we been there for a long time, or are there new things added every year?

Dr. Mackin: Well, not necessarily every year, but they don't go away as fast as we add them. Some of them inevitably go away. //crosstalk// Some do go away.

Mr. Hogan: Leprosy pay is out.

Dr. Mackin: Leprosy pay is out, but, so it's more an accumulation across time.

Mr. Cook: So it's not necessarily that it's been a recent phenomenon then that this has jumped up?

Dr. Mackin: No.

Mr. Cook: Okay.

Admiral Pilling: Any others? Thank you, Pat. And then our next brief is on quality of life issues, by Dr. Asch.

Dr. Asch: Thank you for the opportunity to present the work of the subcommittee. We appreciate it. Is this my button? I guess I – okay, maybe you could just let me know where to push it. Thank you.

Okay, well, as we all know, the draft has been – since we've moved to a volunteer force over 30 years ago, one of the consequences of that is that service members are much older and therefore they're more likely to have families. And as you can see, officers with families, we see about 70%, or actually slightly over 70% have families. Enlisted personnel, it's slightly over 50%, and many of those who are married have children. In fact, it's close to 70%. And so when we talk about managing the force, we have to think about mitigating the demands of military service on members and families. We have to think about helping to maintain morale, retention, improving readiness. So what I'm going to talk about today is the work we did on thinking about current programs, the challenges being faced, talk about a framework for improvement, and then talking about the alternatives that we had considered.

Okay, just to give a very brief overview, just for familiarity purposes, these are general categories of quality of life programs. They consist of family and community support, just the things we all know about – family readiness programs, child care, legal assistance, youth programs – and the various morale, recreation, and welfare, including commissary, exchange, temporary lodging, fitness centers, and the like. This is sort of a throwaway slide, but we just want to make sure everybody's on the same sheet of music.

What this chart shows is trying to put installation-based benefits within a larger context of total compensation. This chart comes from the Congressional Budget Office. It's an estimate of total compensation, cash plus non-cash. According to their estimate, total average active duty member compensation was \$99,000. Of that, cash compensation, the green, was \$43,000, or 43%. Health benefits, which is the blue, was 29%, or \$29,000 roughly. Retired pay, which is the purple, was about 9%, or about \$8,000, sort of not quite 100 here. And then installation-based benefits, which is the child care, the commissaries, and things I was talking [about] that relate to quality of life measures, is 12% or about \$12,000. So it works out that quality of life is about the second largest non-cash portion of compensation. And when you multiply that \$12,000, which is sort of the per capita cost, times the 1.4 million people in the active force, we're talking about \$16.8 billion for quality of life. I thought that was a kind of interesting slide, because we are talking about compensation after all, so it can help you think about the other portions that my colleagues here are talking about today.

In any case, what are the challenges? I mentioned mitigating the stress of – associated with deployment. Well, clearly military is a unique occupation. Members and their families are on call at all times. They endure the separations of uncertain length, often far away, that are dangerous. They're called upon to make frequent and long-distance moves that

sever ties with their friends and community, pulling their children out of schools, finding new housing. Active members move three times more than their civilian counterparts, and that adversely affects their spouses' earnings and employment opportunities.

The recent deployments have spotlighted the recent – the challenges that face quality of life services. Members and their families are coping with financial difficulties, stresses on their marriage, resulting in divorce. There's stress throughout the deployment cycle, and what we mean by that – the pre-deployment, where members are very busy getting ready for deployment; during the deployment, with the separation and the stress of separation not only on the members and their spouses, but even on their children; and then the reunion process when they come back and reintegrating into their family life. So the stress is there, the need for counseling, certainly an increased need for child care, and I'm going to talk about that some more, and also an increased need for accurate and timely information, not only between the spouse and deployed member, but also between the spouse and the chain of command, because obviously when you hear an incident on the media, that something happened, clearly the spouse wants to know, "Was my member involved with that?"

Thinking about challenges at the broader level, the face of the military is changing demographically. Half the enlisted members now have some college by the end of the first term. More members are female. More dual military couples are 13% of military families. There is a growing Hispanic population in the enlisted force. And so the question is, as the demand is changing, is the supply changing? Is quality of life services adjusting to the change in demand?

Another area of challenge is that it's not clear that the programs are always closely tied to objectives. Now, it's hard to say, what are the objectives? Obviously readiness is the objective, but maybe we could come up with something more specific, like recruiting and retention. Really, what's missing is we really don't know what works and what doesn't, and as a researcher I've devoted at least my career to looking at cost-effectiveness of recruiting resources. What's the effect of educational benefits on recruiting? What's the effect of recruiters on recruiting? What's the effect of advertising on recruiting? We don't have those kinds of studies in this particular area. And so we have a – we really miss seeing that kind of analysis that we can then turn to and say what works, what doesn't work. So we really, that's our area of need. And we also have very little guidance on whether members and their families would be better served by providing these benefits in the form of cash and letting them make their own arrangements. Maybe they'd be better off in that way.

Okay, now I mentioned child care, so let me talk a little bit more, because this indeed is an area of concern. Part of the problem is increased demand, and the increased demand is coming partially because of the increased deployments. After all, a member is gone, the spouse left behind is trying to deal with that, so they need extended hours, they have shift work, they've got to patch together day care. But the other part of the increased demand is there has been a baby boom. Okay, I was a baby boomer – well, there's been a baby boom. And all these deployments have resulted in thousands of births, and DOD has estimated that [there has been] a 15-53% increase in births as a result of Iraqi Freedom and Enduring Freedom, and what's a concern is actually thousands of child care spaces are going to be lost as a result of rebasing. DOD has estimated that there's going to be a shortfall of 38,000 spaces, and it's not clear what exactly, what – I mean, the thing about children, if you have children, is you don't care about after school care if you have an infant, and vice versa, so it's not clear, do we have the right kind of spaces for right kind of – for the demand.

Also, well, DOD has a plan, it's developed a plan to deal with deployment issues in child care, and it's looking at building temporary facilities, buying space in local communities, coming up with home care solutions. It's gotten supplemental funding of \$53 million over FY03 and 04, but – for shift work, respite care – but really this is a temporary fix, and so what's really is – we need a long-term solution here.

I mentioned military wives and spouse employment. This is a – you know what? – this is a long-term problem and it's a big problem. What is the problem? Military wives earn less than their civilian counterparts, holding other things constant. What the graph shows is how weekly earnings, weekly wages of full-time wives change by age, vary over the life cycle. And the top two lines show how they vary for women, wives who have college, and the bottom two show it for wives who have high school. And if you compare the top two towards the intercept, what you see is that civilian wives earn about \$70 per week – excuse me, \$90 per week more than their civilian [sic] counterparts, and for wives who have a high school degree, military – or civilian wives earn about \$70 more per week. And it's not just that they earn more. Military wives are – excuse me, it's not that they earn less. Military wives are also less likely to work and they're less likely to work full time if they do work.

Now there are a number of initiatives that the Department of Defense and the services have put forward to address these issues, and they're very sensible, but based on – and I'll just talk more about this – in some of our discussions with the National Military Family Association, so far they seem to be in pilot mode and it's not clear are these programs working and have they kind of advanced beyond the pilot mode.

Okay, here's kind of an interesting slide. This shows levels of satisfaction with various programs from the Status of Forces Survey. It's a survey of active duty members in March 2003, and it shows just general kind of programs, fitness centers, services concerning military deployment, percent satisfied. So for example, it says that 72% of active duty members who were surveyed said that they were satisfied with the services concerning military separation and deployment. The ones in red were the ones that just seemed to – were the highest levels of dissatisfac- of being dissatisfied. So for example, 17% said they were dissatisfied with family and personal counseling services, 19% dissatisfied with child care services, and the whopper is 35% were dissatisfied with spouse employment services. Unfortunately we don't know why they were – you know, what it was that they didn't like and what would be helpful, but at least this is suggesting that these are areas that we need to be thinking about and improving. Okay.

We met with the National Military Family Association, and we appreciate that they had met with us and provided us with material. We discussed a number of areas of concern. These were some of the ones that came up to us and that they discussed, and we read it from their literature. They were concerned that the family support workforce lacked training, especially the volunteers, and that this – that they were stretched thin right now. They need more funding, they need more training, they need to be bigger. You know, deployments are uncertain, they understand that, but they need more tools to cope with unpredictability. That's a problem. They're concerned about return and reunion issues, that there needs to be continued follow-up, especially with these – what's the effect – you know, we know about the single employments [sic], well, now we're seeing multiple deployments, and we don't have that much information. Access to community support

programs, especially for geographically dispersed Guard and Reserve. And then general issues – spouse employment, child care, health care, dependent care, as I sort of mentioned already.

One thing I want to mention, real quick, just going back. You know, when we talked to them, they started off conversation saying, “Well, we’re not sure all this stuff is really compensation.” And you know, of course, here we are talking about compensation, talking about this stuff in the context of compensation, so, you know, I’m not sure how to resolve that, especially since my next slide is, how do we talk about the trade-off between cash and quality of life in a framework of compensation?

See, what I want to do is now move to alternatives, and it seems to me, or to us, that before we talk about what’s the – what are the right alternatives, we need to have a framework that tells us, how do we meet the objectives that quality of life is trying to meet? Namely, to mitigate the stress of service, to meet readiness needs – how do we meet those objectives? How do we meet those objectives? Should we do it through cash, or do we do it through in-kind benefits? And how do we make that choice? Well, when should we do in-kind benefits? Well, when it promotes readiness and retention more effectively. Well, when would that happen? Well, like a fitness center – a fitness center encourages physical activity, so that would tend to promote readiness and retention.

Ensure quality of life standards: that would be another – so for example, child care. A child care standard is that child care centers need to have, they need to be accredited. That’s ensuring a quality of life standard.

Another reason to choose in-kind benefit[s] versus cash is that, you know, the employer can provide it more cheaply. You know, it’s a group discount, with economies of scale.

Finally, just favorable tax treatment. Individuals pay income tax, and if they have to pay for something with after-tax dollars, it’s cheaper if the employer can provide it with pre-tax dollars.

Why would you choose cash instead? Well, often times, people do not value the benefit in – at the same rate as what it costs. Why? Well, for example, a single member without children often doesn’t care about day care centers. They’d just as soon have the money in cash. Retirement benefits, classic – they often discount future dollars so heavily, they would rather have cash. And so, again, it might cost a lot, but they would just as soon have cash. Also cash gives people more options on how they spend their money. A benefit is just a fixed benefit with no option. And of course, it’s important to make – to sort of go through this calculus, because resources are scarce and so we want to make sure we get the best value.

Okay, another issue, sort of thinking from a conceptual level, and making sure that that quality of life is provided efficiently from a compensation standpoint, is to be sure to provide as much choice as possible. I mentioned that – I’m not sure I mentioned this, but – ultimately what is causing spouse earnings to be lower than their civilian counterparts is frequent moves and the long distance in those. So, to the ex- – one way that might sort of somewhat offset that burden is to give families more choice in assignment. To the extent that the services don’t care as long as they get a qualified member, you might as well try to make them happier by giving them some choice on where they go, and Pat mentioned the Navy’s assignment incentive pay program as a possible example of that.

Another area of possible choice is flexible spending accounts. Sue mentioned that in the health care. The idea here is that you put the in tax – you put them in – the employer sets up a non-taxable fund, you can put money in it, and then use it for health care and dependent care. And so you can trade off cash for non-cash benefits. I think I'll just move on at that point.

I do want to mention that DOD has moved forward in addressing some of these issues. They made what they call the new social compact in 2002, the compact being that they would be committed to the well-being and the morale and would be responsible to members and families. In return, for a reciprocal responsibility, that members and families will contribute to readiness. One thing that was unusual about this new social compact is that they actually set quality of life goals, metrics of success, and with some follow-up. So various – something unusual about the new social compact, and hopefully we'll see some improvement.

DOD has also moved forward on a number of specific initiatives to deal with deployment-related issues. Military OneSource is a service that's 24 hours a day, seven days a week, that members can call to get information about counseling and what-not, and any number of valuable – just trying to move on, I'm afraid I'm losing time.

Here are alternatives. I really wanted to get to this chart. The first recommendation is that the – DOD and the services need to do a better job addressing deployment expectations of the spouses, and that has to do with helping to address coping with uncertainty and unpredictability of deployment. Second, improve counseling access and follow-up, especially to geographically diversified [sic] communities. One thing we were concerned about is the problem of confidentiality, lack of trust. People feel stigmatized by pursuing counseling. That needs to be addressed. An area of concern – child care needs to be addressed. That is being addressed, but we were concerned that perhaps those resources weren't being targeted as much as they could be, and specifically towards infant care and where the baby boom is, and not overlap with care that's already be – can be purchased in the private sector. Also we would suggest thinking more about flexible accounts for dependent care.

Spouse employment continues to need attention, moving beyond pilot programs. And how to do that? Well, we need to be thinking about doing evaluations of programs and then working – actually picking programs that work. That could be using professionally trained career counselors and placement specialists; contacts with large businesses; using agencies that give specific job leads, less skill development; more education assistance. Ultimately what's going to deal with spouse employment is going to be less frequent moves.

Finally, the last two – we do so much work on resource effectiveness, and recruiting, retention, and compensation. That guides our policy in those areas. And we don't seem to be doing that in this area, and it seems to me we need to be doing more research on what works and what doesn't, and assessing whether cash would be better rather than these initiatives.

And finally, give people more choice when it's possible, because that is also a quality of life initiative. And I'll end there.

Admiral Pilling: Is it possible to go back to slide 4, the pie chart?

