



# **Defense Advisory Committee on Military Compensation**

PUBLIC MEETING  
CRYSTAL CITY HILTON  
2399 JEFFERSON DAVIS HIGHWAY  
ARLINGTON , VA 22202  
SEPTEMBER 21, 2005  
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## **Transcript**

SEPTEMBER 27, 2005

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## PARTICIPANTS

This list includes members of the Committee participating in the meeting. (Committee members Dr. John White and General Lester Lyles were not present.)

No.	Name	Role
1	ADM Don Pilling	Chairman of the Committee
2	Mr. Frederick Cook	Committee Member
3	Mr. Joseph Jannotta	Committee Member
4	Dr. Walter Oi	Committee Member
5	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	Steve Strobbridge	MOAA
2	Mike Hayden	MOAA
3	Vince Crawley	<i>Army Times</i>
4	Steve Wagoner	AF/DP
5	Lt Col Ellen Krenke	OASD – PA
6	N. Gurtovoy	Russian Embassy

## TRANSCRIPT

**Admiral Pilling:** Well, good morning. This is a public meeting of the Defense Advisory Committee on Military Compensation, and what we want to accomplish this morning is two things. At our last public meeting, Paul Hogan, our study director, proposed eight principles to form a framework for evaluating changes to the military compensation system, and one of the questions that got raised [was] should we add a ninth principle, and that was the principle of fairness.

Now when it was reported in the press, it was reported that there were three members who were for fairness //laughter//, and the implicit assumption, I guess, is there were four members against fairness, and that's not the way the question was phrased. I think the real question here is, can you define fairness in a way that is meaningful and is a robust enough definition to capture the meaning of fairness, which can be fairly nebulous. And I should report that the first time the staff was given this task, they came back with the parable from Matthew's gospel about the vineyard owner who paid people the same wage no matter whether they started in the vineyard at seven in the morning or five in the afternoon. And from the vineyard owner's perspective, that was fair, and clearly from the perspective of the people who labored all day in the

vineyard, they didn't think it was fair. So it is a very nebulous concept. But Paul, you have some slides where you want to talk us through – if you were to adopt this, what sort of characteristics would you be evaluating.

**Mr. Hogan:** Yes sir. Again, this notion of fairness would fit in with, if adopted, would fit in with the overall framework that we talked about last time, which I won't review here. I think it's available on our website and elsewhere. The challenge, as Admiral Pilling mentioned, the challenge was to develop a concept of fairness that had some degree of objectivity – that one could appeal to a set of facts that may resolve issues of fairness. As I mentioned last time, I think because, you know, we have shared culture and shared values, most of us will agree 80% of the time on what is fair, probably, and what is not. And it's that 20% of the time where we might disagree – could you, could one construct a concept where you could objectively say, "Oh yes, that is fair according to this definition of fairness, and I concede that you were right, this was a fair proposal and not an unfair one"? Or is fairness always in the eyes of the beholder when it's on the margin like that?

The concept of fairness that's proposed here is sort of a contractarian notion of fairness. This notion is loosely, and I emphasize "loosely", related to John Rawls' Theory of Justice. It's loosely related to some work James Buchanan, Nobel laureate, has done in political economy, and again I want to emphasize, very loosely. That individuals – the notion here is individuals can choose to serve and make commitments or not to in a volunteer force. They choose to serve and make commitments because of patriotism and because of tangible rewards. Fairness requires that implied contracts for service based on tangible rewards be kept. This concept would also require that known information be provided prior to a commitment to the arrangement.

Then as a practical matter, in constructing this in a manner that's analogous to our previous principles, fairness – this concept of fairness would imply that compensation proposals should consider the interests of members, of the Departments, and the taxpayer, within the context of an overall purpose of military compensation: to produce a capable, motivated force. And in a volunteer force, the best indicator[s] of fairness to members are the recruiting and retention decisions of actual and potential members. If, obviously – it's obvious to me – if the system is perceived as unfair, individuals will not want to remain under that system. It's costly to find that out, and hopefully you maintain a fair system so you don't find out after the fact that it was less than fair.

But members should be provided full, accurate, and consistent information on current and future pay, benefits, and the obligations that arise with those pay and benefits. Major commitments should be made voluntarily – that is, the enlistment decision and some others – and with full information. Explicit promises should be kept. All relevant parties should agree if there's any change in the deal, so to speak. Differences – uh, that's not part of the original set of obligations. In other words, one cannot argue that, "Hey, I never thought I was going to be deployed. What's going on here?" That's part of being a military member. Differences in compensation and benefits, both over time and across members at a point in time, should have a rationale in force staffing and capability, and certainly not simply be arbitrary.

This is our attempt, one attempt, at providing a concept of fairness that has a degree of objectivity, and it – I think I will stop here and see what the members think.

**ADM Pilling:** Well, one thing that strikes me is that, even if we don't adopt this, we have to be very clear that if we propose a change to the compensation scheme, we make it very clear who it applies to, whether incumbent members of the armed forces would be subject to such a change, or whether it's a future force, because this is really based on a contract between an individual and the military services. If anybody wants to add to that, but we really should get in a discussion on whether there's enough here to add it as a principle, or you could say, "No, we won't add it as a principle, but we will adopt an overarching principle of – what do we want to call it? – 'Do the right thing'?" So we should have some discussion on this.

**Mr. Cook:** I'll start. I commend the staff for coming up with all of this, in a very difficult, nebulous concept of fairness. And basically I favor adding it as a principle, because I think the definitions are robust enough to, you know, to be able to discriminate something is fair or unfair. I think the downside is if you use the term "fairness" in just an, like an absolute sense...

**ADM Pilling:** Right.

**Mr. Cook:** ...there's always somebody who would claim, in their particular situation, that it's unfair. And we don't want to have a thing that can be used to attack what we're doing. So it seems to me that we might adopt the concept of fairness, because I think it's a good one, but within the framework of saying something like, "The proposal or the change should be regarded as reasonable, fair, and balanced by objective observers," which cuts out some single individual who perhaps particularly feels that, you know, it's unfair.

**Mr. Jannotta:** It seems to me that the problem is it gets very personal, and we kind of lose this notion of overall purpose. We lose sight of that, and that's what I worry about. It becomes more of a beholder kind of judgment.

**ADM Pilling:** Again, this is, like in the parable, the people that started working...

**Mr. Jannotta:** That's your point, that's your point. I think that's your point, yeah.

**ADM Pilling:** ... at seven in the morning think the guys that started at five shouldn't get a full day's wage.

**Mr. Jannotta:** Right, right. So...

**Mr. Cook:** But an objective observer would not have any problem with that at all, would he?

**ADM Pilling:** I would think not. Dr. Anderson?

**Dr. Anderson:** Yeah, I think what everyone is saying is correct. I guess I look at this in the context of, what is the purpose of what we're doing here? And the basic purpose is to have a strong, effective, powerful armed force, and I think that what we're talking about is compensating the people that do this in such a way that we say is fair. Other people might say it's just, it's the right thing to do. I guess one of the things that strikes me as we've been going through all this material is how complex it is, how large the military is, how different so many of the projects are, how good they are, and I think that, you

know, to quote somebody else from the – I don't know where it's from but – we just want to make sure we don't do any harm, because right now it's working very, very well, and there are things that could be improved, and we will look at those.

**ADM Pilling:** Dr. Oi?

**Dr. Oi:** This concept of what is fair and what is not fair is a very elusive one. Compensation is a very elusive concept. When World War I broke out, the British had stopped volunteerism because the training camps would be jammed up because people wanted to serve, and the ability to serve was compensation enough for them. And we want a kind of military where the people who serve do it because it's worth their while and they're proud of it. And that should be included in this concept. What is fair to one individual may not be fair to another. But the question is, are they doing it out of their free choice, and I think that's the best judgment of what is an equitable and fair system.

**ADM Pilling:** Well, let me propose that we adopt this as a principle, but also make sure that when we address it we address the target audience for a certain change.

**Mr. Cook:** Mm-hmm.

**ADM Pilling:** Would you have a problem with that, Dr. Oi?

**Dr. Oi:** No.

**ADM Pilling:** Anybody?

**Mr. Jannotta:** No.

**Dr. Anderson:** No. I just want to say that I think that what Walter's saying is correct.

**ADM Pilling:** Yeah.

**Dr. Anderson:** That this is the main thing that we're looking at and the basic guidelines we should have.

**ADM Pilling:** Right. Okay. Then let's move on. And what I wanted to spend the rest of the time on today – as you know, we are responsible to provide an interim report in the month of September, and I just wanted to go through in general where we are and what I intend to report to the Secretary and to Dr. Chu. So if you can put the one slide up that will serve as an outline for our discussion, and I think before we start I have to repeat what Martin Anderson just said. Our task is to review the military compensation system to ensure that it sustains the ability to maintain the most powerful and capable military force, which we have now. And that includes the ability to recruit and retain the right people and train them in the right way and get them to the right places at the right time. And we all know how remarkable our capability is today, and we did this essentially with a system that's relatively unchanged from one that was developed 50 years ago. So we have to

be careful that if we propose changes to this system, that we don't undo what has led to this wonderful force that we have now.

**Mr. Cook:** Hear hear.

**ADM Pilling:** So just as an outline of how we might have a discussion here today, I think there are basically three components of things we can talk about: the deferred and cash compensation, and then in-kind compensation. And this is just a suggested way to address these things. Many of these things we've already discussed in open meetings before.

I think probably the most controversial issue up there is the retirement system. Force managers have a love-hate relationship with the retirement system in the sense that on the one hand it provides you what are called "golden handcuffs" for people to keep them in for 20 years, and then if you look at the retention after achieving the 20-year point, there's a big drop-off. So the way it's structured, you're not really encouraging people to spend long careers in the military. In fact, your multiple for retirement stops once you hit 30 years. Then on the other side, from a flexibility and an equitable perspective, for members who are serving 15 or 16 years and then leave the force, they get nothing because of the cliff vesting aspects.