Dr. Asch: The pie chart, absolutely.

Admiral Pilling: Yes, that's it. Because the health care number stands out. I would guess that most people in the enlisted ranks don't think they see \$29,000 of health care every year, and I think that's because that number has the retired medical care in it as well. Is that correct?

Dr. Asch: //speaking aside to staff// Is that right? Yeah. I'm – these guys are also familiar with this. This is the – I think it's the accrual charge.

Mr. Hogan: It's all three components...

Admiral Pilling: It's all three, yeah.

Mr. Hogan: ... active duty, pre-65, an estimate of that, and then the TRICARE for Life.

Dr. Hosek: //barely audible// It may also have medical readiness stuff there, and it's hard to separate those, so, I mean, actually I don't think anybody knows what medical readiness costs...

Dr. Oi: Isn't it true that all health care expenditures make up 15% of the gross domestic product?

Dr. Asch: That I don't know. Sue, do you?

Dr. Oi: And if that's right, that \$29,000 can't be right, because if that's 15%, then the total's got to be huge - \$200,000. Isn't that right?

Admiral Pilling: The pie chart shows...

Dr. Oi: Yeah, I know, but the numbers don't add up with the national income accounts, do they?

Dr. Asch: You're saying they're a lot more generous, yeah.

Dr. Oi: What?

Dr. Asch: You're saying they're a lot more generous than – yeah. I don't know. I mean, I can...

Dr. Oi: Because I think the 15% number is fairly accurate.

Dr. Asch: There's a paper that goes through all of this. I can send it to all of you. It's a fairly short paper, and it gives you all the assumptions and – it was, yeah.

Mr Hogan: This is not the share of the economy. This is the share of some definition of military compensation.

Dr. Asch: Yeah, this is compensation of...

Dr. Oi: I know, but even then, Paul, it's got to add up with the total, because if we add military plus non-military, it's got to be the total. Right?

Dr. Asch: It's not a – it's simply a compensation of active – per active – it's average compensation per active duty member.

Dr. Oi: I know, I know, but even then the \$29,000 just...

Dr. Hosek: The health care from age 40 to death added on, you know, added on to current health care for the active duty members //unclear//, plus a bunch of stuff that's probably not (considered health care benefits?).

Dr. Anderson: The chart says "active duty member". Is that correct?

Dr. Asch: Yeah.

Mr. Hogan: So, Walter, I think that's the answer, is that you're taking those age-40-and-beyond health benefits and bringing them forward at the accrual rate to the current force, and that's why it's such a big chunk.

Dr. Asch: It's part of the accrual charge.

Dr. Oi: Even then, you're not going to get it up to double the figure. You've got certain...

Admiral Pilling: This is assigning the cost of the entire active and retired populations to the active force.

Dr. Oi: This is a measurement issue, and the numbers just don't seem to add up.

Dr. Asch: I think – well, let's...

Dr. Anderson: No, but this says someone on active duty is spending \$29,000 a year on health. Is that true?

Unidentified: It doesn't say that.

Dr. Oi: \$2,500 a month.

Dr. Anderson: Well then, let's get an explanation of what it says, because that's what the title says.

Dr. Asch: No, what it...

Dr. Hosek: We can take a look at those numbers and try to...

Dr. Asch: What it is is an estimate of cash and non-cash compensation. //inaudible remarks from staff// Excuse me?

Dr. Anderson: Maybe the Congressional Budget Office is not very good at this.

Dr. Asch: //more inaudible remarks// Yeah, that's a better way. It's what – it's not what they're actually getting paid, it's how much DOD is spending. So it's a – what the – and so I should have labeled it better. And so, as a result, what the – for example, like the retirement, it's the accrual charge being put to – against these individuals, when they do the accounting for compensation of retirement.

Dr. Hogan: Plus it does include health care expenditures from the VA in there also, in that particular – in the – this is CBO's chart.

Admiral Pilling: Hmm, okay.

Dr. Oi: Can I raise another issue?

Admiral Pilling: Sure.

Dr. Asch: Yes.

Dr. Oi: It is that, if we consider a concept called full income, which is compensation plus the implicit value of in-kind benefits, all right?

Dr. Asch: Yeah.

Dr. Oi: Many years ago I was sitting at an academics – at a faculty meeting, and they wanted to increase tuition benefits for children of faculty. And I sat there and I said, "That's going to discriminate against women faculty, because women faculty have far fewer children." And the question here is that, if we start providing more and more family benefits, we're going to increase the differential between married and single enlisted men, we're going to increase the difference between the full income of male versus female, right?

Dr. Asch: Right.

Dr. Oi: Because females have far fewer families, active duty females. Isn't that right?

Dr. Asch: Yep.

Dr. Oi: And we have to – don't we have to worry about, that if we increase family benefits, we have to do something for the active duty women.

Dr. Asch: I think what you're getting at is this trade-off between...

Dr. Oi: No, no, just equity.

Dr. Asch: Well, it's – well, I didn't mean a trade-off in the mathematical sense. I meant that when you consider the in-kind versus the – putting something in cash versus not cash, one of the issues is that, when you put it in not cash, not all

people will benefit, because they don't, you know, they don't get that benefit essentially. They're not able to take equal advantage of the benefit. So your point is well taken. I – let me put it this way: I tried to make that point in short hand, but that's exactly what I meant when I said the value of the benefit is higher if you can just give everybody the cash, because the people who want it for tuition assistance, they'll do tuition assistance. For those who have fewer children, they won't. I mean, so there's the advantage of doing in cash.

Dr. Oi: No, I'm asking about the equity issue between gender and between married versus single.

Dr. Asch: But I think what you're saying is, aren't you subsidizing certain behaviors and...

Dr. Oi: Well, you're subsidizing male active duty with family, which implicitly is operating against active duty women.

Dr. Asch: Mm-hmm.

Dr. Hosek: Walter, I believe that women officers are only about half //unclear// - slightly over half of //unclear// officers. To give you an idea.

Dr. Asch: No, I think that, no, most of the – 90% of the spouses are women, so //unclear//.

Admiral Pilling: I think Dr. White had a question.

Dr. White: I wanted to understand best – on the chart you had related to this on child care, toward the end, maybe it was the last chart, you mentioned care that's required because it's not provided in the private sector as it contrasts with private sector care. I wasn't clear, how this market works, and what is it that's relatively unique. You see, when you say, "not overlap with care that can be purchased."

Dr. Asch: Well, in a sense it's just saying that, let's cover all the bases. And then, for those – in other words, let's provide all the options, and then for care that can be provided in the private – that is available in the private sector, give people flexible savings accounts. Let me put it this way – there are – we're not saying substitute, we're not saying that you shouldn't have care that isn't available in the – that is available in the private sector, that DOD should provide, because they do, but in thinking about where to sort of move forward on this, they should be focusing on targeting their resources now. It's kind of where to make the additions.

Dr. White: But are there obvious – therefore are there obvious places where you ought to be putting money and obvious places where you shouldn't be putting money in this context, in terms of child care?

Dr. Asch: I think there is, which is to focus on – I mean it makes no sense to put money in – I mean, if you have a place where there's been a huge number of infants born, it makes no – and where a lot of people have been deployed, it makes no sense to provide after-school care. I mean, that's the point we're making here.

Dr. White: Okay, thanks.

Admiral Pilling: Yes?

Mr. Cook: Ma'am, do commissary discounts and PX discounts, are they thought of as being part of quality of life, or are they something else?

Dr. Asch: Yes, that's in the morale, welfare, and recreation con-, but that, yeah, that's considered part of this group.

Mr. Cook: Would increased subsidies have a big factor on quality of life and retention, or not, in your mind?

Dr. Asch: We don't have evidence – there's very little evidence. It's not that – we just don't have evidence on a whole range of these, including that, on how that affects retention.

Mr. Cook: Do you have an opinion on how it might?

Dr. Asch: Um, I don't know, I couldn't say. I think we could get – there is some information that DOD has been collecting on that. I know in the particular case of that, there's dissension about that. Some people think, "God forbid you should take it away," and other people say, "Well, hey, they can go to Wal-Mart." So I, you know, I don't have a – I don't know where it stands. I can look more into it, is my answer.

//unclear comments from staff members//

Dr. Asch: But stateside, a lot of – a lot of bases actually are near, you know, areas of, you know...

Mr. Cook: Anything that makes the spouse appreciate more the value of staying in the military is a positive thing.

Dr. Asch: Yeah. But we don't know that – we don't have evidence.

Admiral Pilling: Are there any more questions from the committee members? Okay, thanks very much, Beth.

[end tape 1, begin tape 2]

Mr. Hogan: Good morning. Over the next few minutes, we're going to talk about reserve compensation, which, of course, has all the major elements that we just talked about for active duty. Our committee was – consisted of Dr. Oi and Mr. Cook, and myself as the consultant. The selected reserves, as most of you know, consists of about 884,000 men and women - that's as – at the end of FY04 – in about seven different services. They represent about 38% of the total, where the total is defined as active plus selected reserves. The Army has the largest share of the selected reserves, at 53%, and that's the Army National Guard and Army Reserve.

The salient characteristic of the selected reserves is that their duties are typically part time, and that the members support themselves and their families, they send their kids to school, largely on their civilian employment opportunities.

Over the last 10 to 15 years, the selected reserve has changed from what some refer to largely as a strategic reserve during the Cold War period to a more operational reserve today. The practical implication of that, from the personnel side, is that the duties and the expectations are shifting, from the Cold War period where the selected reserve was indeed one weekend a month and two weeks during the summer, and, on the rare event of major war, perhaps a war where national survival was at stake, they would be called early to fill the gap between other mobilization assets.

As it's transitioned towards an operational reserve, the practical implication again is, kind of, the same or similar training regimen, but more frequent mobilizations and deployment, and certainly the global war on terrorism has hastened this transition.

Some of the challenges that the reserves, and at the same time some of the differences for force management compared to the active duty, is that first of all the changing participation demands may affect supply, recruiting and retention. And I say 'may' – the jury is still out on some aspects of the longer term implications of this. The evidence, I don't believe, is all in here yet. It could affect – more frequent and longer mobilization and deployment could affect civilian career earnings, and certainly affects the overall demand for the member's time. And remember, we start with the premise that they are part-time and their primary source of income is their civilian job.

Second, there is a geographic dimension to the selected reserve, that's not present, or not present in such a stark manner in the active forces, in that, for the most part, and there are some exceptions – the Naval Reserve is one exception – that the members are recruited for local units in the region where they live, and they are mobilized and deployed by and large as units. And this places certain constraints on management. For example, an excess supply of MOS's in one region of the country is not necessarily compensated by an excess demand in another. You can't execute PCS moves in the selected reserve, if they are mobilized as units.

And the third point is one that's always been there, but I think has become more important, in thinking about it – that supply is linked to the active forces. And the reason I think it's more important now than perhaps 15 or 20 years ago is because demand for forces is more linked between the active and reserves. There are some things that the active Army absolutely needs the Army Reserve to be able to do, and so on the supply side, these linkages are probably going to get increasing attention – and the obvious are they share the same non-prior service recruiting market, by and large, and active losses become, we hope, reserve gains.

The compensation systems are obviously very similar. They share – the active and reserve share the same pay table. The actual compensation depends on status, and there is a very complex list of different types of statuses, but for practical purposes I think you can summarize the compensation implications by three. One is inactive duty training, and that is the drill, the one weekend a month, where a member is paid 1/30th of their basic pay for each drill period, and the interesting twist is that there are two four-hour drill periods per day. So a weekend is essentially four days of pay. During these weekend drill periods, there are no allowances nor travel expenses, but if the member qualifies for a special incentive pay, in most cases those are provided – for example, they fly and would get ACIP – they would be provided in a pro-rated way similar to the basic pay. If they're called for active duty training, the two weeks in the summer, for example, they're paid at a rate of 1/30th of basic pay for each calendar day, so it's a little different. And if they're actually called to active duty,

their compensation system gradually becomes identical with the active compensation system. The difference is that the housing allowance that they qualify for may depend upon the length of time they are anticipated to be called or are actually called.

The retirement system is linked in a sense to the active, but in another sense it's different. The retirement system depends upon points. You get 15 points per year for participation, one point for every active duty day or drill period. To qualify for retirement, you need 20 good years, and a good year is defined as one in which 50 or more points are accumulated. The annuity, unlike the active, the annuity begins at age 60, not at the time that you necessarily would actually retire with the 20 good years from the selected reserve unit.

The health benefit when you're on active duty is essentially the same as active duty for TRICARE. A new health benefit just recently enacted is TRICARE Reserve Select, where members may continue the health benefit after demobilization, after returning to civilian status, for earned periods of deployment.

Turning now to recruiting and retention, we took a look at current problems, not because necessarily that anything that we would want to suggest would necessarily be focused solely on a current problem, but it – but certainly we would want to, if there are current problems, we would want to try to make sure that suggested improvements to the system would address those problems if possible. And there is evidence of recruiting problems, particularly in the Army Guard and Reserve, and coincidentally they compete in the same non-prior service markets for – that the active Army does. This is through May of this year – Army [Guard] has met 75% of its goal – the pro-rated goal that it should have met through that year, so it is behind - and the Army Reserve at 74%. And the Army Guard is a bit below its goal for recruit quality.

Interestingly, there is no at least aggregate – no evidence of an aggregate retention problem in the reserve components at this time – that all components are meeting or exceeding their attrition or retention goals.

To take a look at the system from an analytical perspective, to see kind of what works and what doesn't, the first observation is that reserve and active force staffing and compensation are linked, and so that in thinking about changes to the active or reserve, you have to consider the effects on the other component.