So I think if we say anything about the compensation system, we're going to have to address the virtues or lack of virtue of the current retirement system. So just to have a straw man out there, I would think if you were going to make changes, some positive things you could do is increase – allow the multiple for time served to increase, that is 2 ½ % a year, beyond 30 years, perhaps to 40 years for 100% retirement. That's one particular change you could make. You could have earlier vesting for some portion of the retirement program. You could have matching contributions for the Thrift Savings Plan. And if there was earlier vesting, let's say at the 10-year point, government contributions to your TSP made after 10 years are yours if you leave the force early.

**Mr. Cook:** Mm-hmm, mm-hmm.

**ADM Pilling:** And you could have some other not so favorable changes made to the compensation, because we don't have an infinite amount of resources here.

**Mr. Cook:** Right.

**ADM Pilling:** You could have a delayed pension or start point for the annuity. The National Guard and Reserve are already under such a system, where they don't see their pension until the age 60. So with that I would like to get some sense of where we think we are, because I think I'm going to have to tell Dr. Chu that we don't have any point solutions at this point in time, and what we intend to do over the next four or five months is to take these concepts and do some analysis and, using the models, try and estimate what would be the effect on the force if these kind of changes were made. And I think we also have to be clear, what force are we talking about making changes for? I don't think – I get the sense that nobody is talking about radical changes for anybody wearing the uniform today. But this is a potential for a future force.

**Mr. Cook:** Right.

**ADM Pilling:** So with that I would solicit your thinking.

**Mr. Jannotta:** Well, one of the problems that we have here is that all of us tend to get – we’re really dealing, we should be dealing in large concepts, broad concepts, and one of the problems for each of us, and certainly I fall in that category occasionally, we want to get rifle shooting on things. And so we’ve got to be very careful that we keep this thing broad and so that the Defense Department can take it and mold it. So that’s one of the issues, I think, for the committee, is to not get very specific about things like retirement, but in the broad sense.

**ADM Pilling:** Right, and the sense I have in talking to Dr. Chu is, this is the front end of what a QRMC, which is going to start, would take and do more analysis...

**Mr. Jannotta:** Right, more analysis, so we’re...

**ADM Pilling:** ...to try and come up with point solutions.

**Mr. Jannotta:** ...we’re a starting point...

**ADM Pilling:** Right.

**Mr. Jannotta:** ...conceptually.

**Mr. Cook:** Mm-hmm, mm-hmm.

**Dr. Anderson:** You know, let me just also say that I think the point you raised about what would be the impact on the force if you started to try to change some of these things, and I’m still open about it, because I know some people have argued that, well, a lot of people in the military would rather have cash today rather than a large pension later on. And other people say no, they’d rather have a large pension. What bothers me is there may be a large group in the middle, where if you asked them what would they like 10, 20, 30 years from now, may not tell you. They may say, “I’ll take cash now.” But I’m just worried about it, if we change this system, and we know what happens, and all the people that have signed up and have joined and are getting a large pension – I know some people that don’t like to talk about the fact that one of the things they want is the security of a large pension. That’s not a nice thing to do, maybe, in some cases. But they do. And they will sign up. Now, I’m just a little nervous, and I know there are all kinds of studies and academic surveys where they ask people questions, but I think we ought to take a very careful look at that before we propose any changes, especially on the current force.

**ADM Pilling:** Right. I think I agree with that. One of the things that’s not fully appreciated, I think, by younger members of the force is that the way the current retirement program is structured, if you make it to 20 years you are guaranteed [a] lifetime, inflation-adjusted pension, which is very, very generous, if you think in terms of what you would have to pay for an annuity to have that sort of pension, inflation-protected. It’s fairly healthy. Dr. Oi, did you want to add anything to this?



**Dr. Oi:** Well I think that we set this pension plan up under the Hook Commission 57 years ago. [It has] served us well. But I think we ought to start looking at it. The military has changed, and we ought to look very seriously at giving incentives for people to serve beyond 22 years of service, and most enlisted men do not. Officers do. And we ought to ask, “Why is this?” And are there ways that we can provide the right incentives, right remuneration so that we get more efficiency from the training, recruitment, and motivations of people who serve. And from this viewpoint, I’m very much in favor of a very radical change in the retirement system to apply to a future force, but to honor the contractual agreements we have made with people now in uniform.

**Mr. Cook:** Mm-hmm.

**ADM Pilling:** Well, if I were to characterize where we are, I think we want to have a system for a future force which would encourage longer service – that’s what I think I heard you say, Walter – would be fair...

**Dr. Oi:** Especially by the enlisted men.

**ADM Pilling:** Right. Honor current commitments.

**Mr. Cook:** Mm-hmm.

**ADM Pilling:** One of the problems we have is that in the – only some very small number, somewhere between 8 and 15%, depending on what source you use, of the enlisted force ever gets to enjoy this benefit the way it’s currently structured.

**Mr. Cook:** Right.

**ADM Pilling:** That’s not a very robust pension plan for six out of seven people that were the uniform on the enlisted side.

**Mr. Cook:** Right, right.

**ADM Pilling:** Is there concurrence that we should be considering matching funds for a TSP and the earlier vesting?

**Mr. Cook:** For a new force?

**ADM Pilling:** For a new force.

**Mr. Cook:** Yes sir. I do.

**Dr. Anderson:** Yeah. I know, I guess the way I feel about this one is that these kinds of changes that you’re proposing, look, first of all, it is true that people live longer these days, and the older I get the more convinced I am of //laughter// the virtues of letting people stay in . But this is something I think that, I guess I’d feel largely more comfortable if, to whatever extent we do this, I think the military people who are making the decisions running this should have more flexibility, be able to do things as they come up. If they see a thing – for example, if they have someone that’s 40 years old and he’s in really terrific shape, and he’s doing a wonderful job, and he’s in a very special thing, and he wants to stay, I think we need

more flexibility in allowing that to happen. I think I'd take a look at that. I understand there is some flexibility now, but it's restrained.

**ADM Pilling:** Right, and that brings into the whole question of high-year tenure gates, which I was going to reserve at the end of the discussion. We can get into it now, but right now if you are an E5 or an E6 and you get to 20 years, essentially your career is over, and there are certain skill sets where we may not have the same physical requirements for young people, and you might want to encourage those people to stay longer. I know Walter talks about a 50-year-old military driver that picked him up, I guess in Great Britain at one point.

**Dr. Oi:** Interpreters.

**ADM Pilling:** Interpreters is an example, yes.

**Dr. Anderson:** But on the other hand, I think there are some people that would like to go into the military, serve for 20 years and then get out. I think that's just fine.

**ADM Pilling:** Right.

**Dr. Anderson:** I think when we make the – very careful that we do not disturb that part.

**ADM Pilling:** I agree.

**Mr. Cook:** What is it in the current system that forces E5s and E6s out at 20 years? Is there a...

**ADM Pilling:** By policy they set a high-year tenure gate that, without a waiver, 20 years, you're out. I guess E8s are somewhere, 26, 27-year high-year tenure gates. And then I guess an E9 is at 30 years. Is that about right? Yeah. So when they hit those, in order to stay on active duty, if you're an E8, that you have to have a waiver. So the – by policy they set the gate, and there is a procedure to get a waiver, but for every waiver – for every E8 they allow to stay in one extra year, there's somebody who would normally have made E8 that's going to wait another year.

**Mr. Cook:** Yeah, and that's the down side.

**ADM Pilling:** Right, so there is a down side to adjusting the gates.

**Mr. Cook:** There's these caps on all these – on these senior billets, right? Senior ranks.

**ADM Pilling:** Right.

**Mr. Jannotta:** Is there some way of building some flexibility, Admiral, into that? I know in the officer ranks you talked about the waiver idea, and it works better there as I understand it. Is that true? The – let's say an admiral that might want to stay on or asked to stay on, there's a waiver factor.

**ADM Pilling:** Right. They can waive officers out to age 62.

**Mr. Jannotta:** Or a commander or a captain or whatever.

**ADM Pilling:** But they – the way the current retirement scheme works, if you're – basically your pay raises stop at the 26-year point, and then all you're doing is your multiple increases.

**Mr. Jannotta:** And the question then, are there some skill sets in there that we really want to be looking at? Do we want to have the flexibility so that certain skill sets...

**ADM Pilling:** Right.

**Mr. Jannotta:** ...get recognized, and that we don't, you know, shoot ourself in the foot by... //talked over//

**ADM Pilling:** And I agree with that. I think things like medical, and lawyers would say they get better with age, so I mean perhaps we should be looking at 40-year careers for doctors and lawyers...

**Mr. Jannotta:** Accountants. Right.

**ADM Pilling:** ...where it's not a young man's game.

**Mr. Jannotta:** Right.

**ADM Pilling:** It's – you've developed these skills, very special skills.

**Mr. Jannotta:** And so, language or systems skills, IT skills. But just the idea of flexibility again, I think Marty's point. I think, this is sort of a little diversion, but I come back to this. We've been sort of saying that we want to get more cash compensation into the hands of particularly the enlisted men. We just haven't been able to do much on that. Currently 43 – depending on who's measuring – GAO has 43, and what was the other one? 47%?

**ADM Pilling:** GAO said 49% of current compensation is cash.

**Mr. Jannotta:** 49% as cash.

**ADM Pilling:** And CBO, looking two years ago, said 43%.

**Mr. Jannotta:** 43%. So the question is, we all think it makes sense, but we haven't – we've had trouble coming up with some ideas of how to do that, how to get more cash, and that would be in the new organization.

**Mr. Cook:** Yeah, that's our second major category.

**Dr. Anderson:** Well, let me, yeah, let me just comment on that, and I will put on my economist hat now. All these studies we take a look at, be careful of them. Find out where they came from, what the assumptions were made, what the numbers

actually mean. And second, I'm personally convinced that having a relatively small percentage in cash is a bad thing. It depends. Is the system the way it's set up helpful in building a powerful military force? Do the people like it? The fact that the percentage of cash might be 49% and we want to make it 55% - why? So I just think anyone that wants to change it has got to provide some persuasive information and facts as to why this is good for the armed forces.

**ADM Pilling:** Right. We did have the brief in a public meeting from Dr. Warner from Clemson, where he talked about implicit discount rates for young members of the force are very high. So it may not be very – that important to them, but when you hit about 10 years or 12 years, it becomes very important, and I think you quoted a statistic, Paul, about the proclivity to stay at the 10-year point is – it's almost 1.

**Mr. Hogan:** Yeah, retention rates rise continuously as you approach the 20-year point, so between, say, 12, 14 and 19 years of service, people are leaving only for very unusual reasons.

**ADM Pilling:** Right.

**Dr. Anderson:** Let me just make one little point on these so-called interest rates. What they're talking about, and the economists talk about, is that some people value things in the future very highly. For example, if you have \$10 today and you get \$10 30 years from now, you value those the same, whereas most people discount future money. And the degree to which they discount, they call it the discount rate. Now it's true, if you take us all in this room here, you're going to get an average discount rate. The problem is that it's an average. Everybody's discount rate is different. Mine is different than yours, and so on. And I'm always concerned about the study that comes up and says, "Well, the discount rate is X, therefore we should do Y." Not necessarily. It affects people very, very differently, and I want to see – that's why I want to take a very careful look at that study.

**ADM Pilling:** Right, that's fair.

**Dr. Oi:** But the only we're going to do that is we have to give it a try, we have to experiment. Supplemental, you know, special reenlistment bonuses began to be introduced in large numbers around 1964. The studies were incomplete, but it's clear that at that point the military was going into Vietnam and they needed skills in particular military occupational specialties, and they tried it, and they put up cash, cash forward, and the reenlistments came forward. Now when they ask people in surveys, would you prefer cash or recognition or a furlough, so forth and so on – I remember sitting in meetings and seeing that when we ask these people, money always comes out second or third. On occasion they said we ought to do something other than money. But at the same time, they economists in the Pentagon, not me, okay? but Gorman Smith, Harold Wool, Bill Gorm and others were very persuasive in this, and I think we have to try some of these other things – and that we should be a bit more risky, and the commission report ought to acknowledge that we do not always have the answers and cannot predict things into the future. People change, circumstances change. But at the same time, we ought to try some of these.

**Mr. Cook:** Yep.

**Dr. Anderson:** Right, and I totally agree with Walter in this one. I think we should try them, and we should do so in a way that's not risky. And it can be done...

**Dr. Oi:** But I think the evidence clearly shows that cash matters.

**Dr. Anderson:** No, absolutely, and no one ever said cash did not matter.

**Dr. Oi:** No, but the discount rates are high.

**Dr. Anderson:** I just said that it matters in different ways to different people, and I'm sure you would agree with that.

**Dr. Oi:** Yes. And at the same time...

**ADM Pilling:** Okay, well, you know, we did get exposed to John Warner's recounting of the experience in the 90s as we were trying to downsize the force, where members who were less than 20 years were offered a choice of taking a cash buyout, if you will, or a reduced annuity for some period of time. And I forget what the exact numbers were, but about 90% chose the cash buyouts.

**Mr. Cook:** Mm-hmm.

**Mr. Hogan:** But the enlisted...

**ADM Pilling:** That was an example of where they went for cash rather than an annuity, so...

**Dr. Anderson:** But that's a very different thing. That's cash right now...

**ADM Pilling:** Right.

**Dr. Anderson:** ...as opposed to doing something else right now. When you get into looking at it 20, 30 years – whoa, we're in very tricky territory.

**ADM Pilling:** Right.

**Mr. Cook:** Here's how I kind of think about this. This is all very complicated and, but you have to have some basic directions that are simple, that you can articulate and people can agree with or disagree. Mine are as follows: the current program is more weighted to deferred and in-kind than to current cash. In that sense it is relatively inefficient, because while people's discount rates would vary, Marty, everybody has one. So whether it's a high one or a low one, a future dollar is worth less than a current dollar. If you look at the pension system, there is very little – I'm not aware of anything that you can do to the current – or should do – to the current force, to change it, because of the implied commitment of the promise that's basically made. It would be illegal and immoral to change it.

**ADM Pilling:** Right.

**Mr. Cook:** With the new force, you have an opportunity to change it in a way that would have earlier vesting, which is more expensive, and we'll get rid of the everybody staying till 20 and then going. You'll have a much more balanced thing to do, and the higher contributions to the TSP would be a great thing to do, and you can then take your savings from that and move them into current compensation over there. But the net result, the simple thing would be in that, if your total costs to the government are the same, you've shifted for the new force – you've shifted more into current money and the efficiency of the program, measured by cost versus perceived value, will rise. So you'll be more appealing to a younger volunteer force while still being very fair to people who spend a commitment with the – er, a career commitment with the military.

**Dr. Anderson:** Okay, can I just comment on that? I think that 99% of what you said is correct. But the part that's not correct is when you say absolutely that it's not efficient. You don't know that. When you say it's not efficient, you are assuming that something you will do in the future is better. Now, I would argue that maybe it's better. Let's try it out. Walter is correct. If it works better to have a higher percentage given in cash rather than in retirement, and you can show that and it works, and the military force is stronger, good, let's do it. But let's not start out with the assumption that it is inefficient, because we don't know that.

**ADM Pilling:** And I would just add the comment that if you're going to try and keep this cost-neutral, adding more cash compensation up front has to come from someplace.

**Mr. Cook:** Sure.

**ADM Pilling:** And the only place it can come from is if you're inside the retirement bucket, is you have to defer the start date of the annuity.

**Mr. Cook:** That's correct.

**ADM Pilling:** And so that's the trade, that if you're going to say, without any expense, if we were to offer more cash up front, the annuity initiation has to be later.

**Mr. Cook:** Well, could I add a nuance to that? Which is, in the private sector, that's true – you don't get your pension until 60 or 65. But we also have a concept whereby you can elect to start your pension sooner, but at what's called an actuarial reduction. And that is something that we could consider that is very flexible and puts the decision in the hands of the individual rather than in the hands of the government in some rigid structure.

**ADM Pilling:** Right, and that...

**Dr. Anderson:** Yeah.

**ADM Pilling:** We've talked about that for the guard and reserve retirement.

**Mr. Cook:** Right, mm-hmm. Same principle.

**ADM Pilling:** Because there seems – listening to them talk to us, they were very concerned that 60 was actually too late...

**Mr. Cook:** Right.

**ADM Pilling:** ...and they wanted to get to it at year 55, age //unclear//...

**Dr. Anderson:** Yeah. Let me...

**ADM Pilling:** Go ahead, sorry.

**Dr. Anderson:** Let me just make one comment. I think that there's a great tendency for us who are all civilians to make comparisons to the private sector, how the private companies do it and how the universities do it and so on. And I think we've got to be very careful about that. This is the military. It's got a different purpose, it operates differently, it's more dangerous, and a lot of other things that are different. And I think we have to try to put ourselves in the position of, what is the most effective way to compensate people for what they are doing now. And we can learn things from the private sector, but we just don't want to transfer them, because they may not work.

**ADM Pilling:** Right.

**Mr. Cook:** Agreed.

**Mr. Jannotta:** I agree.

**Dr. Oi:** Great.

**ADM Pilling:** Okay. Is there anything else people want to talk about on the retirement system? Then I would suggest we move on to the health benefit for retirees. Again, we're in deferred compensation at this point, so it is just the retirees' health benefit. There are some things we've talked about which sort of make sense and they seem reasonable to me and, I think, Fred, one of them was your recommendation that you tie TRICARE premiums and co-pays – changes to those, which haven't changed in many years...

**Mr. Cook:** Ten years.

**ADM Pilling:** ...ten years – to increases in the retired pay.

**Mr. Cook:** Exactly.

**ADM Pilling:** So if you're going to make a change to what it costs you to enroll in TRICARE, you would do it only in the context of what was the percentage change in the retired pay for the year.

**Mr. Cook:** Correct, correct.

**ADM Pilling:** There is a second, almost administrative issue, which really doesn't affect the health benefit, but it's how the Defense Department pays for it, and that's when TRICARE for Life was put in for the over 65s, it was put on an accrual basis, and the retired under-65 medical care was left as it was before, where you just pay it out of current operations. You could make a case based on what has happened to the retired pay account, which is fully accrued, and say all retired medical care would be on an accrual basis. This is internal to the Pentagon. It would not affect anybody's health benefit, but it would affect how to...

**Mr. Cook:** Right, right, financing and accounting transparency.

**ADM Pilling:** Right. One of the things that – there is a transformation office for military health care that's trying to figure out how to improve care and reduce cost, I guess is a thumbnail sketch of what they're about.

**Mr. Jannotta:** It's a good goal.

**ADM Pilling:** It's a great goal. This is a very expensive benefit which is increasing, and I guess we've been told by the health affairs people that by the turn into the next decade, health care is going to be 13% of the defense budget, which means this is a fairly expensive component. I've seen no insights into how do you improve care and/or reduce cost from the transformation office – it just stood up. I don't – I haven't heard anybody talk about reducing the health benefit on this committee. We have had presentations where people have talked about trying to put the military health care system on a more preventive medicine basis rather than a reaction basis, and if you were going to do that, probably secondary preventive medicine has a greater payoff, after someone's had a heart attack or a diabetes attack. And as I understand it, Paul, there is very little data that says primary preventive medicine by – it's very hard to prove that that saves you any money.

**Mr. Hogan:** Most people believe it, but it's hard to provide evidence that demonstrates it.

**ADM Pilling:** Right, and I think part of that problem is that the timeframe is so far out – if you encourage someone to stop smoking at age 25, you may not know whether you've actually prevented anything for 30 years. So I'm not surprised the data is not there to support it.