A second observation is that greater flexibility in the reserve compensation system would help support future staffing demands and provide a hedge against problems that may emerge in the future and problems that exist right now. For – one example is, if some reserves participate for financial reasons, and in the margin some certainly will, their – during – when they're not mobilized, their compensation is solely – certainly largely, but almost solely determined by their inactive duty training days. And does it make sense that if you wanted to increase the possibility – provide an additional incentive for someone to continue in the reserves and participate, that right now the lever seems to be to ask them to train more for compensation. So greater flexibility there to reward and provide incentives for various levels of participation, that maybe breaks – doesn't require a link between training days and compensation in sort of a continuum of service, would be perhaps interesting.

Staffing problems in the reserves, and we have to admit that we have no solid evidence of this, but just logically staffing problems in the reserves are likely to have a local or unit dimension that may be somewhat – may be absent or somewhat lessened in the active duty. And one way to be able to address those problems, should they arise, would have the ability and the flexibility to structure compensation solutions at the unit or local geographic level.

The retirement system changes, as a way to improve force staffing, seems to be likely to be an inefficient way to do that. And there are a couple of reasons why that is likely to be the case. First, it's a deferred benefit and it's highly discounted by recruits, certainly, and even by mid-level members. Second, a broad-based change in retirement would not target specific problem areas. It would be across the board, so you're right away arguing that if you're changing the system to improve staffing, it's an across-the-board problem.

And finally, the reserve retirement pay – and this is an observation that's particularly to proposals that would have a more immediate annuity – the reserve retirement pay does not have the rationale that arguably active duty retirement pay does, that it provides a transition to the civilian job market and compensates for the lack of experience in that job market, because presumably the reserve, their full-time jobs are in the civilian market.

Looking at the health benefit, TRICARE Reserve Select is probably a good start to adding something in the health area you might call continuity of care to the reserve health benefit – continuity of care, the notion is, if you're called to active duty and you use TRICARE, that means you're going to drop your civilian employer's benefit, that's one thing, but that means a whole different set of providers, and in certain circumstances continuity of care can be particularly valuable. If you have a family member with a chronic disease or a very serious acute episode, you don't want to be changing your providers during that. The – and in fact, many if not most keep their civilian health insurance when mobilized.

A health benefit to selected reserve that is independent of the call to active duty – that is, it's just provided as a reward for participation – even if the premiums are competitive, quote unquote, with civilian employer insurance premiums – that is, what the individual would pay for his or her civilian health insurance – it's likely to be very costly to the Department relative to the benefit it provides to the member, again for the same reasons that Sue Hosek cited in talking about that pre-65 benefit, where people switch for a modest difference in premium, but it's a large cost to the Department.

So we looked at some alternatives, ways you could possibly improve the system – not recommendations. One was to provide a flexible employment pay for active and reserve. And we went to school a little bit on this, on the special and incentive pays, work that was being done. This would – one idea here is a deployment pay that's at the discretion of the Secretary, and that could be in amounts of up to 100% of basic pay, so it's tying it to basic pay, and that's the performance issue.

Second, target – the ability to target bonuses and other incentives at the unit or geographic level. Third, flexible reserve participation or retainer pay to support participation in general, and perhaps a continuum of service, that you could even see people sorting themselves into how – under what conditions they might be available for deployment, some more frequently than others, and this could provide incentives to sort into different levels of participation in the selected reserve, possibly.

And finally, another notion would be to make sure that compensation differences that vary by reserve status, if there's not a strong rationale for them, are eliminated, while at the same time you'd have to ensure that compensation at all levels was competitive. And this gets to the idea of the drill pay versus the active duty pay and so forth.

Some caution in certain areas – changes in the retirement system that entail earlier receipt of annuity are likely – not likely to have significant beneficial effects on force staffing. If you were to have that, it makes sense – or to offer that – that it would be actuarially reduced, similar early Social Security payments.

A permanent health benefit for selected reserve that is independent of the call to duty and is competitive to civilian employers' insurance again is something that should be approached with caution, because it could end up being a very high cost, with a benefit but a modest benefit to the member. A better approach might be to consider ways to ensure continuity of care by providing a subsidy to members when called to active duty to maintain their civilian health insurance. And that concludes the formal part of the presentation.

Admiral Pilling: Questions from the committee? Nice job, Paul. Thank you. Unless there are any other comments, I think that's going to wrap up our morning meeting. We'll reconvene at 1:00 and we'll hear from the active senior enlisted advisors, and then at 2:00 from the reserve and guard senior advisors in this room. Thank you.

[end tape 2, begin tape 3]

TRANSCRIPT – AFTERNOON SESSION

ACTIVE DUTY SERVICE ENLISTED CHIEFS PANEL

Admiral Pilling: First of all I'd like to thank our guests for coming over this afternoon. These are five of the seven members of the Defense Advisory Committee on Military Compensation. And what the Secretary has asked us to do is to look at the current compensation scheme and see if we could develop an architecture where, if you're going to make changes to the way we're compensated – you're compensated – it would fit into this architecture. So compensation is a very broad subject. What we hope to do over the next hour is to provide each of you three to five minutes to talk to us about things we should be sensitive to or ideas you might have on how we might structure this architecture for compensation. And I was going to go in the order – first the MCPON, Terry Scott, and then I was Chief Master Sergeant of the Air Force Murray, Master Chief Petty Officer of the Coast Guard Welch, Sergeant Major of the Marine Corps Estrada, and Sergeant Major of the Army Preston – if you could go in that order. MCPON, could you start?

MCPON Scott: Yes sir, thank you, Admiral. Mr. Chairman and members of the Defense Advisory Committee on Military Compensation, I wish to thank you for the opportunity to speak on behalf of the sailors and families of the Navy today.

In my travels this past year, I've had the opportunity to discuss any number of pay and compensation related issues for those sailors that are out there defending our country every day, as well as the families who basically support them. Continuing the Navy's efforts now and in the future means recognizing the heroic sacrifices the heroic men and women of our Navy. Even with all the advanced technology at our disposal and your support in providing the resources to take the

fight to our enemies, America's competitive edge is ensuring the safe – in ensuring a safer world remains our people. The creativity, ingenuity, and steadfastness to duty of our sailors never ceases to amaze me, and the quality of the sailors we recruit today has never been better. We owe them nothing else than our best efforts, in return, to give them the resources they need and have earned.

I can assure you at present we are keeping the highly skilled, quality people we desire, but how long the Navy is able to do so depends in part on the package of pay and benefits we offer for their efforts and sacrifices. People perceive their value to an organization by how much that organization is willing to invest in them.

Updating our package of benefits is crucial if we expect to attract and retain the knowledge experts and motivated people to allow the Navy to meet the demands of an unknown future. Our goal should be to move away from a stratified pay system based on longevity to a dynamic, flexible system based on advancement and merit and performance, where we can reward outstanding, driven performers in highly technical and demanding fields. Further, we must have a system that permits flexibility in awarding bonuses, such as reenlistment bonuses, based on exceptional performance and stratified again on performance levels.

I'm encouraged by the fact that one third of all sailors currently participate in the Thrift Savings Plan, taking direct involvement in their financial future. And I look forward to sharing my thoughts after speaking with sailors concerning an effort to move from the current so-called cliff retirement policy to one that may permit a mix of TSP matching funds and a defined to provide an annuity payment upon transfer to the fleet reserve or retirement.

I also wish to bring to the attention of the committee during this hearing the current disparity in compensation between our married and single members, including unequal rates of family separation allowance, basic allowance for housing, household goods shipment weight allowances, and other such allowances. I have found from anecdotal information, as well as what has been corresponded to me, that the most emotional problems that have been reported, at their root the cause is the disparity in how we treat married and single individual military members.

Finally, I hope an effort can be made to amend the regulation on such things as selling back accumulated leave. Right now we have the identical 60-day limit in place for all sailors, from those completing a four-year enlistment to those that are finishing a 30-year career, and we should not treat them identically. We invest 60 cents of every appropriated defense dollar in our people. The Navy will continue to improve organizational alignment to refine our core requirements, to reinvest savings in our platforms and systems. Likewise we seek to make a positive change in our compensation system to continue to attract our nation's best people and to reward our best performers within budget realities.

I thank the committee for your time and attention, and I'm standing by to answer any of your questions.

Admiral Pilling: Thank you very much. Chief Master Sergeant of the Air Force Gerald Murray?

CMSAF Murray: Sir, I too thank you and the committee for the opportunity to be able to address you and have a dialog on pay and compensation this afternoon. Clearly I'm not as organized with the comments as my fellow member, with

MCPON Scott here, and – but I would take from his statements a concurrence in many of the things that he has added in reference to the needs to better support our service members and allow some flexibilities.

I would like to make note of some things that I think that you have already begun to address, as I've followed some of the deliberations that you have made, and as we move forward, it looks back in our past, recently and further back, in changes that have been made to military pay and compensation that have both been received very positively and negatively, and some of our concerns from inside the service.

I would highlight and draw your attention to the late 1990s, when all of the services suffered recruiting and retention problems that led to a new look at compensation. And in fact, the 2000 QRMC, (filed?) a review of military compensation that addressed that and being able to equate in a simplified way of stating the civilian – military compensation to a civilian type of compensation, and came up with a formula, the 70th percentile type of compensation. It led to, in the year 2000, a change of our military pay tables, so there's military pay table reform. It better addressed the levels of responsibility, longevity, and the ranks and responsibilities of our service members. What we have then seen in a change with certainly knowing that many factors come into play in the ability to recruit and retain and sustain a force, but today we can clearly state that changes in compensation, based on the 2000 QRMC and reforms, have clearly impacted the quality of our force and the ability to retain and sustain our force.

I would highlight also, though, that we did not see through the completion of that – what the panel, the QRMC stated, in 70th percentile in our enlisted ranks. Basically our E7, E8s did not make that. We – the targeted pay raises that were stopped last year failed to be able to reach the compensation as stated by that commission and the work that was done in 2000. But conversely, we have seen increases that – in the likes of compensation – that we had not seen in the entire time that I have been in the service as well. And that's why we have the force that we do today.

Too, I would highlight the retirement, and as you look at, as you are chartered to do so, the pay and compensation for the active members versus retired and how that is balanced – that today we sustain a force with three separate retirement systems – those that are serving on active duty today. So as we have members that serve, there are three options, or stated how their retirement is set, including one that was very unpopular, and actually Congress even reversed to some degree, was the redux, that today is an option versus a requirement for compensation.

I have looked with favor – interest and favor – consideration for today where our services work under a retirement system that is capped at 30 years, longevity pay that is capped at 26 years. And so for those members that would serve beyond 30 years in service, and I would even highlight my boss and many – and all of the flag officers, as you were when you served on active duty, is that no compensation beyond 30 years for retirement, and yet my boss will retire at 38 years of service here. And as we look at, you know, the value of members that serve us today, the time that they spend on service, there is a lot about that, in serving the military, that's given to service, not compensation. I think that needs to be addressed into the future.

I agree with the MCPON that, when it comes to – there is a clear difference between military and civilians. There are those types of jobs that easily correlate to civilian service, and others do not. We stand in the competition in communications

areas, air traffic control, there are so many areas across our services that compete, and we will need to maintain individual – good optional types of compensation to be able to work with the ability to retain and sustain a great force. I think we have some new tools that's been given to us, but I still think the services will need to retain some flexibility in tools that they can use there to be able to retain the force.

Also I believe fully – and I know that this committee has looked at non-monetary incentives for pay. I think that's something our Air Force has highlighted for many years, is that we clearly recognize that. We know that it doesn't come without a cost, but at the other side of that, nothing can take away of how important our housing, our medical benefits, things of child care, and even to the point of how good our leadership is, that is able to sustain a force today.

So those would be the things that I would – and then the MCPON's comment about performance – one of the things that I would like to see, of the special pays and bonuses that we give, that clearly not only supply and demand, but that performance is also tied to the ability, the way that we award those. And so as we look to the future and make sure that we keep the very best force we can and we compensate the very best of the force.

With that, I too look forward to dialog. Thank you.

Admiral Pilling: Master Chief Petty Officer of the Coast Guard Welch?

MCPOCG Welch: Good afternoon, Mr. Chairman, distinguished members of the Defense Advisory Council. First and foremost I would like to take this opportunity to thank each of you for your steadfast support and resolve in your attempts to do everything possible to reward the men and women of all of our armed services, many of which who serve in harm's way as we speak about them today. So for that I'm very grateful, for your service and your sacrifices in support of people like these young men and women who wear the uniform of our country with a great deal of pride.

Having said that, as most of you are well aware, I make it a point to travel, and travel extensively to visit with the men and women your nation's smallest but fifth armed force, nonetheless, and without fail I consistently hear two questions that I would like to share with you today, perhaps three, time permitting.

The first is very routinely asked of our workforce, is simply, "When are we ever going to get back to normal?" That question, as you know, sir, implies a deep-rooted desire by many of our people in uniform to return to the way the service was prior to that heinous day we refer to as September 11th, 2001, in which moronic, cowardly fools killed thousands of innocent people, citizens of our great country and citizens from other great countries throughout the world. We also in this room know that today is probably as normal as normal is ever going to get, perhaps for the course of our lifetime. So we have significant challenges that the men and women in uniform face today, unlike, in my opinion, ever before in history. Therefore I believe it is absolutely paramount to the success not only of our armed forces, but to the continued prosperity and hope of this great country I'm simply proud to call my home, and everybody in this room my distinguished neighbor. Without the caring and support of the men and women who serve and sacrifice, and at times make the ultimate sacrifices, their lives, in support of us, our country, and the future, it is in significant jeopardy.

So, sir, it is absolutely important that we gather today to discuss issues such as this, because if we do not do right by our workforce, my fear in the future is we will not have a workforce to do right by this country.

Having said that, we're working hard – harder than ever before. We have a workforce the size approximately one fifth of the United States Marine Corps, the second largest service. We've been involved lately in the war against Iraq – we're still involved in the northern Arabian Gulf, engaged in operations overseas. We continue our pursuit to fight the war against terrorism, the war against drugs, the war against the illicit trade and transportation of people and goods into and out of our country, the war against economic depletion, and our more widely known role to protect our public from recreational boating safety. But we're much more about that TV show known as "Baywatch," and thankfully, and thank you, our country is coming to know what it is that the United States Coast Guard is all about.

The second question I hear, Mr. Chairman, is, "How in the world do you do it?" I don't hear this internally. I hear this externally, particularly in the Pentagon, inside the current administration. "How in the world do you do it?" That questions begs an answer, and it gets right to the heart of the matter of how the United States Coast Guard so successfully prosecutes all of its more traditional roles and missions while at the same time being the lead agent in the war, and rightfully so, to continue to protect our country from people who want to do us harm.

You've probably heard the comparison: we do everything that we do so well with so little. In fact, our workforce is smaller than the size of the entire population of New York City's police department. I'm going to update that with – we do everything we do so well with a workforce smaller than the entire population of Appaloosa County¹, Alabama. Now I never heard of that place, Mr. Chairman, and I'm from there, but it is a great testament to the fact that the men and women of your Coast Guard are willing to sacrifice day in and day out to serve this country in a way that this country needs them to serve.

Currently our retention rate for our enlisted workforce is 89.6%, with 1.2% of those accessing into the Coast Guard officer corps. That, for your information, is the second highest retention rate that we've had since 1958. The first term reenlistment rate is approximately 66%, which means, as you know, seven out of ten members choose the Coast Guard, not as a career but as a way of life. And we don't want, I think, ten out of ten. Not everybody is suited for a career in the military. So from a recruiting and retention standpoint, we are achieving record highs. We over-recruited and under-attrited, and that is a wonderful thing and a wonderful testament to our people.

But in order to continue on this positive retention trend, Mr. Chairman, I believe we do need to modernize many aspects of pay and benefits compensation package, to show that we're progressive and responsive to the needs of our people. Several of which, that come to my mind, are the expansion of what I call the leave sell-back option. We have many members due to increased operational and personnel tempos, who every month earn two and a half days of regular leave, but due to the current world climate and the demand for our men and women in uniform to serve rather than take leave, many people are losing the right we give them in exchange for them serving their country. Several considerations would be perhaps fiscally

[to] compensate for lost leave. That has been a very resonant issue for our workforce, and I would respectfully request your consideration.

Child care has become enormously expensive, not only for our married members but for our single members as well. I have heard anecdotally, particularly from members married to members, that typically the woman will consider a career outside of the military because the cost of child care equals the sum of the paycheck. I would suggest that there could possibly be fiscal compensation, some sort of subsidized amount to help these young men and women with children to meet the cost of child care while at the same time being able to continue their service to our country.

We also should be certain, Mr. Chairman, to minimize some of the inequities that I believe that we have between our active component and our reserve component. Far too many people take for granted the service and the sacrifices of our reserve forces, and this is certainly not the time to permit that to happen. A reservist on active duty is on active duty, and it is my opinion, and the opinion of many people within our reserve component, that they deserve equal compensation to that of their active counterparts serving in the same geographical region.

BAH II, in my opinion, should be eliminated, and our reserve component while on active duty deserves housing compensation equal to their active duty counterparts.

Targeted pay raises were also a significant benefit that did wonders for the retention of men and women in uniform with 20 years or more common service, but I believe we stopped before we achieved our goal of minimizing civilian and military pay gaps. I would also urge your consideration in perhaps continuing to pursue the closure of the pay gap between our military workforce and our civil counterparts.

The cost of moves have also become problematic. I've been asked at every opportunity to advocate the expansion of the shipment of household goods limits, and we've made progress on that. I've also been asked to increase the shipment of privately owned vehicles from one to at least two, for our men and women who are assigned to overseas locations. Most of our families have dual working parents. Most of our large metropolitan cities overseas are equipped with transportation systems that would support two privately owned vehicle families abroad, just as they do here.

What I'd also just like to emphasize – the climate in the workforce has got to be, in my opinion, the number one touchable, tangible aspect that all of us in uniform can continue to improve upon. Frontline supervisors – specifically the lack of some good frontline supervisors is the number one reason people in uniform decide to seek employment elsewhere. So for you all in uniform, particularly those of you that are senior enlisted leaders, thank you for your service. Know in your heart that day in and day out you have a responsibility to the people that you lead to be the person that they one day should hope to be. And from what I've seen throughout our Army, Marines, Navy, Air Force, and Coast Guard, you're doing just that. So thank you all for your attendance and your support in the service, and thank you, Mr. Chairman, for the opportunity. I've probably exceeded my five minutes, but I'm thankful nonetheless.

Admiral Pilling: Thank you, Master Chief. Sergeant Major of the Marine Corps Estrada?

SGTMAJ Estrada: Good afternoon, Chairman Pilling and distinguished members of the Defense Advisory Committee on Military Compensation. It is my privilege to appear before you today to provide an update on recruiting, retention, training, management, and other compensation influences.

Today over 28,000 of our – of your marines, regular and active – regular and reserve, excuse me – of all military occupational specialties are deployed in Iraq, Afghanistan, and elsewhere in the Central Command area of operations. Many are directly engaged in combat operations as we sit here today. Additionally we have approximately 6,000 marines deployed world-wide in support of other combatant commanders.

Our current end strength of 178,000 marines is allowing the Marine Corps to increase in our infantry units, create a dedicated foreign military training unit, and additional recruiters, and increasing training infrastructure and other support to our operating forces. We will place more marines in our operating forces to reduce the tempo of operations on marines from separation from their families. As of June 30, our actual end strength was 178,200-plus marines, and we project that we will have 179,200-plus marines on September 30.

Despite no change in our reserve end strength of 39,600, the recent force structure review group will allow the Marine Corps to reorganize internally, creating additional units to better support mission requirements. It is projected that our reserve end strength will be at 40,056 marines on September 30.

Fiscal year 2005 is proving to be most difficult for us in recruiting, the most difficult we have had in 10 years. We believe the recruiting marketplace will become even more challenging in fiscal year 2006. Your support for an increase in enlistment bonus programs will be essential to meet this challenge. Eight months into the fiscal year of the 2005 recruiting year, we have shipped 102% of our active component goal, with 95% being tier-1 high school grads. We have achieved 97% of our eight-month contracting goal.

The Marine Corps Reserve has also achieved its fiscal year 2005 eight-month recruiting goal, shipping 100% of its non-prior service goal, and accessing 107% of its goal for prior service marines. Its successful recruiting effort is but one part of placing a properly trained marine in the right place at the right time.

Of course, retention success is also a consequence of investments made in tangible forms of compensation and in supporting our operating forces. Give our marines what they need to do their jobs in the field as well as the funds required to educate and train these phenomenal young men and women. The selective reenlistment bonus program greatly complements our reenlistment efforts and clearly improves retention in our critical skill shortages. The bonuses played a critical role in achieving a high retention in critical infantry MOS's this past year. Increased funding support for the selective reenlistment bonus is a critical requirement for the Marine Corps, as we anticipate having to further expand our bonuses in the rotary wing aviation and combat service support MOS's due to the continuing high operational tempo.

On behalf of all marines and their families, I thank you for your efforts and your continued support, and I look forward to answering any questions that you may have later on.

Admiral Piling: Thank you, sergeant. Sergeant Major of the Army Preston?

SMA Preston: Yes sir. Mr. Chairman, members of the committee, thanks very much for the opportunity to address issues that concern our soldiers and our families.

Today we have – the Army has 260,000 soldiers deployed to over 120 countries around the world. Of course, the majority of those soldiers right now are currently serving in Iraq and in Afghanistan in one-year tours of duty. Currently the Army has just under 600,000 soldiers serving on active duty, and with 490,000 right now presently assigned to the active duty force. The remaining soldiers are part of the National Guard and Army Reserve, and if it wasn't for the National Guard and the Army Reserve, we could not do and accomplish all that we're doing today. So we have a great debt of thanks to owe to the citizen soldier out there.

Presently our number one mission is fighting the global war on terror. The number two mission is transformation. And as the Army right now goes through its largest change in structure since World War II, as I spend the majority of my time traveling around the Army, I talk to soldiers about what transformation is going to do for them and their families. And although transformation has a number of strategic objectives that are going to greatly enhance America's Army's capabilities, I see that it's also going to provide predictability and stability for the soldiers and families. This is one of those quality of life initiatives out there that is very important for those soldiers and their families, particularly as those soldiers today are doing back-to-back deployments right now in Iraq and Afghanistan.

There's probably another thousand missions out there stacked up behind the number one and number two missions. As you go around to each unit and organization around the Army, another thousand missions that you could count up. All of these missions are built on a foundation called recruiting and retention. And as Sergeant Major Estrada said, you know, right now we're presently, you know, seeing our biggest difficulties in recruiting, and your continued support of the benefits, reenlistment benefits to keep soldiers joining the Army are very important.

As I look and talk to soldiers out there about retention, you know, we've got a great deal of success right now in retaining an all-volunteer force, and as we look at new initiatives internal within the Army to improve our retention success, there's a number of things that I see that this panel can help in improving the quality of life of soldiers and families.

First, as I looked over, you know, the three areas – base pay, allowances, and special duty pay – you know, there's 180 different career fields right now currently serving in the Army. The majority of those career fields right now are drawing special duty pay. You know, my concern is when you have a large majority drawing special duty pay, that that's an indication that maybe the base pay is not sufficient to sustain it.

Sell-back of excess leave was addressed, and I think that's also a major concern for our soldiers, particularly those that are doing back-to-back deployments. You know, the 3rd Infantry Division, which led the invasion into Iraq in March of 2003 is now back in Iraq on a one-year deployment. That division had 14 months of dwell time between back-to-back deployments. The 3rd Armored Cav Regiment at Ft. Carson had 11 month dwell time between one-year rotations. The 3rd Brigade of the 1st Armored Division at Ft. Riley had nine months of dwell time. And as you look at the dwell time between

rotations, was it really nine months of dwell time home with their families? And if you look at the training and the preparation that it takes to prepare a unit for combat operations, you know, those soldiers and their families spend a great deal of time apart.

My concern as we look to the future, and as you look at the soldiers right now that are on the ground serving in Iraq and Afghanistan, you know, presently 40% are National Guard and Army Reserve. As we get through this next deployment and we start into next year, the number of Reserve and Guardsmen will greatly decrease, and a large portion of the deployments, that burden will now go to the active duty force in the future.

The pay scale right now presently stops at 26 years. That's the last pay increase, or increase for longevity. Right now the Army has gone through and we've increased our mandatory retirement dates, or MRD's, from staff sergeants all the way through to command sergeant majors. And as we've increased the mandatory retirement dates, I've now granted the exception to allow a large number of sergeants majors to stay beyond 30 years. And we're not doing anything for them for compensation. And when you look at what those sergeants majors and those senior leaders are really working for, they're really staying for 25% of their pay.

Transfer of education benefits to family members has been one of the hot topics out there that soldiers would really like to look at. Because of the pace and tempo, a lot of soldiers now are not using their education benefits, and would like to transfer those benefits to family members.

Household good weight allowance – as we begin to move soldiers and families back to CONUS-based locations, the household good weight allowance right now is not proportionate to the quality of life and the way soldiers and families currently live. That weight allowance, that weight table was set up decades ago and is not current with the current quality of life and the way families currently live.

Child care is also a major concern out there for our soldiers and families, particularly now with the numbers of deployments that soldiers currently face. Fifty-one percent of our soldiers are married. Most spouses in the Army currently have jobs, but they don't necessarily have careers, and the jobs that they currently have are usually minimum wage or slightly above minimum wage jobs. So the health care and – correction, the child care benefits that we currently provide for the families is very important.

Tiered death benefits – my concern as we start to look at the tiered death benefits of soldiers that are killed in combat versus those that are killed in training is a concern of mine.

And then the impacts on soldiers paying for dental and medical benefits, you know, as we look to the future, you know, the Army that I joined back in the Cold War era, the peacetime Army, education benefits was a big retention and recruiting for soldiers to come in. Now, as I look to the future, and as I look at the health issues that our nation is facing, one of the big benefits that we currently have is our health care and our dental benefits. And if we continue to increase the impact on soldiers by making soldiers and families pay more out of their pocket for these services, that will also have an impact on recruiting and retention.

And with that, thank you for the opportunity to appear before this panel and I look forward to your discussion.

Admiral Pilling: Thank all of you. Let me just start, and I wanted to go back to a point that the MCPON raised about the length of service cells in the pay table. There was a recommendation in one of the earlier Quadrennial Reviews of Military Compensation that said we should change it from length of service to time in grade, so that someone who makes E6 in seven years, and his buddy makes it in 11 years, the guy that makes it in 11 years gets the same pay, so there's no advantage, basically. If you do time in grade as a discriminator, the guy that makes it in 11 years never catches up. You're rewarding the guy that made it earlier. Is that the sort of performance you're looking for, or are you looking for something more?