**Dr. Anderson:** It's still a good idea.

**ADM Pilling:** It's still a good idea, but if you're going to use data, I think, to suggest changing to a more preventive medicine, I think it has to be secondary preventive medicine.

**Dr. Anderson:** Let me just say that I think this particular area is clearly one of the most complex things that the military is dealing with, but it's not just the military. The whole country is dealing with that one...

**ADM Pilling:** Right.



**Dr. Anderson:** I mean, if you look at the whole question of health care and 99% of the people focus on how much does health care cost. I think the one thing that's kind of interesting is that in our discussions it looks like the military system of health care is one of the better ones in the country.

**ADM Pilling:** Yes.

**Dr. Anderson:** That people seem to like it. It works. And I don't think anyone is talking about trying to cut back on that. My own personal view is that I think one of the things we always forget about health care is how incredibly good it is and how fast it's becoming better and better. And the amount of money we're spending on health care may be the best place we can apply money.

**ADM Pilling:** Right.

**Dr. Anderson:** And we don't know how that affects the effectiveness of the armed forces, what they're doing and so on. I'm very heartened to hear that Deputy Secretary England has set up this transformation committee to take a hard look at how can you make health care better. And I've argued this to all my friends in the private sector: I think we ought to focus more on what does health care do. I've seen friends of mine go through magic going into the hospital. When they went in, they should be dead, but they weren't. And they came out and they're doing – I mean, it's – well, you all know examples of people who've been in the hospital, how stunning they are. And we ought to take a look at the value of that at the same time.

**ADM Pilling:** Right.

**Dr. Anderson:** Because I don't think we're going to cut costs in health care.

**ADM Pilling:** No, I don't either. Not from that...

**Dr. Oi:** Aren't we discussing right now health care for the over-65 gang?

**ADM Pilling:** For the entire...

**Dr. Anderson:** We're discussing health care for everybody.

**ADM Pilling:** For the retirees.

**Mr. Jannotta:** Everybody.

**ADM Pilling:** All retirees.

**Dr. Oi:** No, we're talking about over 65 right now.

**ADM Pilling:** Well, some of them.

**Dr. Oi:** And what are the policies that we ought to adopt for that.

**ADM Pilling:** Correct.

**Dr. Oi:** I think that's a very different issue than health care for the populace as a whole. And I think – isn't that what you were driving at, Fred?

**Mr. Cook:** Yes sir, that was – that was part of it, but I think we'll probably, in the discussion, break it down between the TRICARE for Life and the under-65 TRICARE. And right now we're talking about the total.

Marty, in support of your point, but going back to the much vaunted private sector, you know?

**Dr. Anderson:** Well, every now and then it works.

**Mr. Cook:** Health care benefits – private employers who offer health care benefits, good health care benefits, it has become a major factor in attracting and retaining people.

**Dr. Anderson:** Yeah.

**Mr. Cook:** You know? It used to be years ago, everybody did benefits, but now they're cutting back so much that if – this is an area where the military should excel.

**ADM Pilling:** Well, it does excel, and in fact...

**Mr. Cook:** It does and it – yeah.

**ADM Pilling:** ...we are seeing the trend for people who are employed – retirees now – in a second career preferring to come onto TRICARE as it's currently structured rather than use their own companies' health benefits. One, it's cheaper, and two, it might be better. And so here's an example of this is such a rich benefit, it's actually crowding out the private sector. We keep talking about this private sector. //laughter//

**Mr. Cook:** That's an area – we've talked about in the past, that, and that is an area where, you know, I think the way it currently works is unfair, because what's happening is the private employers are taking advantage and are shifting costs back to the military in the health care. And I think while maintaining fairness, we could say that – this is before 65 now...

**ADM Pilling:** Right, before 65.

**Mr. Cook:** ...this is you leave, you retire, you go to work for somebody, and they offer health care benefits. But most everybody now, you've got to pay something to get on them, right? You've got to pay, I know you've got enrollment fees and co-pays and all sorts of stuff. We should consider setting up a deal whereby in that situation our TRICARE becomes the secondary payer, and we take some of the money that we save and give it to the retired member to pay his or her private sector medical insurance costs. It would be a net win to the government, I think...

**ADM Pilling:** It would be a gain. It would be a net gain for the government.

**Mr. Cook:** Net gain to the government – it would be totally fair to the individual, as near as I can see, because it would be voluntary. But this idea – I think the private sector is, like, taking advantage of good military retiree health care by actually paying people to go on it and saving themselves money.

**ADM Pilling:** Right. And in fact it's not just the private sector. We were given an example of a state which will not allow any of its employees who are TRICARE eligible to be on the state health care plan. It requires them to take TRICARE.

**Mr. Cook:** It's a transfer of costs, but I think we should face up to that and deal with it in a way that is responsible, but our client is the government. It isn't the state or the private employers.

**ADM Pilling:** Any additional thoughts on health benefits from anyone?

**Mr. Cook:** You want to do the TRICARE for Life or the...?

**ADM Pilling:** Okay, TRICARE for Life.

**Mr. Cook:** TRICARE for Life is very attractive program, but it has a characteristic to it that I found unusual when I first learned about it, and that is that the – this is over 65 – the retired member and his family must sign up and pay for on their own Medicare plan...

**ADM Pilling:** Part B.

**Mr. Cook:** Part B – as a condition of getting on TRICARE for Life. There are some number of people who don't do it for whatever reason, and hence are eligible for TRICARE for Life but aren't on it. They're not automatically enrolled. That seems to me to be something worth considering. We also have in TRICARE – or we have in Medicare, which now doesn't cover pharmaceutical costs, right? – a new program coming on stream right soon. But it will require a fee for the person, civilian or retired military, to pay to get on it. I've heard \$33 a month to get pharmaceutical benefits under Medicare. TRICARE for Life now has 100% pharmaceutical coverage. So there basically is no reason why any retired over-65 member would sign up for the Medicare pharmaceutical benefit, because they'd have to pay something that they're not now paying and they get for free.

**ADM Pilling:** Well, if they can take – if they can get to a military treatment facility that has a pharmacy, it's free. If they order it under the guise of TRICARE for Life I think there are co-pays, right?

**Mr. Cook:** I thought it was free.

**ADM Pilling:** Maybe the co-pays get liquidated, yes, you're right.

**Mr. Cook:** Okay, so you look at that, that's the current system. And again you're in an area where, you know, a promise made to the current force must be kept for the concept of fairness and equity. And those – maybe it's basically you say,

well, maybe you say there's nothing we can do about that, we're not going to change that. Or if we did it would have to be voluntary. But an idea, at least, that I think we should consider is switching the whole thing around and setting up Medicare as the primary payer and we, DOD, paying the enrollment fee under Plan B and, in time, Plan D, the pharmaceutical benefit, for whoever retires – so, like, a new force, a totally new paradigm, okay? So that way you get everybody automatically on because you're paying for it, and put us in a secondary payer that solves the pharmaceutical benefit, but maybe it's a new force thing. It's just an idea.

**ADM Pilling:** Right.

**Mr. Cook:** It has some positives to me.

**ADM Pilling:** But there's a bill there for the retiree over 65, because now he's going to have co-pays. You'd probably have to pay the co-pays as well.

**Mr. Cook:** Well...

**ADM Pilling:** TRICARE for Life is so rich, it basically – it's a wonderful Medigap insurance, I think...

**Mr. Cook:** Yep. That's what it is.

**ADM Pilling:** ...is basically a way of looking at it.

**Mr. Cook:** But let's consider that from the perspective of a new force. So set aside totally the current force.

**Dr. Anderson:** Right. And could we also find out – how many people did you say are not on that you want to put on?

**Mr. Cook:** Uh, we were briefed at between 100,000 and 200,000 – about 10%

**Dr. Anderson:** Okay, I'd like to find out why that 100,000-plus people are not on. This is a voluntary business. Find out why they're not on. I don't think that we should automatically say everyone should be on because we want them on. Let's go find out why they're [not] on. Okay?

**Mr. Cook:** Good idea. Well, I don't think we can do it, but...

**Dr. Anderson:** No, but somebody should.

**Mr. Cook:** The briefing said that they had done great effort, outreach programs,...

**Dr. Anderson:** I'd just like to know why. Sure.

**Mr. Cook:** ...to reach these people and get them to do it, and they still, they don't for whatever.

**Dr. Anderson:** Well...

**ADM Pilling:** If it's because they can't afford the \$78 a month for Part B...

**Dr. Anderson:** That's a reason.

**ADM Pilling:** That's a reason.

**Dr. Anderson:** But let's find out.

**ADM Pilling:** Right. If it's because they already have better care and don't need it, that's a reason.

**Mr. Cook:** That would be pretty rare.

**Dr. Anderson:** Well, maybe they're making as much money as you //crosstalk//

**ADM Pilling:** Unless they're making as much as Fred. //laughter//

**Mr. Cook:** The much-vaunted private sector. Listen, we all got the retiree medical problem. Okay.

**ADM Pilling:** Okay. If we were going to flesh out an idea like that, we'd have to answer Martin's question, and I think we also have to say it's more than just paying the premiums for Part B and Part D.

**Mr. Cook:** Yep.

**ADM Pilling:** It may involve also paying...

**Mr. Cook:** A health savings account, maybe?

**ADM Pilling:** A health savings account to pay for Medigap insurance or whatever. Because that's essentially what TRICARE for Life is now. It's a very generous Medigap insurance.

**Mr. Cook:** But if we were able to do that for the new force, we would cap the rising retiree health care costs for DOD by shifting from a system whereby we are the payer of the benefit – of the medical services – to the insurance companies – Medicare and the Medigap policies – being the payers, and we would be paying the premiums for that. So it would cap or stop the rising cost to the government for a new force, while being fair to people. That's the general concept.