MCPON Scott: Actually I'm – that is one example of it, and I would support a move in that direction. Additionally, the performance that I'm looking for is, in addition to the basic pay, the idea would be to look at performance with regard to special pays and bonuses and to look at performance based in that direction. My opinion is that an individual //unclear// - we should reward performance before longevity.

CMSAF Murray: I concur in that the rank and responsibility must certainly outpace the longevity, so anything in the pay table – that's what we've had for years is longevity has set our measure. While longevity and experience of service is important, rank and responsibility is by far – and the exception to that is performance – those are more important. Another is, I know that each service has a different – have different tools in the way that they measure individual performance, and it may be difficult in a system to design, but clearly that's one of the things in the bonuses that we have for selective reenlistment bonuses, critical skills bonuses, that it doesn't matter if a person is a mediocre performer or absolutely your most outstanding performer, the compensation is exactly the same. And that's – those – so that you have haves and have-nots, or where's your incentive that comes from the compensation.

Admiral Pilling: Anyone else?

SMA Preston: Sir, I'd like to just add one thing on the base pay, if I could. You know, as I look right now at leaders out there, enlisted leaders across the force, you know, we're asking more and more of those leaders, particularly now in a combat zone. If you look at the smallest, you know, maneuver element, like a platoon, it's not, you know, where the platoon leader takes the platoon out there and they do a mission collectively as a group or an organization. You know, that unit is really fragmented across the battlefield, and you've got, you know, sergeant, staff sergeant level, those non-commissioned officers now making decisions that have strategic level impacts. So we're asking more of our leaders than just the specific career field that they're currently serving in. And this is what, you know, the Chief of Staff of the Army and the Secretary of the Army is really kind of steering the Army towards in transformation and creating pentathletes of our soldiers, as opposed to being, you know, the athlete that focuses on one particular event, that they really are pentathletes across a broad spectrum.

Admiral Pilling: Let me open up... Mr. Cook?

Mr. Cook: I'd like to follow up on the pay-per-performance issue. I assume all promotions are basically performance or merit based, but within rank, within grade, the steps are longevity based. And I come from the civilian sector, where they have ranks and grades, but there's a min and a max, but there's nothing in between. There's no steps in between. Every increase within that grade is merit based on some sort of a performance appraisal system. Is that what you're advocating for the military?

MCPON Scott: Where I'm not opposed to steps based on longevity, there should be a greater weight given to performance, such that we're never putting ourselves into a position where an individual who advances to a certain pay grade or rank is making less than another individual of a lower rank or pay grade only because of their longevity, and that we would need to take a look at how the pay table is structured such that the emphasis goes towards performance and advancement versus just the longevity. There's today instances where an individual of a lower rank could actually be making more than someone of a higher rank, just because they've been around longer.

Mr. Cook: It seems to me if you do that, you just have to steepen the slope of the pay grades.

MCPON Scott: Yes sir.

Mr. Cook: Okay.

CMSAF Murray: And the MCPON's point, and there is another piece that ties into them, that with the special pay and bonuses that clearly distinguishes – involve equity, will never be, and as I even highlighted the need for those, we have many cases where junior ranking members among the enlisted and the officers, because of their special pays and compensation, actually earn much higher, or clearly higher, than some of their superiors. And that's an issue for us as well.

Admiral Pilling: Dr. White?

Dr. White: I want to go back to an earlier issue, I think the CMSAF raised it, and that has to do with differentials between married and single people serving, and I'd like from the panel, to the extent any of you are interested and care to speak out, where you are on that. What's your sense of the problem? What's your sense of how it ought to be approached? And it's obviously a very difficult and sensitive issue.

MCPON Scott: Yes sir, it is. In a perfect world, and if I had the ability to – you know, if we were creating a new structure, and that's really the difficult part of this concept, is that we would have to somehow morph from where we are to this, what I would consider a better system, where a service member is paid because of the service member, not because of personal life choices they made with regard to marriage, divorce, number of children, number of family members, and such. Because when we start paying individuals differently based on family composition, we end up with circumstances where we're now trying to pay BAH differential, we're trying to pay, you know, as far as divorce, but we end up with child support issues, issues such as, in combat zones, where service members are being paid hundreds of dollars more a month than another service member who's sitting right next to them, only because one has family members and the other one doesn't. And, you know, we treat people – I think we should be treating people more as individuals.

Then again, I'm not advocating a pay cut for individuals who have family members. //laughter// Which is the problem with trying to morph from where we are to what I would say is something that recognizes the individual's contribution and then allows them to make choices beyond that. It's just that sometimes we see – I see – what seems like an ever-widening gap between those who have families and those who don't, and it really sets up some emotional arguments.

SGTMAJ Estrada: I fully concur with MCPON's comments on that. I think we have to be very careful with that. Throughout my travels, a lot of complaints I get is that single marines really are left behind. Many of them – not many of them, but quite a few will go out and get married so they have the same type of standards as those that are married.

Dr. White: I guess we've given them an incentive, haven't we? We didn't intend to give them this incentive.

SGTMAJ Estrada: Exactly. Exactly, so I fully concur with his comments on that. The unintended consequences here is that, if we continue probably on the same path, you'll have a lot more married service members, which will put a burden on the services. I have 44% of my marines are married right now. I would hate to have 56% of them that are married.

Dr. Anderson: Can you give us an idea of how much money is involved? What is the differential?

CMSAF Murray: MCPON, you've got a chart – //laughter// I saw that looking in. There's a difference between – the base pay is the same. That's clear, and that establishes a baseline.

MCPON Scott: One draws family separation.

CMSAF Murray: One draws family separation, one does not. One draws with dependents and without dependents for housing, so there's a clear difference that with hous-, but, you know, but that's a slippery slope. Fifty-five – Air Force, 55% of the Air Force is married. When you take that into the officers and NCOs that are your strength, that will – and those that will stay, that you must continue to, you know, that service and development of your capabilities – we move into 80% of the force. And so that – that cites that. And a slippery slope that we go into touching, you know, family types of pays – although I know that this group, when we looked at family separation pay that was set at different levels for compensation of those serving in Iraq and Afghanistan, this group was in agreement that we should not have a difference in the family separation allowances. We were even willing to see it come down to the baseline, actually, Congress gave us exactly the other, is that they couldn't see taking money away from those that are deployed, so they pushed up all family separation allowance, which increased compensation costs, when we just wanted to make sure there was no disparity, no differences in that. So the differences are there; however, at the same time, because of the majority of the force, because of the cost associated with the family – and our people don't join the military or stay in the military because they get benefits for a family. That is just – that's a reflection of our society, that's who we are, that's what we do, and it does cost more to maintain a household.

Dr. Anderson: Okay, now let me ask my question again. What are the differentials in terms of dollars?

MCPON Scott: I have no way of calculating that for all of DOD.

Dr. Anderson: I mean roughly, what are we talking about?

SMA Preston: Per person?

Dr. Anderson: Yeah, per person. Per person.

MCPON Scott: Oh, per person.

Dr. Anderson: How much more does a married couple get? What kind of numbers are we talking about?

MCPON Scott: Depending upon pay grade, you could see anything from a few hundred dollars more. In a deployed status that would increase to over \$500 or more, to some circumstances where it would be in excess of \$1,000 to \$1,500 more //crosstalk// per month.

CMSAF Murray: A PCS would bring 300 extra dollars a month for family separation as long as they are not back in their household. They will vary, depending on what the BAH, the variable housing allowance is from a – from under \$100 to perhaps \$7-800 difference, depending on the area that they live in.

//end of side A – short gap in recording//

MCPON Scott: //joined in progress// gets divorced, moves to a base, they could be residing in one of our barracks or dorms next door to another sailor of the exact same pay grade, and the sailor who is now divorced who pays child support is paid more than the sailor who lives next door to him in the exact same conditions. And it's those kind of disparities that create the emotional arguments that we're trying to address.

CMSAF Murray: If you go overseas, the cost of living allowance, where it's even greater is the COLA is based on the number of dependents. Therefore you clearly get a difference because you have COLA without dependents, COLA with dependents, and then COLA for each dependent. So you start multiplying the number of dependents and you can take that into a hundred to a thousand, depending on family size.

Dr. Oi: If you end up with eight dependents, you go on AIDC. //laughter//

CMSAF Murray: Yes sir, that's...

MCPON Scott: I would like to reemphasize one point, sir, that I am not advocating a pay cut for married members. //laughter//

Mr. Cook: A general question – it is thought that the – when you look at the military compensation and benefits system as a whole, that we're far less in current compensation in cash, and more in deferred benefits than the civilian sector, by a large margin. Is that something you think we should look at, or do we really sort of favor it that way?

SMA Preston: Yes sir. When you say "deferred benefits"...

Mr. Cook: Pension and medical make up the primary component of the cost of the deferred benefits.

SMA Preston: I think the impact really, as I look at it from a soldier's perspective, a lot of it has to do with where you are in your current tour of duty or term of service. You know, for those enlistments, or enlistees that are coming into the Army as far as recruiting, you know, they're looking for that immediate payment, you know, immediate benefits, as opposed to a deferred benefit, you know, down the road. That's why I think a lot of the, you know, the 18-, 19-, 20-year-olds that are joining the Army to serve as soldiers, you know, really don't look at the long-term benefits as far as medical and retired. I mean, really, a lot of them are coming in now to, you know, either serve their nation because of 9/11 and the current global war on terror, or they're coming in for the education benefits, and really that's kind of the focus, you know, initially coming in. But I think that the soldiers that are serving, you know, the long-term soldiers, particularly as you get up into, you know, your mid-careerists and careerist, the ones that are at 10 years and beyond, you know, that's where your long-term benefits, you know, really kind of impact on it.

SGTMAJ Estrada: I concur with what Sergeant Major Preston just said also. I think it needs to be looked and looked at very carefully, and again, most marines, just as soldiers and the airmen and sailors, do not come in initially looking to retire. We should target that, I think, towards the group that has made that commitment to stay on for over 20 or 30 years, or whatever it may be.

CMSAF Murray: Sir, when I look at retirement and the compensation, and even making some comparisons. I recently looked at our neighbors to the north. The Canadians have a far more lucrative retirement system based on their military compensation, that takes into account all of their pay then, and not just a base pay, and continues in service. Now they do put more to longevity, but clearly after the tenure of their service, unlike ours, they can live – they'll live well based on the military. But they have a condition for longer service, and I think that's certainly worth looking at in our military as well, that if you do serve longer – because they start moving into an age that makes to where they're not as, you know, you don't have the ability to look out at the job market out there. I do know that was one of the conditions in looking at about, you know, lead-ups and an incentive to get people to serve longer, but it backfired on us. Whatever you do, whatever you recommend at the end of the day, cannot be perceived in the service that you're taking something away. That's, you know, because we must be able to maintain the current, and if not better, readiness of our force – quality of our military members, quality of our service, and quality of life that we have now as we move forward in the view of our compensation.

Dr. Oi: May I ask a question as to how assignment affects your rate of promotion and pay, in terms of being assigned to recruiting or training commands, which takes you away from your unit?

SMA Preston: Sir, I can probably address that, since we've just had a large increase in the recruiting population that we've put out there. What we do to try to buffer that and to try to ensure that those soldiers that are serving out there in the special duty assignments like recruiting and drill sergeant duty, as being one of those assignments that rounds out a service member's career. It's those skills that you gain while serving out there that are very important, that make you that much better when you come back into a, what we call a deployable unit, a TO&E unit.

Dr. Oi: It does help in your promotion?

SMA Preston: Yes sir.

MCPON Scott: With regards to the Navy, E6 and below, the assignments do not have that significant of an impact on advancement opportunity. E7 and above, it's strongly considered through the selection board process, and because we value recruiting, recruit training, as well as pipeline training, we consider it a part of the sailorization process, that we put significant value on that and have seen equal and or better advancement opportunities based on those assignments as their operational counterparts.

MCPOCG Welch: In our case, sir, with the Coast Guard, assignments have no impact on an enlisted person's ability to advance. In the case of our recruiters, which you specifically asked about, while they don't have an advancement edge, they do have a compensatory edge, because those people are paid special duty assignment pay. They're hard to fill, and the level of responsibility is greater than their peer groups in, say, at the E6 level. In fact, the only community we reward, in terms of points as it relates to how their factored into our advancement system, are our people who are at sea, qualified for sea duty pay. Those people are only rewarded in the system.

CMSAF Murray: It is somewhat mixed in the Air Force, sir. Sometimes by perception, a little bit of reality. Basically our promotion system is based on equal selection opportunity, regardless if it is a core AFSC or if it's a special duty. So those eligible get the same equal types of selection. We have a small variance to that. We are looking very favorably at how the Army – both the Army and the Marine Corps, and hearing Chief Scott's comments on how those force-sustaining special duties should be looked at in a favorable role in promotion, as we continue in developing our force. But for the most part it's negligible.

SGTMAJ Estrada: As far as the Marine Corps is concerned, it is weighed, it has a significant weight. I.e., if you have completed a special duty assignment, it does make you more competitive for promotion. It does. The majority of the people that recruit for the Marine Corps and train marines are NCO's and are staff non-commissioned officers. So it does make them much more competitive for promotion.

Admiral Pilling: Well, thank you. I think we've run out of time, actually. So – but I thank you for sharing your thoughts with us and helping us think through the problems as you see it from your level. Thank you very much for... //crosstalk, thank yous//.

//break between panels//

RESERVE/GUARD COMPONENT SERVICE ENLISTED CHIEFS PANEL

Admiral Pilling: First of all, good afternoon. Thank you very much for being here. You heard my remarks to the original panel – we were trying to understand from your perspective what we should be looking at in trying to come up with an architecture for military compensation. You're seated in a – the way you're going to be asked to present, and so we're going to start with the person in the middle and then go left to right, and then left to right, so, I mean, the two on the end will be the last two, so you can figure out what the sequence is. There are eight of you, and if you can restrict your remarks to three to five minutes, we'd have a reasonable chance of getting done on time. We have a hard 3:30 in another building, so we can't really run very much over.

But I would like to start off and ask Command Sergeant Major of the Army Reserve Jones if you could start.

CSMAR Jones: Yes, Mr. Chairman, members of the committee. Very quickly, thank you very much for having us all here. I represent the Army Reserve, over 205,000 minimally, in 50 states, 1,000 communities throughout the United States as well as overseas. 15,000 of that population is full-time Army Reserve.

The one thing that I would, or several things that I really would like for you to understand when determining any type of compensation, is that there are five different categories of Army Reserve soldiers, and each category comes with different types of benefits and entitlements, depending on the laws, and primarily the bulk being the traditional reserve soldier troop program unit, one weekend a month, two weeks minimally a year.

In the population and retirement, or the committee in retirement, again that population, when stating active duty, I'm not sure if my soldiers are included in that, those calculations, in terms of numbers, in terms of compensation and the things that they need as well as their family members. Our retirement for the traditional reserve is based on age, not on service, and the feedback that I'm getting is that we need to really look at that, even though the primary source of income, obviously, is from the civilian employment. However, due to the multiple mobilizations and deployments a lot of my service members, my battle buddies, are stating that they don't take the higher paying jobs so they can continue to serve. So I'm not asking for monetary compensation for that, but just to look at that and consider that that is also one thing that soldiers want to be recognized for, that they are giving up some things in their civilian employment just to stay in the Army Reserve.

In terms of health and benefits, I just ask that when we attach premiums, that we all know, whether 28% or 58%, that our soldiers are, because if they're going to pay their moneys for this, that they want to know why that they are paying this particular premium, where they can sit down with their families and say it's worth it to pay for it.

The next thing, and I'm going very quickly, so all my battle buddies will have three minutes – special incentive pays. Often times, and I'll use parachutist pay as an example, it is pro rated. The requirement is the same. For example, the requirement to stay proficient, you have to jump once every three months, the same, whether you're active component or in the Army Reserve, but to receive \$10.15 for the same requirement is – doesn't sit well with my battle buddies.

And the last thing I'll say and move on – the quality of life. The quality of life for a soldier in the Army Reserve, particularly in the different categories, is going to be different. Child care becomes very important on the weekends versus Monday through Friday. Single soldiers, if they are mobilized and deployed, and they're living at home by themselves, we do not have a mechanism to store at no cost to them their vehicles, etc. Those are quality of life issues for that soldier that's not living on an installation and are in the Army Reserve.

And with that said, I welcome any questions that you have in any other categories pertaining to Army Reserve soldiers. Thank you.

Admiral Pilling: Thank you. Any before we go to the next speaker? Okay. The next speaker is Command Sergeant Major Holland, who is the chairman of the Senior Enlisted Council in the Office of the Assistant Secretary of Defense for Reserve Affairs.

CSM Holland: Sir, thanks to you and to the panel for having us here representing, and the senior enlisted that you see here today and the active SEA's, represent 80-something percent of your entire military. So please understand the folks talking to you today speak for the bulk of what we think are out there doing the heavy lifting today. The 1.2 million guard and reserve individuals today are doing a great, great job out there, but the one thing that is continually asked as we go to the field is, "Hey Sergeant Major, what seems to be the problem? I'm in the foxhole sitting right next to an active component soldier, and my pay and benefits are not the same. Okay? If you're going to take me and use me, that's fine. Just pay me the same." And all we ask, sir, is that they're pay and benefits be the same when they're deployed, not when they're back in their guard center, in their reserve center, at a Coast Guard unit, whatever. We expect the same pay for the same work, no different than they do in the civilian community.

The previous panel talked about the pay charts, sir. Please don't count the hash marks on my sleeve, because I'm not talking for me. I'm talking for the idea that the Navy has just come out with the continuation of service, keeping folks for 30 years, but at 26 years on the number of years that you're actually in the service, your pay stops at 26 years. So if you want to talk about duty, honor, and country, anyone over 26 years, they've got to be doing it for that, because they're not doing it for the pay, sir. They're not. And those are the senior enlisted we need, those are the folks in the special rates that we continue to see across the services, that we need, but we don't give them any benefit and any encouragement. Now your civilian organizations give them encouragement to come to you, okay? Because they have skills that they can bring to you, and they already have the discipline, maturity and all to bring it to your civilian organization. That's the other thing.

The last thing is the BAH II. Sir, I just saw a memorandum that says that it's being taken from the 129 days down to 30 days. Sir, BAH II is a discriminator and tells our troops that they may be a second-class citizen. There's no second-class citizens in the guard and reserve, sir. With that I'd like to pass on to the other members, and thank you all very much for what you all do. I appreciate it.

Admiral Pilling: Okay. Master Chief Petty Officer of the Coast Guard Reserve Smith?

MCPOCGR Smith: Good afternoon, Mr. Chairman, members of the committee. I'd like to add my thanks to you all for having us here today. As Master Chief Welch indicated, we are the Coast Guard, the fifth armed service, albeit a small one. I represent an even smaller contingent, 8,100 folks, but I think they're very representative of your typical reservist, regardless of component, and the fact they've been very busy since 9/11. Over 70% of our workforce has been – done some sort of mobilization in that time frame.

We, like many of the military components, are in transition, and I think that there are a number of things that we need to look at in this period of transition. And you've probably heard this before, but again the difference between the reserve component and the active component is we kind of work off that three-legged stool. We've got the member, we've got the family, and then we have the employer, something that the active duty component doesn't quite have to deal with.

We need to, I believe, to look at ways – and this may not be within the purview of your committee – but we need to continue to look at ways to help employers support the reservists. Specifically with regards to the family, and again I'll speak more directly to my service – because of the way we are geographically spread out through the country, typically out in small communities around, along the coast, it's difficult for our family members, when our members are deployed, to tap into the services of their active duty components, because again we're way out on the economy. So I think things that could be done to help our family members be better served while the members are being deployed is definitely a retention, and I would argue also a recruiting issue.

Getting back to the transition point, you know, since 9/11 we had a – pre-9/11 we had a certain model for what we thought reservists were going to be doing, and that's changed dramatically, and as I'm sure all services are looking at that – what's the right balance and what's the right mix between the active and the reserve components? And one of the things that I think that we have to look at, or that we are looking at, is the ability to train people pre-mobilization in different locations, and not be restricted by the reasonable commuting distance. And that comes into, how do we then reimburse people for travel, specifically IDT travel. So I think that is something that we need some help with.

And finally, along the compensation line, the Coast Guard has been taking advantage of the high-priority unit pay, which currently is set at \$10 per drill, specifically for filling our hard-to-fill units: port security units, our deployable folks. And again we're very grateful for having that option of that, and anything that could be looked at, maybe increase that to help with our recruiting and retention in those specific units would be greatly appreciated. And I stand by for any questions.

Thank you, sir.

Admiral Pilling: Thank you. Chief Master Sergeant of the Air National Guard Smith?

CMSGT Smith: Mr. Chairman, members of the commission, I thank you for this opportunity to talk to you about the Air National Guard. Briefly, the Air National Guard is approximately 107,000 members strong. We are represented in all 54 states and territories. Currently we have about 7,000 members deployed. That's down from a high of 38,000 two years ago. Of that 7,000, 3,000 are mobilized, 4,000 are volunteers. So however you look at it, that's 4,000 volunteers that are taking the place of active duty members who don't need to deploy – the total of 7,000 that are deployed, that can offset the active duty in deploying.

Now, we are very healthy right now. With our end strength, we are 99.3% of our end strength, but we are short on our recruiting goal. So what – I'd like to talk to you in two different ways, briefly. One, corporately, is to maybe some of the things we need, and then some of the personal issues that you heard earlier and you'll hear some more.

Recruiting is a concern. We, as I said, are 99% of our manpower right now, of our authorized strength, but we are going to miss our recruiting goal for the first time since 1999. We are about 1,300 recruits short this year, but that can be offset by strong retention. Our retention is about 110% of our goal. We've retained almost 9,000 members when we had a goal of retaining about 8,000 members, so it gets us a little closer to our end strength, but see that as a concern.

We've asked the Congress yesterday at a hearing for 100 – funding for 100 additional recruiters and to fund our bonuses. Now last year the bonuses were authorized, but the appropriation did not go along with that, so we, to be competitive with the other services, have been paying the bonuses, but we've been taking that out of hide, so we've not paid for something else within our budget to pay for the bonuses. So we've asked Congress for the additional recruiters and to give us the appropriation to pay for those bonuses. Now the reason this is so important to us right now – as we enter the BRAC era and the future total force proposals that are out there right now, a significant portion of the Air National Guard is going to be affected by these changes. Twenty-seven percent of our enlisted force is eligible to retire today, and as planes move and the opportunity to move locations is given to our airmen, a lot of them will just retire. A lot of them will not want to retrain, but that 27% represents 30,000 members of our force.

As we move the iron and close or reduce units – we have 88 flying units currently. Twenty-six of those will either be closed or reduced down to an enclave, which means no flying mission. Those jobs still stay within the Air National Guard, so they're going to be spread out, dispersed different from the location they're in now. So recruiting in the future is going to be very, very important, and we need to make sure that we're, you know, pretty much beefed up before we go into that. So that's the corporate side that we need to look at.

And some of our issues that face our members are the same that face the other components. The Sergeant Major talked about the BAH. We feel the differences in BAH are unfair to our members, and it should just be one BAH as we serve side by side our active duty components.

One other issue that we've talked about for three years now is retirement points for our members who perform state duty. A case in point is our New York National Guard, both Army and Air, who served over one year on active duty after 9/11 and got no retirement points for those years. And because they were on that state active duty, they couldn't even do their UTA's, their weekend drills, so they didn't even have a good year. So we would like to look at retirement points for our guard members when they serve on extended state active duty.

A couple of other issues – one is the Montgomery GI Bill for our members. When the National Guard and all reserve components originally got the Montgomery GI Bill, we were by law given a 46% GI Bill compared to the active duty. The active duty has risen annually, in their payments. Ours has stayed frozen. We are now at 28% of what the Montgomery GI Bill is, compared to active duty. We would like to see that addressed.

Two other issues that I bring up, that I know are touchy subjects, and I also know that DOD has gone on record of opposing these two subjects, and I support their stand, but I would be remiss if I did not tell what they field is asking me and what comes up as I do my visits throughout our great Air National Guard. Those are the availability for the health care system for our members on a more permanent basis, TRICARE for reservists, and the second one is the change in retirement age. That is probably the number one asked question as I go around the Air National Guard, is the proposed reduction in the retirement age, and I understand DOD logic, but I just need to tell you that that's what's on our airmen's minds and that's what they ask when they raise their hands around the country when I go around the Air National Guard.

So those are some of the issues that face the Air National Guard. I thank you for your support in the past, and would be glad to answer any of your questions as we go around the room.

Admiral Pilling: Thank you.

CMSGT Smith: Thank you.

Admiral Pilling: Chief Master Sergeant of the Air Force Reserve Winsett.

CMSGT Winsett: Mr. Chairman and committee members, thank you for the opportunity to address you as it pertains to those compensation issues that impact the enlisted force throughout all of our services. However, I want to briefly speak with you a moment as it pertains to Air Force Reserve members and the things that I'm hearing and those types of things that I think you and your committee must review.

Fortunately enough I have the privilege of representing 60,000 men and women that wear stripes in the Air Force Reserve. So I have 60,000 bosses that in fact tell me those types of things that on their minds. Consistently I'm hearing some of the same things that have been expressed by my counterparts. However, I want to reiterate to you some of those things that I'm hearing and expound upon them for just a moment, to include that every inequity that we have in our military must be reviewed, it must be considered, and must be eliminated if at all possible.

The utilization of our guard and reserve forces today is no longer what it used to be, gentlemen, as you well know. Subsequently we too are facing recruiting and retention issues, as is our active duty counterparts. Fortunately enough the Air Force Reserve currently sits at 116% of goal relative to recruiting. I'm sitting on a 96% retention rate. But at the same time it's a concern for us on a daily basis, because at any moment in time I could lose that experience.

As my counterpart in the guard is saying, that 27% of his force is retirement eligible, I too am facing about a 22% ratio of persons that could retire. I can't grow an E7 with 20 years of experience in 20 months. There's no way. So I need your help in taking a look at things like the Thrift Savings Plan and a percentage of moneys that can be invested in the Thrift Savings Plan, matching contributions.

I'd like for you to look at TRICARE and dental insurance availability 24/7 for my Air Force Reservists and for all guard and reserve persons. Unfortunately, when we activate our persons, not all of them have the opportunity to have health care

or dental care, and consequently once that person's activated, we need him or her to be part and parcel of the global war on terrorism, we send them in for a dental examination and we can't deploy them because of dental problems.

We need to look at the retirement system, which is age-based, as you all know, as a retention device. We need to entice Johnny and Susie that are joining our military to realize that in fact they have an opportunity to succeed, that there is something out there that they can look at with respect to retirement. Utilize it as a retention device.