**ADM Pilling:** Walter, did you want to talk anymore about TRICARE for Life?

**Dr. Oi:** No.

**ADM Pilling:** Okay. Any other comments?

**Dr. Anderson:** Uh, I just wonder how OMB is going to think about some of these shifts.

**ADM Pilling:** Right.

**Dr. Anderson:** They may...

**Mr. Cook:** That's...

**Dr. Anderson:** If the federal government is paying for it, I know – it just seems to me that the basic point we should make about – at least I feel – about medical care in the military is that we are – the medical care is not part of the welfare program. Medicare is part of the compensation. When someone signs up and goes in, he's told or she's told that a certain kind of medical care will be part of what you get. So I think when we're doing that, we ought to consider that part of compensation and be careful about it.

**ADM Pilling:** Right.

**Mr. Cook:** You know, um, a new thought I don't think we've mentioned yet? I mean, what if – for the new force, what if we have a pension system that allows earlier vesting, which I think we're all in favor of? What implications does that, in offering earlier vesting, have on TRICARE for Life? Does that mean that – let's say we had a modest amount, but some vesting at 5 or 10 years of service, and the person takes it and leaves.

**Dr. Anderson:** Good question.

**Mr. Cook:** Is the then deemed to be retired and could go on TRICARE, and then onto TRICARE for Life? That might be something that's worth...

**ADM Pilling:** Well, in the...

**Dr. Oi:** Doesn't that depend on how we define what retirement is?

**ADM Pilling:** Right.

**[Unidentified speaker]:** Yes.

**ADM Pilling:** And you're vesting in what?

**Mr. Cook:** Yep.

**Dr. Oi:** Yes.

**ADM Pilling:** And if you're just vesting in...

**Dr. Oi:** The big mystery is, why is it that the United States spends 15% of its gross domestic product for medical care? The next country is at 10%. Life expectancies aren't that different.

**Dr. Anderson:** No, but maybe our medical care is.

**[Unidentified speaker]** Maybe their system...

**Dr. Oi:** Japan, Germany, France, England – they're all at between 9 and 10%. Their life expectancies are probably greater than ours. And there's a mystery here, and the health economists have pointed this out.

**Mr. Jannotta:** And we don't know...

**Dr. Oi:** But why is it that we're so expensive? I don't know the answer to that. I'm not a health economist. But it is 15% of the gross domestic product in the U.S. and 10% in the well developed industrialized world and the rest of the world.

**ADM Pilling:** Right.

**Dr. Oi:** The next four richest countries.

**Mr. Jannotta:** Isn't one of the issues in the administration of this whole health care? That it's very complex and very expensive and inefficient? That's what I've heard. And...

**Dr. Oi:** By a difference of 10 to 15% of gross domestic product?

**Mr. Jannotta:** I don't know. That's a good question.

**Dr. Oi:** That's a big, you know, that's a big gap, boy!

**Mr. Jannotta:** And I don't know – I don't know the answer to that, Walter, but it's – I just know that there are companies out that are now working at getting at some – taking out some of these costs by more efficient administration, and the management of...

**Dr. Oi:** I know.

**Mr. Jannotta:** ...that process, and there are significant, I mean *significant* dollars.

**Dr. Anderson:** Yeah. Well, part of the problem is that health care experts, economists, however you want to talk about it – I don't think they've spent enough time taking a look at what the benefits are of health care. For example the...

**Dr. Oi:** Well, you know, I think //unclear names – crosstalk//...

**Dr. Anderson:** Let me just finish the point.

**Dr. Oi:** ...those guys have all – Cutler...

**Dr. Anderson:** I know some of them.

**Dr. Oi:** Yeah.

**Dr. Anderson:** And, well, for example, there are questions, for example, and how long you live may not be a good measure. It depends how well you live while you're living. And I know people that are alive now that were saved by all kinds of incredible technical things and simply have a better quality of life. Now you – it's difficult to measure that, and there has not been a lot of work done on it. Maybe some has been done on it, but it's wide open. You might want to check that.

**ADM Pilling:** Okay. Any more discussion on health benefits? We should move on to cash...

**Mr. Cook:** It was a good discussion.

**ADM Pilling:** Okay. Cash compensation – one of the things we talked about the last time, and we've heard it from the senior enlisted advisors when we met with them, was about pay for performance, and are there things you can do to the pay table to start to move in that direction, if that's a meaningful direction for the Department to move to? One of the suggestions that's come up has been to base the pay tables, rather than on length of service, on time in grade, with the rationale being, if you are good enough to have been – to be early selected for a promotion, under the current pay table you enjoy the higher pay and benefits of that promotion for exactly one year, because a year later your former peers are selected, and they are on the same length of service as you are, and so your relative pay for performance is a one-year phenomenon. We did have the staff look at what difference does it make to the average individual if he's deep selected once in his 20-year career, and I think it was an early-select for E5 at the 10-year point. Or early-select for E6, I think – he was an E5 early selected for E6 at the 10-year point. And the total benefit of a time-in-grade table was \$10,000?

**Mr. Jannotta:** Five.

**ADM Pilling:** Five thousand was the discounted...

**Mr. Hogan:** Five thousand in present value over...

**ADM Pilling:** ...in present value...

**Mr. Jannotta:** Yeah.

**ADM Pilling:** But the absolute value was on the order of \$10,000? Is that right?

**Mr. Cook:** Sounds right.

**Mr. Jannotta:** Sounds right.

**ADM Pilling:** Yeah, um, and...



**Mr. Hogan:** Let me just add that that was a[n] exemplary time-in-grade pay table. It's [by] no means a unique or the only one one could make.

**ADM Pilling:** Right. Now this recommendation was offered in the 7<sup>th</sup> QRMC and not adopted for some reason. And if we were to make a recommendation along these lines, we have to make sure that the arguments presented in the 7<sup>th</sup> QRMC for such a change are still valid today. So I've asked the staff to email those arguments to us so that we can review them, because if the way the 7<sup>th</sup> QRMC got there is no longer valid for the force we have today, then why are we talking about it?

**[Several members]:** Right.

**ADM Pilling:** Okay? Any other? I think that's the only thing that I've seen that we've talked about on the pay tables.

**Mr. Cook:** As we talk about that idea of time in grade versus years of service, Admiral, though, hadn't we discussed that that's – that would be very hard to impose on the current force, and that this might be a new force change?

**ADM Pilling:** It might be. But if we think the system is complex now, //laughter// two sets of pay tables out there for a transition...

**Mr. Cook:** Well, the – if we proceed on the paradigm that for the new force we're looking to rebalance compensation with more current and less deferred, the new force would have a new pay table. Right?

**ADM Pilling:** Right.

**Mr. Cook:** And it could have – not only be based upon time-in-grade steps, but it also could be a higher pay table.

**ADM Pilling:** Correct.

**Mr. Cook:** It could be a steeper slope to the pay table, so that people at higher positions, enlisted and officer responsibility, receive relatively more.

**Dr. Anderson:** What would be the length of the transition period?

**Mr. Cook:** Twenty years.

**ADM Pilling:** Well, on average, someone who retires is in 21 years.

**Dr. Anderson:** I'm just saying that one of the costs of something like that will be taking a look at what happens during the transition period – 20 or 30 years is...

**ADM Pilling:** The transition period would be very complex and a very expensive period.

**Dr. Anderson:** And that's just what we need.

**ADM Pilling:** Right.

**Mr. Jannotta:** Expensive //unclear// administration...?

**Dr. Oi:** [?Divide?] the pay tables...

**ADM Pilling:** Well, if you change the pay table compensation for more senior enlisted and officer grades, that's an increased cost over what the current force...

**Mr. Cook:** But those people who are on the higher pay table would be on, let's say, a different retirement system too.

**Mr. Jannotta:** Retirement...

**Mr. Cook:** That's the balancing that you...

**Dr. Oi:** Now, when you say the higher pay table, that doesn't necessarily follow, because if we go to time in grade, okay? When the guy is promoted to E6 at 14 years of service, all right? He's going to come in at a lower pay rate on time in grade than he is on YOS. So it isn't clear that it's going to be a higher pay table. It's going to be a different pay table, and it's going to be different in two dimensions. One is the steps in promotion, the longevity increases, that could be steeper. Okay? And the other is what it does to the retirement system.

**Mr. Cook:** Right. Right.

**Dr. Anderson:** Yeah, most definitely.

**Dr. Cook:** And we have to examine both arguments. The 7<sup>th</sup> QRMC rejected it. I think it came up in the 8<sup>th</sup> and 9<sup>th</sup>, didn't it?

**Mr. Cook:** I thought they accepted it.

**ADM Pilling:** I thought it was a recommendation of the 7<sup>th</sup> QRMC.

**Mr. Hogan:** It did not come up in the 9<sup>th</sup> QRMC.

**Dr. Oi:** No, didn't they discuss it though?

**ADM Pilling:** I wasn't on it. I don't know.

**Dr. Oi:** I don't know.

**Mr. Hogan:** My recollection was that it was not a topic that was discussed in the 9<sup>th</sup> QRMC.

**Dr. Oi:** Okay.

**Dr. Anderson:** Well, it's clear that this has got a lot of...

**ADM Pilling:** Baggage.

**Dr. Anderson:** Intricacies to it, and we ought to take a careful look at it...

**Mr. Cook:** Oh yeah.

**ADM Pilling:** Right.

**Dr. Anderson:** ...before we make any recommendation.

**ADM Pilling:** And the transition will be very difficult for this, I think.

**Dr. Oi:** The transition looks, you know, like you go with two pay tables for 21 years.

**ADM Pilling:** Right.

**Mr. Cook:** Well, you'd have to.

**Dr. Oi:** Yeah.

**Mr. Cook:** I mean, it's just – if you're going to rebalance and have a new pension plan for new people, with an offset being higher current pay tables, it wouldn't – I don't think we would be responsible if we recommended that the current force gets both to keep all the current deferred compensation that they have plus get a big jump in the pay table.