Enlistment and reenlistment bonuses, like my counterpart Chief Dick Smith has indicated, no, we had no funds. In the National Guard, they had the moneys in fact to utilize the payment of additional enlistment and reenlistment bonuses. On the Air Force Reserve command side of the world, we were not able to do that. This is your military, this is the same branch of service, but one is doing one thing and one is doing another, and it's not fair. It's not a fair and equitable opportunity for our people.

Again, the sergeant major has indicated eliminating BAH II. Yes, we did get a reduction down to 30 days. Let's eradicate it to zero. There's no reason that we should have the 30-day window there.

And last, but certainly not least, and I've heard it spoken once, and I will foot-stomp this to no end, and that is we must do whatever is necessary to get America's employers to be in support of their reserve and guard members. It's critical, gentlemen.

Once again, I appreciate the opportunity to speak with you, and I'm standing by for any questions that you might have.

Admiral Pilling: Thank you. Next up is Sergeant Major Staudt, who's representing the Sergeant Major of the Marine Forces Reserve Dixon. Sergeant Major?

SGTMAJ Staudt: Thank you, Chairman Pilling, committee members. I'm honored to be here today to represent our Marine Corps Reserve. I can tell you, since – almost for four years since the attack on September 11, our Marine Corps Reserve is strong and ready. A lot of the units in the Marine Corps Reserve are standing by this summer to go back to Iraq and/or Afghanistan for the third time. And even with that, with our Marine Reserves going over into harm's way in many places around the world, including the Horn of Africa, we're still retaining high numbers in the Marine Reserve.

Some reserve units, we've got numbers that are looking like 86.9%, and that is our average across the board. Our historical average for retention is 83.9%. So we're above our historical average. This reflects not only the marines' strong resolve and dedication, but also that of their families and employers. So we've got a lot of support out there. Our non-prior service recruiting, while not where we'd like it to be, is still going relatively well. We've been shipping the Marine Reserve recruits on schedule. However, we're falling a little behind in our contracts. And while we struggle slightly with our non-prior service, our prior service recruiting is up, and is, between that, our retention numbers and our prior service recruiting, we're going to finish up this fiscal year about 2% above our 39,600. So we're looking pretty strong.

While the Marine Corps does support some compensation plans in the forms of incentives and bonuses, the Marine Corps does not support multiple pay charts. I think that some of our other services are looking at some type of a fragmented or

split pay chart. We do think that there are some improvements to be made, but we don't agree with any kind of a tiered or three different pay chart system.

The Marine Corps expresses concern for changes to the retirement system. Drastic changes to the current retirement system could adversely affect recruiting and retention now and in the future. I would like to say, a lot of our Marine Reserves, along with a lot of the other reserve service members, they do see a lot of the initiatives coming out of Congress with changing the retirement age to age 55, and I can tell you that would be a big tool for recruiting in the reserve forces, not only the Marine Corps but for all of our services.

The current TRICARE Reserve Select – we see this as a good start. And I know, if you talk to some folks about the TRICARE Reserve Select, they'll tell you, "Well, participation is down." Well, we're working a lot of bugs out in the system, and quite frankly it's a lot more difficult to get our reserve service members signed up on this. Initially we thought it was just fill out a paper and submit and you're good to go, but every single reserve site around the country has got to have a representative pre-approve – the service member, they fill out their form, they turn it in to that person and it has to be pre-approved. That person goes in on the computer – it's a web-based system – they log in all that person's information, then the service member has to get that information certified by their commander, and then they have to go online and fill out some more forms and print them out, and then they can go in and submit their payment along with the certification that they print out online. And quite frankly, I know in the Marine Corps Reserve, and probably some of the other services, there's a lot of our folks out there that think they're enrolled in this program and they're not, because of that process. So that's something that we can look at.

And the Marine Corps Reserve also feels that, along with a lot of my other peers sitting here, that we should offer this program to all reserves. And it is a fee-based system, it's not that we're giving them a free handout, but we're providing them an opportunity for health care at a discounted rate. And as Command Master Sergeant Winsett said earlier, we do need these guys ready to go when we take them. They've got to have their dental, they've got to be medically ready, and so this is another tool to ensure our readiness in the global war on terrorism. So we do support that.

In closing, I'd like to say that drastic changes or the stripping away of the current pay system and benefits could have serious negative ramifications in recruiting and retention and erode the force. So we'd like to see the system that we have now, although with some minor changes. We don't want to have any of the benefits that we have now stripped away. We'd like to see some increased benefits.

I look forward to an open discussion of proposals from this committee, and how they may affect our war fighters in the Marine Corps Reserve. In order to sustain the Marine Reserve force, we need to find ways to take care of our marines while being specifically careful that the money spent is contributing to the mission and achieving our goals in recruitment and retention. Thank you for the opportunity to be here today, and thanks for all gentlemen are doing for us.

Admiral Pilling: Thank you. Master Chief Petty Officer Pennington, Force Master Chief, Naval Reserve.

MCPO Pennington: Good afternoon, Mr. Chairman and distinguished members of the committee. I appreciate the opportunity as well. A little disclaimer: I've been in this job a month. But one advantage to that is, being on this end of the table, all my very professional colleagues here hit all the talking points, I think. I was listing some things that I have seen, not only in this month of service as a the reserve force Master Chief for the Navy, but also for 28 years of serving in the reserve component.

You know, we have made some incredible strides in the right direction with regards to total force and pay and compensation for our reserve component. I remember drilling and basically going to the commissary once for each drill. You know, so those days are gone. And so we have made incredible strides. I would have never thought 25 years ago that we would be offering any kind of medical or dental coverage to our reserve components, so, you know, in the Navy we have a lot of work to do to honestly sell this TRICARE for Reserve program, and make sure that these benefits are available.

We do have some way to go, I think, in some areas. Specifically, we've beat this horse to death, but I just think it's incredible that we would consider not doing anything other than paying a reserve component sailor everything that an active component sailor receives. So the whole thing with BAH and all that, I won't continue down that road. If they get it in the active component, and they're mobilized and working, they ought to get it in the reserve component, and I guess that's just the bottom line.

Basically, we've got more opportunity and we're asking our reserve component to contribute more, you know, basically – I'm going to be honest with you, right now we've got about 3,300 Navy Reserve sailors mobilized and 1,100 in theater. I just came back home yesterday from 10 days in the sand box, as we affectionately say in the Navy, and I just talked to some incredible citizen sailors there, Seabees that are construction workers building things over there in the desert to help us get our folks home and house Iraqi security forces. Expeditionary logistics support folks doing customs work and cargo handling, medical, the list goes on and on. And I just feel like, as I talked to those folks over there, the contributions they are making, they're just real heroes. These folks have put their jobs on hold. We on the active component do this every day.

I think the comments that we've heard today with regards to trying to incentivize employer support is invaluable to our people. Quite honestly, I don't know what that would be, whether it be increased tax incentives or whatever we can do to honor those folks that really support their reserve component to be mobilized.

I had a couple other notes here with regards to college. A lot of our folks do come off of active duty, and quite honestly join the reserve component and are college students, and I think that that has now, like somebody mentioned already, just widened and widened over the years. I'm not sure if there's a way we can offer some type of tuition assistance to help our folks with regards to, you know, increasing their education. It's important for them in their mili-, as they continue their military career, but also this is what a lot of our folks are doing as they go to college.

As we close bases across the country, whether it be through BRAC or other avenues, and also there's a double whammy here going on. We're also moving opportunities across the Navy. Our reserve component sailors, in order to drill or go to a

gaining command, are having to travel farther and farther and farther distances. And I would propose that we have got to somewhere down the line figure out a way to compensate these folks for travel. And that was also brought up. Because we've got a lot of our folks doing a lot of windshield time to get to a reserve component, whether it be a gaining command or a drill site, and at some point, you know, that four days pay for two days work, we're beyond the compensation for that. When you start adding the travel and, oh, by the way, the extra time they've got to spend on their, whether it be training on a computer, electronically, management, you know, there has to be some way to incentivize those type of things.

Continue equal pay and compensation. In the human capital strategy, the opportunity and the compensation for travel, and the 55-year retirement, I had that also on my list. I hear that everywhere I go. It's just folks looking at finishing in some cases 30 years of service and then waiting 10 or 11 years to be able to draw the benefit from that and retirement pay. So this is a huge incentive. A lot of folks are talking about the opportunity to be able to draw their retirement check at an earlier age, and 55 is the number I keep hearing as I move around the force in the month that I've been here.

But thank you so much for the opportunity, and I'm looking forward to serving and opening any questions. I appreciate the time.

Admiral Pilling: Thank you. Command Sergeant Major of the Army National Guard Gipe.

CSM Gipe: Thank you very much, Mr. Chairman, distinguished committee members. I too, like the Master Chief, am fairly new at this position. I've been here about a month, and it is my honor to appear here today to be able to talk with you about the 331,000 soldiers in the Army National Guard.

If you listen to the press reports, you might think the Army Guard is on its last legs, about ready to fall over, but I'm here to tell you that is absolutely false. We're as strong as ever. The Army National Guard has undergone a tremendous change since 9/11, that's without question, just like other reserve components have. We've deployed a majority of our soldiers in that time. The length of deployment places a huge burden on our families and our employers, and we're working hard to remedy that situation. But our soldiers' morale remains strong in theater, and they're there to do the mission, and they're very proud of what they're doing over there.

The support we receive from the families and employers has been outstanding. The families are readjusting their entire lives to support their soldiers. Employers do without critical managers and critical skills while our soldiers are deployed. I myself am on a military leave of absence from my civilian job, and have been for three years. But the good news is that after almost four years of sustained operations, our end strength is still at 95%. I think that's incredible if you think about it. We're doing something totally – that we've never done before, and yet our end strength is at 95%.

We're working hard on programs to eliminate that 5%. We want to be at 100%, and Lt. General Vaughan spoke on the Hill yesterday and talked to them about a new program that he is putting into place that makes – that incentivizes all soldiers to act as recruiters. Even better news, though, is our retention rate. Our retention rate is at 106% right now, which is extremely incredible, if you think about the stress on the force. And the strongest retention numbers come from our units that have deployed overseas in a combat zone and have come home. The reason for that – there are several reasons; the

monetary incentives that have been put in place, thanks to gentlemen like you, have been a definite help, but the pride in the mission and what they're accomplishing over there are at the forefront of reasons in the retention numbers.

Prior to taking over this position, I did a short //unclear// of the AOR, and I had the opportunity to talk with about 150 different units, all components, all services, representing about 45,000 soldiers. And I'll tell you a few of the things that they talked to me about, especially Army Guard soldiers, that comes to mind when they want to talk about compensation.

Most of you have already heard the early retirement. That seems to be the number one thing on the priority list. TRICARE availability is a huge issue for a lot of the soldiers. They don't want free, they just want a reasonably based – reasonable fee-based program. Incentive bonuses for those who have – who serve over 16 years. Currently our incentive bonuses, reenlistment bonuses stop at 16 years. And then some sort of incentive for employers of guardsmen and reservists, to lessen the burden on them that's caused by the deployments of their employees.

In talking to them, they are all extremely grateful of the support they receive from the – not only from the nation, but from the legislators at both the federal and state level, for the support they've shown in increased entitlements and benefits.

In conclusion, the soldiers of the Army National Guard, their families, and their employers fully support and are dedicated to winning the war on terror. The Guard has never failed a mission, and we never will. And at this point, I'd like to say thank you and entertain any questions you have.

Admiral Pilling: Thank you. I'll start with a question. Several of you mentioned the early retirement at age 55, and we've always talked about – the way you describe it is getting a retirement check early. But do you also include being eligible for medical care at age 55 when you say that? Or is it just the retirement check that you're interested in?

CSM Holland: Sir, let me talk in – I know I do work in OSD, but this isn't the policy plan. What we would like to do is, if I work for a civilian company that you own, I have some options for a retirement plan. We don't really have an option...

... to give us some possibilities of either accepting or not accepting the insurance at age 55, if that's the number you want to use, but what I'd like to look at is, if you're deployed and we take you out of your job and send you somewhere, let's reduce your retirement from 60 to 58, to 56, whatever, and give you some options at that time. Some folks still have their retirement from their civilian job or would have – still have their civilian job. You've also heard us say that we've had extended tenure. Sir, if we went and across the board did an age 55 retirement right now, the last number I looked at – you heard each of the different services here – sir, we would lose the top, top 60%. [*pointing to Mr. Cook*] Sir, could you afford to lose the top 60% out of your business and still be constructive?

Mr. Cook: No sir.

CSM Holland: Okay, we can't either, sir. So we have to give some progressive movement to a retirement program that is truly – shows professionalism like all these individuals supporting here today. That's what we're looking for. And we're not looking for a 20-year retirement. Now, some folks do, but there's no way we can look at an equal retirement to our active component brothers and sisters. But we do want some fair some fair and equitable – I also want the opportunity that

for some of us that want to serve longer than that to be able to serve longer. Some of the proposals that are out there pretty well say, "Age 55 is a great time. We're going to make it 55 and you have to go home." I would have been home already, sir. //laughter// Okay? All right? And I'm not leaving till they make me go this time, sir. Okay? So it is very important that we look at these issues and we take them step by step and try to put some value to each one of those, and those are some of the points I'll make, and each of these individuals here have a lot. I'd like to not use the word "55 retirement." Let's talk about a new retirement program. That's what I'd like to see us talk about. And that's not the OSD's policy.