**ADM Pilling:** Right. But if the pay – right //crosstalk//...

**Mr. Jannotta:** It has a morale dynamic to it.

**Dr. Anderson:** I just think we should take a very slow, careful look at this.

**Mr. Jannotta:** Yeah, that's a...

**ADM Pilling:** Right.

**Mr. Cook:** Yeah, but if – it would be a difficult transition. You could, once we get the two models built, maybe, we could look at the possibility of allowing people on the current program to elect to come over to the new program. We could look at that and see whether that made sense to do, or whether there'd be hidden costs in doing it.

**Dr. Oi:** Are you keeping the 20-year cliff?

**Mr. Cook:** Under the new system?

**Dr. Oi:** Yes. Are you keeping it?

**Mr. Cook:** No sir. We talked about how we're going to favor earlier vesting.

**Dr. Oi:** Are you keeping it? You're dropping that, aren't you?

**Mr. Cook:** For the new force. Well, we've talked about and...

**ADM Pilling:** Well, you have to be careful when you say "earlier vesting"...

**Dr. Oi:** I think when you drop that, we have to change the pay table, don't we?

**Mr. Cook:** Earlier vesting...

**ADM Pilling:** Of what?

**Mr. Cook:** ...of the new pension...

**ADM Pilling:** We're not talking – right, but we never talked about earlier vesting of eligibility for the health benefit...

**Mr. Cook:** That's right.

**Dr. Oi:** No, no, no. Early vesting and when the pension comes, kicks in.

**Mr. Cook:** Right.

**Dr. Oi:** If we drop the 20-year cliff, don't we have to come up with a different pay table?

**ADM Pilling:** Probably.

**Mr. Cook:** Yeah. Yeah. That's...

**Dr. Oi:** So, I don't see where the additional difficulty is.

**Mr. Cook:** Well, it's a new force versus current force long-term transition.

**Dr. Oi:** That's right. It's a one-time problem to seek...

**Mr. Cook:** But it would exist for 20 years.

**ADM Pilling:** You'd have a 20-year period that you'd be managing two different systems.

**Dr. Oi:** That's right.

**Dr. Anderson:** And I'd like to see what the effect of that is on the capability of the armed forces if we tried that. But let's – it's interesting.

**Mr. Cook:** Right.

**Dr. Oi:** John White was around and in an administrative position when the fiscal year moved from June 30 to September 30, and that created all kinds of havoc for a year or two. //laughter//

**Dr. Anderson:** For a year or two, but not for 20 years. //laughter// Okay.

**ADM Pilling:** Let's move to special and incentive pays. And the thumbnail sketch of what we've been presented is there are 60 or more of these, and there was a staff recommendation that some consideration should be given to consolidating these pays and putting the relative size of some of these pays under the purview of the Defense Department. There are probably some pays that we wouldn't want to include in this consolidation because they exist for very particular reasons. But if you managed it like the current selective reenlistment bonus with gradations based on demand, it might give more flexibility, and it might be more of an incentive for those specialties or those characteristics that you want to reward. It's – I don't think there's much more to say about special and incentive pays, is there? But it's certainly – if this were to happen, it would require OMB and the Congress to agree that it's a meaningful thing to happen, because it would have a large amount of money in this bucket.

**Dr. Oi:** I think there is one thing we ought to say, is that we ought to look to see whether or not some of the recognition pays ought to be consolidated. The other thing is that if we consider things like variable separation allowances, is that a special pay? I think it ought to be. And then I personally am in favor of occupational pay differences so that we do not put medical pay differences into special pays but set that up separately as an occupational pay differential. Do the same thing for lawyers, the same thing for chaplains, morticians, and musicians. I mean, why should it be that when we recruit to get the first violinist for the Air Force Band, that we bring her in as an E9 with zero years of service? Why shouldn't we just pay her to be a musician, give her a rank that's commensurate but not an E9 with zero years of service? And the same thing would be true, probably, of morticians, interpreters. Okay? Those are special skills that require training, and special training, and we ought to compensate people for the training that they put in. That's...

**Mr. Cook:** So instead of bringing them in at a higher rank, they'd have a lower rank but higher pay?

**Dr. Oi:** Yes. Have a pay difference so that the pay is about the same or maybe even higher, but not put it into rank. Because rank involves supervision and control. And what control the first violinist has other than over the second violinist is unclear to me. //laughter//

**Mr. Jannotta:** Well, how important is it for a musician to have a rank, a military rank? That's where it's...

**Dr. Oi:** That's the only way we can pay them.

**Mr. Jannotta:** No, but you think of them more in an adjunct or a civilian – you could – what's the term?

**Dr. Oi:** Yeah, but when we – you can – when we recruit for the position, we go to Juilliard, New England Conservatory of Music, audition these people, and then when they're hired, they're brought in at pay grade E9. They've got to be under – I think they have to be under 40 years of age, because if they're not....

**Mr. Jannotta:** Why do they have to have a – my point is why do they have to have a military rank? Why couldn't...

**Dr. Anderson:** To get paid.

**Dr. Oi:** I don't know.

**Mr. Jannotta:** To get paid, but I mean, you've got other organizations within the Defense Department that are...

**Dr. Oi:** Okay, but why do we do this with doctors?

**Mr. Jannotta:** It's the same question. I have the same question about doctors.

**Dr. Oi:** Yeah. I am in favor of making these special pays occupational pay differences and set them up in that part of a budget which deals with this lateral entry of people with special skills.

**Mr. Jannotta:** We have all these supporting services, and we tend to put them into a military pay grade...

**Dr. Oi:** Rank structure.

**Mr. Jannotta:** ...and I'm just questioning how – if we ought not to think about it.

**Dr. Oi:** I do too. I question it too. And, you know...

**Dr. Anderson:** Yeah, well, let me just try some of this, because what – what did you say, there over 60 of these incentive pays, something like this?

**ADM Pilling:** Right, 64 I think.

**Dr. Anderson:** And, I don't know, it just seems to me it's beyond the reach of this commission to take a look at 60 special pays and make a judgment, should they go or should they stay and so on. And I'm sure that if you look at 60, you can find one or two that may have been in for too long and might be changed and so on. And what Walter's saying makes a lot of sense too, in many cases, that people get rank when they should get money and so on. Is there some way we can encapsulate that and say, "Look, this is the kind of flexibility the armed forces should have. This is the kind of decision that should be made by somebody running – whether it's Marine Corps or the Army or whatever – as to how to do this and whether there should be an incentive pay. Or whether someone should have a rank or someone should get money." This seems to be a...

**Mr. Jannotta:** Right, right.

**ADM Pilling:** Right, and I think from this committee's perspective what we should be recommending is consideration of occupational pay differences and consolidation of special and incentive pays under the purview of the Department of Defense to manage as they see fit. And don't get into, "We should eliminate this one and consolidate these two," because we don't have the skills to do that and we don't have the time to do that. And I don't think it's in our charter.

**Mr. Cook:** Right. I agree.

**Dr. Anderson:** But they should have the capability of doing it. //unclear – crosstalk//

**ADM Pilling:** Yes, the flexibility to do it if it makes sense to them.

**Dr. Anderson:** And I think they do have to a certain degree, but let's see what...

**ADM Pilling:** Yeah. And I learned of this first violinist from Walter. //laughter// Um, but my experience in the Navy was that we were bringing in musicians at basically E5 level. And they go through boot camp, but they go through boot camp as an E5. //laughter//

**Mr. Jannotta:** You know, this sort of thing goes back to Civil War.

**ADM Pilling:** Right.

**Mr. Jannotta:** My great-great-grandfather, great-grandfather – cornetist in Sherman's army, and it was special pay and all that.

**Mr. Cook:** Oh yeah?

**Mr. Jannotta:** Yeah. //laughs//

**Mr. Cook:** Could I introduce another aspect of this into the discussion, S&I pays, that I find, frankly, personally very challenging to think about. And that is that a characteristic of most if not all of the special pays is that they are dollar denominated, not based on a percentage of pay.

**ADM Pilling:** Right.

**Mr. Cook:** I know – so, it's like jump pay is \$150 dollars a month, I guess, whether you are an E1 or an O8.

**ADM Pilling:** And you're active duty.

**Mr. Cook:** And you're active duty. Okay. So, well that...

**ADM Pilling:** Right. It's 1/30<sup>th</sup> of that if you make a jump as a reservist.

**Mr. Cook:** Yeah, okay. But there are men who would say, “That’s right. If you’re jumping, it doesn’t – pay shouldn’t be based on your rank but, you know, it’s \$150 a month.” That’s very appealing to think about. But a characteristic that it has is it further flattens the pay scale, the differences in pay between rank, because it’s dollar denominated. It’s a higher percentage of someone lower on the pay scale than on the upper scale. So you say, “Well, that’s not good. It doesn’t relate to the pay for performance principle either.” It dampens the differentials in pay between rank. And yet it has characteristics of it that are very supportable. So maybe we end up keeping it as a dollar denominated, or not challenging it as a dollar denominated, but at least then it’s another reason why you might on the basic pay table, you know, steepen the slope. Or you do some of them as a percent of basic pay. It’s an interesting dilemma to think about.

**ADM Pilling:** I think we do have to be careful – I’m going to sound like Martin here. There is a cultural thing involved with the general who lives in the Green Zone getting increased combat pay more than the E3 or E5 that’s out there.

**Mr. Cook:** Yeah, absolutely.

**ADM Pilling:** When you talk about being equitable, probably from the E5’s perspective that’s not very equitable. So we have to be careful of tying it to the pay grade for some of those pays.