CSM Jones: To mention a couple other things – as I stated earlier, it's age-based, and it should not be, listening to my soldiers, service-based. In the active component, you have 20 years, 25 years, 30 years. This is just another way to look at it as well. Instead of saying age 60, if you serve for 20 – right now it's, a member of the Army Reserve gets a letter at 20 years of service. Right now I have over 600,000 soldiers that are receiving pay, retirement pay over age 60. I have about 98,000 in the grey zone that have retired but are not receiving any pay. At least 10% of that population will die before they receive a penny. Period. Nothing for them and nothing for their family if they die before they reach age 60. What we're saying, and I say we, not me, but what we're saying is that a system that is based on service – 20, 30, 40 years – but service, not an age. To look at multiple ways that fit the multiple lifestyles of the soldier that is serving in the Army Reserve. What we have now is not moot, what our soldiers and their families are saying. So whatever way that we come with, 60 years of age has got to go away. Service-based, because that's what we're providing – a service to this nation. So, that said, if you want to spend 40 years to age 75 so be it, //laughter// but service-based not just – not an age-based organization that is the military. It should be out the window.

MCPO Pennington: What I hear a lot is there is already a reduced monetary benefit based on a point system, so in other words, that's addressed with regards to the reserve component and the active component. Why then is there an age stipulation? If we're going to align with the active component and make it service-based, like Command Sergeant Major is saying, it matches the reserve component with regards to a different monetary payment in that check amount, based on a point system. So it's kind of like a double //blocked//

CMSGT Smith: I also see it, sir, as a possible retention tool. I said 27% of my force is retirement eligible, but that means they could be 38 years old if they joined at 18 years old and they had their 20 years in. I think if you tie the 30-year mark, which a lot of the proposals tie 30 years of service to it, that's a retention tool to stay 30 years, to possibly get an increase in rank, which makes your points worth more, and then while you do stay you're gaining more points, and that's what the retirement check is based on, the total points. So I see this from a positive standpoint, that it's a retention tool. We're not going to have a mass exodus of retirees. That whole 27% wouldn't walk out the door, because they're a lot younger or they're in that grey area, as the Sergeant Major talked about, so...

CMSGT Winsett: And if that's the fear, sir, then tier it for those last five years. Just tier it for the last five years, that we'll reduce the age by a year for every two years that you give us toward the end. Tier it. but you've got to have the carrot there that Johnny can see, "I have something at the end of this career." Because be assured of the fact that if Mrs. Jones tells Johnny, "You're coming home," Johnny's coming home.

CMSGT Smith: The Sergeant Major also hit on a point, too, about options. And I come from the corporate world until a few years ago, but – and retirement plans in the civilian world are based – you know, you're given so much money. You can spend it how you want to, whether it's retirement, health care, dental care, you know, eye care, whatever, and so your – I know your question originally was, do we tie TRICARE to it at 55. Maybe we tie a dollar amount, and you spend it how you want to, with those options. And some of that could be really at no cost to the government, if we just put in a plan that – or at least initially put in a plan that gave the member options at 55 of, "You're going to get \$1,500 a month. How do you want to spend it?"

Dr. Oi: What is the added cost of moving to 55?

CMSGT Winsett: I'm sorry, sir. What was your question?

Dr. Oi: What is the added budgetary cost of moving to 55?

CMSGT Winsett: I would say, sir – and I can't give you an exact dollar amount, but I would think that the retirement moneys would be there. The cost factor is going to be relative to medical care. I wish I could give you a number, but I...

Dr. Oi: But you don't have the number just for the retirement benefit?

SGTMAJ Staudt: Sir, we can get back to you with that number.

CSM Jones: Because it will vary, and the biggest variance is, if you have a soldier that's TPU, Troop Program member, and their minimum – they just meet their minimum requirement of one weekend a month, two weeks during the year, all they are receiving is 50 points times a certain amount.

Dr. Oi: No, I know that. I know that.

CSM Jones: Okay.

Dr. Oi: But moving to 55, you're adding an additional five years of benefit payments.

CSM Jones: Right.

Dr. Oi: What's the budgetary cost of that, if you run it out for the next five years?

SGTMAJ Staudt: What we're saying is, it's not like on the active duty forces, where at 20 years you've gotten 365 points a year, you've had X amount...

Dr. Oi: No, no, no, I'm not saying that. Right now, if we move to 55...

CSM Jones: What would the cost be?

Dr. Oi: ...we're going to get an increase in the number who are going to be retired. Right?

//crosstalk//

Admiral Pilling: Dr. White?

Dr. White: Let me ask a similar question about medical care. Several of you have mentioned medical readiness as a rationale for extending the medical care benefit. This is a huge cost, if we do this. So what is the size of the problem? How many people in the last five years who were called to active duty were not medically fit? 1%? 5%? 20%? What's the number here? Because if the number is small, then it seems to me that it may be a mismatch between the solution and the problem.

CMSGT Smith: In my prior job before I came here, sir, I was the state command chief in the Ohio Air National Guard, and of the about 16,000 members, Army and Air, 27% of our force had no health care coverage at all.

Dr. White: That's not my question. My question is not who has health care, but the question – you all mentioned, and rightly so, concerns with medical readiness. Now what are the indications that we have a medical readiness problem? That is, that these soldiers, airmen, and marines show up not medically fit, and therefore we've wasted our assets on training them and getting them ready?

CSM Jones: Right now, we have, at least collectively in the Army Reserve, that have not mobilized approximately 10,000 soldiers throughout since September 11.

Dr. White: Because they're not medically prepared?

CSM Jones: They're not medically fit. We still have about 2,000 that are in medical holdover as of right now. Now keep in mind, they're medical holdover, they're still on active duty, but they cannot deploy. Some of them will no longer be soldiers once they're medically evaluated and determined not medically fit.

Dr. White: That's 2,000 or whatever out of how many? I'm trying to get an idea of the size.

CSM Jones: I understand. Well, the Army – that's in the Army Reserve. I'm not sure for the other services.

CSM Holland: Sir, let me just give you an idea. In the very beginning of the global war on terrorism, we had 23% of the folks that were showing up at the mobilization centers that had some kind of problems. Out of that 23%, we had over 12% that were dental problems. We had folks, I didn't know how many teeth you had, but I had one soldier who had 28 teeth pulled and then got sent to the desert with us. Thank God he kept a couple so he could eat. Okay? He only had three left, okay? So, it was a terrible thing, but, sir, we are a reflection of our society. Society today has a dental problem throughout this country. It has a health problem. And the young folks, and especially if I look at my brothers in the Marine Corps, I mean, you go look at those marines that we just visited in Afghanistan, sir, most of them are 19, 20, 21 years old. They're not going to buy the insurance, because they don't buy the insurance anyway. They think they're bulletproof. So Health Affairs has put in some programs since we started the global war on terrorism that has helped give some dollars to each of the services to get their folks better prepared. But, sir, we still have a long way to go. Some of our services, our great

Navy, they will actually work on one another's teeth, they'll let their dental hygienists and folks work on them. In the Army and all, our dental people can't touch our people, okay? Tell me that makes any sense, okay?

MCPO Pennington: Well, we do have a little apples and oranges situation there...

CSM Holland: Yes.

MCPO Pennington: ...with regards to the Navy, because, quite honestly, medical benefits with regard to family or the sailor themselves off-duty, it's not related to readiness on duty, in that we in the Navy basically bring our reserve component sailors in to dental or medical, and basically take care of them during their drills or, if they're not ready, we do the (Lindoo?) board just like we would on the AC [active component], and like the Sergeant Major said, they're not part of the program.

SGTMAJ Staudt: And for us on the Marine Corps side, even though our medical support comes from the Navy, all they're permitted to do for us is to do an exam and tell us we're not ready, but they're not going to do the work for us, so they'll bring us in the chair and they'll give us the exam...

Dr. White: They're going to do it for sailors, but they're not going to do it for marines? Something...

SGTMAJ Staudt: ... and they'll say that you're class three or class four, non-deployable, and go get your teeth fixed somewhere. And that's how...

CSM Holland: And, sir, we're not trying to make this sound like this is a mission impossible, but to us sometimes, between our services, as we try to be as joint as this council is right here, we're not able to do that, because we're talking truly apples and oranges, because we can't provide the same service to a reservist in a white uniform, then a blue uniform, then a green uniform. That doesn't make any sense, sir. Okay?

CSM Jones: Just one last point, and it – again, we're talking in terms of enlistment, reenlistment, and what soldiers, sailors, airmen, marines, and coasties are saying – maybe not Navy, because you guys are taken care of – //laughter// but when we ask them, when we ask, "What would you want? What do you need?" – we're representing them; we're not representing ourselves - and they're saying, "If we had full medical and dental benefits," then those are the things that we would like to see. Those are the reasons that we would see, "That's why my spouse will allow me to stay." Or in the cases of the single soldier, they're parents may say, "Well, you're getting all those things. I'm going to let you join, because you have medical and dental benefits. But I don't want you to be full-time. I want you to be in the Army Reserve or the National Guard, or the Naval Reserve. But you're going to get medical and dental benefits." So what we're talking about is a retention tool. Will it affect everyone? No. Just like reenlistment bonuses or enlistment bonuses doesn't mean they go out to everybody, but to some it makes a difference. It is individual based – what's important to them at that particular time. If they've never had medical care in their life because of where they came from and now it's available to them, then it's going to make a difference, you know, it's definitely going to make a difference when you get OFD – Over-Forty Disease – and things start hitting that you didn't know that you had, and pains that don't go away anymore. So, that's all.

CMSGT Winsett: They aren't looking for a free ride, sir. They really are not. But they're willing to pay their fair and equitable share. They're not looking for a free ride.

SGTMAJ Staudt: This is something that's not mandated that everybody enroll in, and it's a free ride, as we've said. This is something that they have to elect and then they have to pay for.

Admiral Pilling: Right, I got it. We've actually to run out of time, but Fred, you have one more question.

Mr. Cook: Sergeant Major Holland, you made a strong statement, you know, same job, same pay?

CSM Holland: Yes sir.

Mr. Cook: What are the differences now?

CSM Holland: Well, the difference is not just BAH...

Mr. Cook: What else is there?

CSM Holland: But there are some – the basic housing allowances for some of the folks, as to where they actually live, and the different pay tables there. And then some of the specialty pays that Command Sergeant Major Jones spoke about. Some of those specialty pays, even when they're activated, it takes a while for them not just to kick in, for the pay system to catch up, but it also takes the idea that then you have to go requalify or recertify, even though you've been airborne qualified, even though you're a paramedic in civilian life, I bring you on to here, I have to go certify you again. Give me a break! You know? These guys – I mean, we literally have folks questioning a doctor's credentials when they come on duty, and so they don't get their full pay. So that's several of the things...

Dr. Oi: We can't do that with the compensation commission, can we? I mean, we can't correct that.

CSM Holland: I don't think you can correct that piece, but the idea that the compensation, if he's a doctor, he's a doctor. If they're jumping out of airplanes and they're qualified, they ought to get the specialty pay. And that's what is not. I mean, \$10 compared to \$100 – big difference. I mean, \$10, you tell somebody \$10 today, if you have any kids, they don't even want \$10, you know, you've got to start at \$20, okay? So that's a big issue.

The other piece is what the other panel brought up about the single soldier and the married couple. That just continues to have us go round and round, and we would ask y'all, if y'all could sometime, to take a look at the BAH rate.

One thing that got brought up, but I don't think our – any of us did a good job of talking about – is TSP. TSP, look, if you just want to give them 10 cents on the dollar and make some kind of matching, that would encourage them. If you look at the statistics in civilian companies, more folks invest today than they ever have before, and that's because, I think, the companies encourage it by having some type of matching or whatever. We're not asking for a matching, or I'm not asking for matching. I would like to give them some kind of incentive, 10 cents on the dollar, whatever you want to call it, to at

least encourage them to participate, because, even for our active component folks – I’m surprised they didn’t bring it up – they get ready to retire, that retirement for the active component folks is only calculated on their base pay. These guys have been getting all kinds of specialty pay, our special forces, civil affairs persons – they get all kinds of specialty pay. All of a sudden, they say, “Holy smokes! That’s all I’m going to make when I retire?” That’s amazing to them because they’ve not taken that specialty pay, put it in TSP or done some kind of investing, and maybe we’ve not educated our folks well enough to understand that, but I think in the guard and reserve, I think you’ll find more folks looking for options like that, because that’s what they have in their civilian businesses.

Dr. Oi: The last five years – Dorsey, Cornwell, and McPherson have written this book on pensions, and in the private sector the percentage of pensions that are defined benefit have been increasing over the last five years. And it’s still the dominant form of retirement in the private sector. This is the book by Dorsey, McPherson – Cornwell and McPherson. And I looked at that book and I said, “There’s all this talk about the increase in 401k’s, etc.,” and they’re right, through the period from ERISA through to about 1990. But then when the stock market started to slide, things reversed. And...

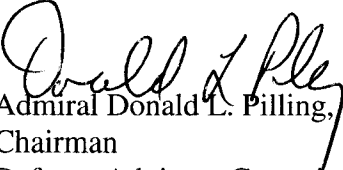
MCPO Pennington: In Mr. Cook’s comment about equal pay, there’s a reflection with regards to travel, I think, that we miss in the reserve component. You know, we’re asking our folks to do more traveling to training sites and gaining commands, and when we do that in the active component we put them under orders, we’re going to compensate, we’re going to pay for that, and we’re asking our reserve component folks to do more travel and more out of their own pocket, quite honestly. So I think that one is related as well.

Admiral Pilling: We’re really going to have to cut this. We’ve got to go to another building, but thank you very, very much. It’s been very, very helpful to us. We appreciate it.

//thank yous all around//

END

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


Admiral Donald L. Pilling, USN(Ret.)
Chairman
Defense Advisory Committee on Military Compensation

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