**Mr. Cook:** Sure, sure.

**Mr. Jannotta:** A jump is a jump, so to speak, whether you’re a...

**ADM Pilling:** Right.

**Mr. Cook:** Yeah, yeah. No, I – that’s why it’s a dilemma. That’s...

**ADM Pilling:** Yeah, yeah, and getting paid \$5 for a jump because you’re a reservist, whereas the same jump gets you \$150 if you’re active duty. //laughter//

**Mr. Jannotta:** It doesn’t quite compute.

**ADM Pilling:** Right.

**Dr. Anderson:** I don’t know, I think a general who’s jumping should get more pay. I mean, my God, that’s...

**ADM Pilling:** You think a general who jumps out of the back of an airplane should get more than...

**Dr. Anderson:** Absolutely. He has a lot more to lose. //laughter//

**ADM Pilling:** From his own personal perspective, he may.

**Mr. Cook:** Well, let me just give you the other side of that. If – what is the purpose of a special pay, let’s say that relates to hazardous duty or to demolitions pay?



**Dr. Anderson:** I would think the hard part is getting the general to jump, period. //laughter// That – no, it's...

**Mr. Cook:** I'm not a general and I wouldn't do it.

**ADM Pilling:** They're the first ones out of the plane, by the way, when they jump.

**Dr. Anderson:** See?

**ADM Pilling:** They're the first ones out.

**Dr. Oi:** But that's the safest place to be, is the first. //laughter//

**Dr. Anderson:** Maybe they should get less.

**Dr. Oi:** No, no, no, the most dangerous thing, according to, you know, Gorman Smith, was that you float over the guy below you and that empties your chute, okay? And if you're up at 3,000 feet, that's fine, you can reopen your chute. But if you're down at 800 feet and you drift over this guy because of a wind shift, you're shooting by him and there's no time to open your chute. Whereas if you're the first guy out you're at the bottom, right?

**Dr. Anderson:** Yeah.

**ADM Pilling:** And you want to give him more pay for that? //laughter//

**Dr. Oi:** I didn't want to. That was Fred's idea, not mine. //laughter//

**Mr. Cook:** No, not mine.

**Mr. Jannotta:** It's a dilemma.

**Dr. Anderson:** This brings me back to the idea – let's let the Defense Department figure it out.

**ADM Pilling:** Right, the QRMC can deal with that. I mean, the general principle is what we're involved in.

**Mr. Jannotta:** Yeah, and fairness, you know?

**ADM Pilling:** Yeah. Okay. Uh, reserve compensation...

**Dr. Anderson:** But before we look at reserve compensation, how about – are we going to comment or take a hard look at this question about warrior pay?

**ADM Pilling:** Yes.

**Dr. Anderson:** Where does – where would that fit in?

**ADM Pilling:** It would be in this category, and we haven't seen the Army's proposal, although we understand that they're about close to unveiling it. And that's where this would be.

**Mr. Cook:** Mm-hmm.

**Dr. Anderson:** Good.

**ADM Pilling:** On reserve compensation, we heard loud and clear from those people representing that community that they want to do away with the inequities between the active and the reserve. The things we heard the most about were BAH II – and as I understand it, the Department is already, as a matter of policy, trying to change that BAH II rule. So it kicks in – BAH I kicks in at 30 days rather than 139 days, is that right? //confirmed by staff//

**Mr. Cook:** Mm-hmm.

**ADM Pilling:** There was the problem introduced – when a reservist is activated for, let's say, duty in Iraq, the way the present system works, his family is immediately transferred into a different health care network.

**Mr. Cook:** Mm-hmm.

**ADM Pilling:** And if they're living in a remote area, it's even more difficult.

**Mr. Cook:** Right.

**ADM Pilling:** And so there are civil servants who, if they're activated as reservists, their federal department pays their government premiums for government health insurance for some period of time on the order of 140 days, so that the family isn't immediately thrust into a different health care network. And we may want to consider that being something we do across the reserve component.

**Mr. Cook:** Absolutely.

**ADM Pilling:** We talked a little bit earlier about the reserve pension starting at age 60, and if a reservist wanted to have his pension start earlier, you suggested, Fred, an actuarial reduction of the reserve pay if you wanted to get it, let's say, at age 55.

**Mr. Cook:** Right.

**ADM Pilling:** I don't know what the committee's views are on that.

**Mr. Jannotta:** I can't see a negative to it. What is involved – what would be the negative?

**ADM Pilling:** If it is actuarially reduced, there's no cost.

**Mr. Jannotta:** Yes, yes, right. It's cost neutral.

**Mr. Cook:** Well, it would be – the reserve community was probably not contemplating an actuarial reduction. They were looking for – they just wanted the pension to start earlier...

**ADM Pilling:** It'd just start earlier.

**Mr. Cook:** ...but, um, it seems to me an actuarial reduction is very supportable by our committee on a cost-neutral basis, and it fits in with the principle of – one of the principles is allowing choice – flexibility and choice. It transfers the decision to the individual. It would not – we have to be careful that if someone selects that, they're not automatically then getting – there's a TRICARE issue with that, right? Selecting – they'd still wait till...

**ADM Pilling:** No, no.

**Mr. Jannotta:** TRICARE is 65.

**Mr. Cook:** They'd still wait till 60 for TRICARE?

**ADM Pilling:** No, they're eligible for health care when they hit 20 years. It's the pension that they don't see until they're 60.

**Mr. Cook:** The pension...

**Dr. Anderson:** Yeah, let me ask you a question. Do we have a discount rate on this? For example, if you're paying a pension that starts at age 60, and you want to allow someone to take lesser money at 55, how much do you pare it down? What is our discount rate that we use?

**Mr. Cook:** It's an actuarial issue. I'm not an actuary, but I believe they use actuarial tables of life expectancy, and that the cost-neutral discount rate I believe is roughly on the order of 8% per year of early receipt.

**Dr. Anderson:** Yeah, but there may be another factor.

**Dr. Oi:** 8% real?

**Dr. Anderson:** It's not only cost neutral...

**Mr. Cook:** //responding to staff// Six, seven? Seven?

**Dr. Anderson:** It's not only cost neutral, it's how it affects the budget of this coming year.

**Dr. Oi:** At seven, aren't we going – isn't that – isn't DOD going to make the...

**Dr. Anderson:** In other words, if you start taking it out age 55, the money starts at age 55...

**Mr. Cook:** It's a cash flow issue, certainly, but...

**Dr. Anderson:** Mm-hmm, you know, cash flow is the big issue.

**Mr. Cook:** If we're current – if we're accrued, fully accrued, it shouldn't make any difference in the cost.

**Dr. Anderson:** It does when you're part of OMB.

**Mr. Cook:** Okay.

**Dr. Oi:** The DOD may even make money off of this, because, if you wait till 60, you get – your retirement is based on what the...

**ADM Pilling:** What the pay table is when you're 60.

**Dr. Oi:** ...pay grade is.

**Dr. Anderson:** Yeah, no, you're right. All I'm saying is that in terms //end of first audio segment//

**Mr. Jannotta:** //joined in progress// ...be at home, or there's difficulties, it has an effect on the morale of the deployed person. So those two things, I think, are sort of, for me, Admiral, overarching sort of things. But the dependent school thing is very interesting, and we're looking at vouchers...

**ADM Pilling:** Right. And, yeah, we should clarify. It's dependent schools in the United States.

**Mr. Jannotta:** In the United States, yes.

**ADM Pilling:** Right.

**Mr. Jannotta:** And one of the very difficult things is the schools in Hawaii, which are substandard, and there's a lot going on there in trying to get those so they're – give our people there better educations, but, um, the spouse employment, just a comment on that. I think there are some experimental things going on now, and we need to find out – we haven't found out – what are they and how are they working. Do they work? That kind of thing, because I think, you know, we live in an age of dual careers, and, you know, it's no different in the military than it is in the private sector, where the spouse typically works. So employment is a big issue for them. It's an economic issue and it's also a morale issue.

**Dr. Anderson:** Yeah. Let me ask you a question that combines both employment and the dependent schools. One of the phenomena that's occurring in the United States is home schooling, and I understand in Hawaii, for example, there are several thousand...

**Mr. Jannotta:** 2,500 I think, Marty.

**Dr. Anderson:** ... children who are being home schooled. And, I don't know, it seems to me like that's kind of employment for somebody to stay and take care of them, and maybe we ought to consider, maybe they should get something...

**Mr. Jannotta:** Some sort of compensation for them.

**Dr. Anderson:** It gets complicated, but the kids have to go to school, and how they do it, where the school is, and so on, is an important thing.

**ADM Pilling:** There was a proposal that came out of the National Military Family Association that said, when a military family is stationed in some remote location where there aren't many opportunities for the spouse employment, perhaps the spouse should be allowed to take advantage of tuition assistance that belongs to the member if the member can't take advantage of it, so that, although the spouse won't be employed, she will – he or she will be getting prepared for employment on the next rotation.

**Mr. Jannotta:** And I think they had some examples, like in Japan. That was a big morale factor for, I think, spouses in Japan, that they could take these courses.

**ADM Pilling:** Right. And that might also play into tying in home schooling, if the spouse can get the credits, if they're required...

**Mr. Jannotta:** Qualify, to qualify, yeah.

**ADM Pilling:** ...to follow the curriculum in the state.

**Mr. Jannotta:** Mm-hmm, yeah.

**ADM Pilling:** Any other comments on quality of life?

**Mr. Cook:** Merely that this is an area where you would not never, I think, differentiate between the new and the current force. It would be, whatever we do would be changes for everybody.

**ADM Pilling and Mr. Jannotta:** Right.

**ADM Pilling:** There are a couple of issues that we're still struggling with, which are not on that slide. And we really are struggling. We don't have a position that I can determine, but we have to come to grips with, one of which is the "up or out" policy. Another is the issue of the perceived inequity, if you will, of pay that's related to whether you have dependents or not. And it's not a married/single issue, it's whether you have dependents or not, because if you have dependents, you get things like family separation allowance, more housing allowance. And so if you don't have dependents, there is a perceived inequity there, and we're still struggling with that. And then we really haven't spent a lot of time talking about if we were to put an architecture for the military compensation scheme in as the basis of our

recommendations to the Department of Defense, is there also a legislative piece to that on how you would advance a proposal through the legislative process. I don't know if any committee members want to discuss those three things now, but we're – I'm not ready to go forward to the Defense Department with any words of wisdom on those three issues.

**Mr. Cook:** Well, we have a little time, don't we?

**ADM Pilling:** We do.

**Mr. Cook:** The “up or out” policy I have always felt is an important thing to maintain, except in maybe certain specialties whereby, you know, unique skills, and there it makes sense to keep someone even if they're not promoted. And I think Dr. Chu has an experiment underway on that.

**ADM Pilling:** Right.

**Mr. Cook:** Otherwise, “up or out” I think is fundamental to maintaining a youthful force and with promotional opportunities, which is one of the main incentives in the military.

**ADM Pilling:** But Walter raised the point...

**Dr. Oi:** But you get the same result by reducing the cliff to 15 years. Get an even younger force. It's not the right way to go. It's just I... //crosstalk//

**Mr. Cook:** I argue, get rid of that, your...

**Dr. Oi:** There are special skills. If you're an Arabic interpreter, is that a special skill? And the answer is, surely not. I could train lots of Arabic interpreters. It's going to cost me a lot, but if the effectiveness of the guy is good, why do you need to promote him to an E8 and have him supervised by an E6 in the interrogation? And that isn't going to happen. Why don't we just recognize that skills are skills, we'll pay for them in terms of, you know, maintaining your position and job. But why should we insist that he be promoted to and E7 or 8?

**Mr. Cook:** Because there are limits on the number of E8, E7 billets that there are, and we keep people there...

**Dr. Oi:** Yes, and we can recommend that those caps be lifted. But the question is...

**Mr. Cook:** In the specialist areas, yes.

**Dr. Oi:** ...that this is the way of trying to create vacancies, which is artificial. At one time it may have been the efficient way to do things. You know, during the Civil War, most of the people were in uniform and on the lines for about four months. And about – if you believe Ken Burke – about 20% of them were killed, right? We fought wars differently. And I think it's time to look at the optimal age structure and experience structure of the force. And “up or out” I think is a policy that ought to be dropped for the enlisted rank. Bernie Rosker says it ought to be dropped for the officer ranks, and we ought to retain...

**Mr. Jannotta:** But does that make sense to solve the one problem of the specialist – the language or the...

**Dr. Anderson:** Yeah, yeah.

**Mr. Jannotta:** ...you know, so you make an exception for that...

**Dr. Oi:** That's, that's...

**Mr. Jannotta:** ...you build flexibility in the system.

**Dr. Oi:** Are you going to do – say the same thing about military police? Is that a specialty?

**Mr. Jannotta:** Mmm, I don't know. Might be. I'm not familiar with that.

**Dr. Oi:** I know, but we could go on this way...

**Mr. Jannotta:** But there are certain ones that are clearly...

**Dr. Oi:** We could go on this way with every position, but surely a 50-year-old...

**Mr. Jannotta:** But design the whole system around that doesn't, for me, make sense. I think the "up or out" is important.

**Dr. Oi:** But if, if...

**ADM Pilling:** But if the force managers...

**Dr. Oi:** But a 50-year-old military policeman is not unreasonable.

**ADM Pilling:** Walter, if the force managers had the flexibility to have, for certain skills, the ability to manage the high-year tenure window, so if you have Arabic interpreters, the force managers can reset the high-year tenure window for that skill set someplace where you get them for 30 or 35 years, and not ask them to leave...

**Dr. Oi:** But then we could go through this on every position, you know, firefighters aboard a destroyer, and on and on. But the question here is that, at one time, you may have wanted a policy that generated turnover. I think we can generate turnover in other ways. And if we had a variable separation allowance, we could do it through that. But I think that maintaining a policy and these caps is contrary to the change in the technology of producing national defense.

**ADM Pilling:** But would it be worthwhile for this committee to recommend that the high-year tenure policies be relaxed where it makes sense to retain certain people, certain skills?

**Dr. Anderson:** Yes.

**Mr. Cook:** I could go with that.

**Dr. Oi:** I think it does. It's part of the compensation package.

**ADM Pilling:** Right, and not get wrapped up in what are the skills the need the high-year tenure flexibility.

**Dr. Oi:** Well, no, I don't think we need to get wrapped up in that, but I think it's useful for us to articulate the principle that "up or out" is not an essential part of a compensation package that is efficiency-improving.

**Dr. Anderson:** Yeah, well maybe there's a way to do this, because I think what Walter's saying is largely correct, and what everyone else is saying is largely correct. And maybe the – and from every time I get into this a little bit further I discover the military has already got a little flexibility here and a little bit there.

**ADM Pilling:** Right.

**Dr. Anderson:** And maybe the principle should be, "Look, the military should have a little more flexibility," so you can accomplish 95% of what you want without getting into an "up or out" fight.

**ADM Pilling:** And that would – and if you did, let's just say, waive high-year tenures for E5s and E6s for certain skills when they get to 20 years, you're not running up against this, "Well, there's only so many E9s, E8s, and E7s we can have." You're just avoiding that problem.

**Mr. Cook:** Right.

**ADM Pilling:** So...

**Mr. Cook:** Just for point of clarification, does the "up or out" policy now apply to all force members, or is it officers only?

**Dr. Oi:** No. It also applies to enlisted ranks. High-year tenure is there.

**ADM Pilling:** It's how the force is managed, the career force.

**Mr. Cook:** Mm-hmm, mm-hmm. Well, I'll just say that promotional opportunities is a major, major motivational and compensational force and all that.

**Dr. Oi:** Then let's drop the cliff to 15. That'll create more promotional opportunities.

**Mr. Cook:** I think if you drop the "up or out" policy, you make the force, military careers less attractive...

**Dr. Anderson:** We're not going to drop it, though.

**Mr. Cook:** ...for new, ambitious people coming along.



**Dr. Anderson:** I don't think we're going to – he's not talking about dropping it, he's talking about getting the impact and what he's suggesting is correct, and there's a way to do it without getting into the big fight about dropping the "out or up" [sic] – you know, the concept, I think. But that's...

**ADM Pilling:** Right.

**Mr. Jannotta:** That would be my reaction too.

**ADM Pilling:** And it gives the force managers the tools for the flexibility to do the right thing.

**Dr. Anderson:** Yeah.

**ADM Pilling:** Okay. That ends my list of things to discuss. Does anybody else want to raise any other issues.

**Dr. Anderson:** Yeah, I've got one.

**ADM Pilling:** Okay.

**Dr. Anderson:** Ever since we started this commission, one of the main issues has been the whole question of how do we recruit and maintain the size of the armed forces.

**ADM Pilling:** Right.

**Dr. Anderson:** And there was a time in recent months where that was a little dicey. And I think what's happened, if we take a look at what kind of compensation is necessary, we discover there are things like you've got up there: in-kind, quality of recruiting. And I think there are four main reasons that determine whether or not we meet recruiting goals and retention goals. One is advertising. People don't know what the job is like and how they're going to get in, you know, that – it won't work. It also helped that the President started talking about it. Two is the whole question of recruiters. Recruiters are critically important in this, and to the extent that we can use better and better people to be the recruiters, to talk to these young people coming in, I think we'll find it easier to recruit and maintain. Third, the level of standards that they use, and there will be times when, for whatever reasons, you get a lot of people flowing in and you can be very choosy and you tend to raise your standards. And if we're not careful, some day we're going to get it so high that the only way you can get in the Army is to have a PhD in English or something like that. //laughter// So we want to make sure these standards are carefully looked at and revised and kept to be reasonable and sensible. And fourth is how much money you can pay. And one of the things that's happened in the last three or four months that has not, as far as I can see reading the newspapers, got much attention is the success to which this has been done. The branch that had the toughest problems six to eight months ago was the Army. Now, the Army has taken major steps and they have increased this and now they are meeting their goals, I think for about the last three or four months?

**[Unidentified speaker]:** Right.

**Dr. Anderson:** And it seems to me the lesson in this is – the lesson in this, what’s happened in recent months, and I assume it will continue – is that there is an art to recruiting and maintaining people. It just doesn’t happen. You just don’t sit back and not do anything. And the lesson is, there are certain things you have to do, and they’re doing them now and they’re working. And I think we ought to take a very careful look at that and write it up.

**ADM Pilling:** Right. And I think we’ve already told the staff we wanted that to be included in our report. Any other items?

**Mr. Cook:** You mentioned briefly that we’re looking at the process by which change gets implemented?

**ADM Pilling:** Yes.

**Mr. Cook:** Legislatively and things like that. It’s not only how our stuff might get implemented and what that process is, but the ongoing system for how the program is kept alive and maintained and current, and better mechanisms to make sure that something is appealing to somebody, you know, some one-off kind of an idea, gets – kind of has to fit in within the overall principles that we’ve got, you know, sort of – so it’s not just coming in and parachuted on the military.

**ADM Pilling:** Right. And that’s what I hope to accomplish. We have – I think, Paul, you and some of the committee members are working that.

**Mr. Hogan:** Yes.

**Mr. Cook:** That’s a great idea.

**Dr. Oi:** Well, on behalf of the committee members, I’d like to thank the chairman for exercising guidance, keeping us on topic, and moving us along, whether or not we’re moving in the right direction and pace is something we’ll discover, //laughter// but I think he’s done a great job.

**Other members:** Hear, hear.

**ADM Pilling:** Okay, on that note //laughter//

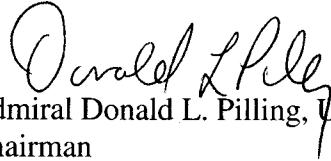
**Dr. Anderson:** I will second that.

**Mr. Jannotta:** Quit while you’re ahead. //laughter//

**ADM Pilling:** Right. I think I’ll call this meeting to a close. Thank you very much.

### 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

OCT 20 2005

Defense Advisory Committee on Military Compensation