



T H E M I L I T A R Y C O A L I T I O N

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**STATEMENT OF
THE MILITARY COALITION (TMC)**

before the

Defense Advisory Committee on Military Compensation

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MISTER CHAIRMAN AND DISTINGUISHED MEMBERS OF THE DEFENSE ADVISORY COMMITTEE ON MILITARY COMPENSATION. On behalf of The Military Coalition, a consortium of nationally prominent uniformed services and veterans' organizations, we are grateful to the committee for this opportunity to express our views concerning issues affecting the uniformed services community. This testimony provides the collective views of the following military and veterans' organizations, which represent approximately 5.5 million current and former members of the seven uniformed services, plus their families and survivors.

- Air Force Association
- Air Force Sergeants Association
- Air Force Women Officers Associated
- American Logistics Association
- AMVETS (American Veterans)
- Army Aviation Association of America
- Association of Military Surgeons of the United States
- Association of the United States Army
- Chief Warrant Officer and Warrant Officer Association, U.S. Coast Guard
- Commissioned Officers Association of the U.S. Public Health Service, Inc.
- Enlisted Association of the National Guard of the United States
- Fleet Reserve Association
- Gold Star Wives of America, Inc.
- Jewish War Veterans of the United States of America
- Marine Corps League
- Marine Corps Reserve Association
- Military Chaplains Association of the United States of America
- Military Officers Association of America
- Military Order of the Purple Heart
- National Association for Uniformed Services
- National Guard Association of the United States
- National Military Family Association
- National Order of Battlefield Commissions
- Naval Enlisted Reserve Association
- Naval Reserve Association
- Navy League of the United States
- Non Commissioned Officers Association
- Reserve Enlisted Association
- Reserve Officers Association
- The Retired Enlisted Association

- United Armed Forces Association
- United States Army Warrant Officers Association
- United States Coast Guard Chief Petty Officers Association
- Veterans of Foreign Wars of the United States
- Veterans' Widows International Network

Overview

Mr. Chairman, The Military Coalition (TMC) thanks you for this opportunity to address the committee and express our views concerning compensation and benefits issues affecting the total force; active duty, Guard, Reserve, and retired members of the uniformed services, and their families and survivors. We appreciate that the committee has already met with National Military Family Association members to better understand our position on military family and quality of life issues, so we will devote our discussion to other topics in today's session. Please don't construe the omission of those issues from this testimony as implying that they are of any lesser importance, as there are quality of life linkages in almost all of the issues below.

In testimony today, the Coalition will focus on several specific principles: 1) pay comparability and competitiveness; 2) compensation cost and value issues; 3) the key role of institutional benefits (particularly retirement and survivor benefits and lifetime health coverage, but also including in-kind benefits such as commissaries and morale, welfare and recreation programs) in offsetting the unique conditions of military service; and 4) the need to recognize that imposition of dramatically increased military demands on the Reserve components requires a fundamental upgrade of the Reserve personnel and compensation/benefit programs.

Pay Comparability and Competitiveness

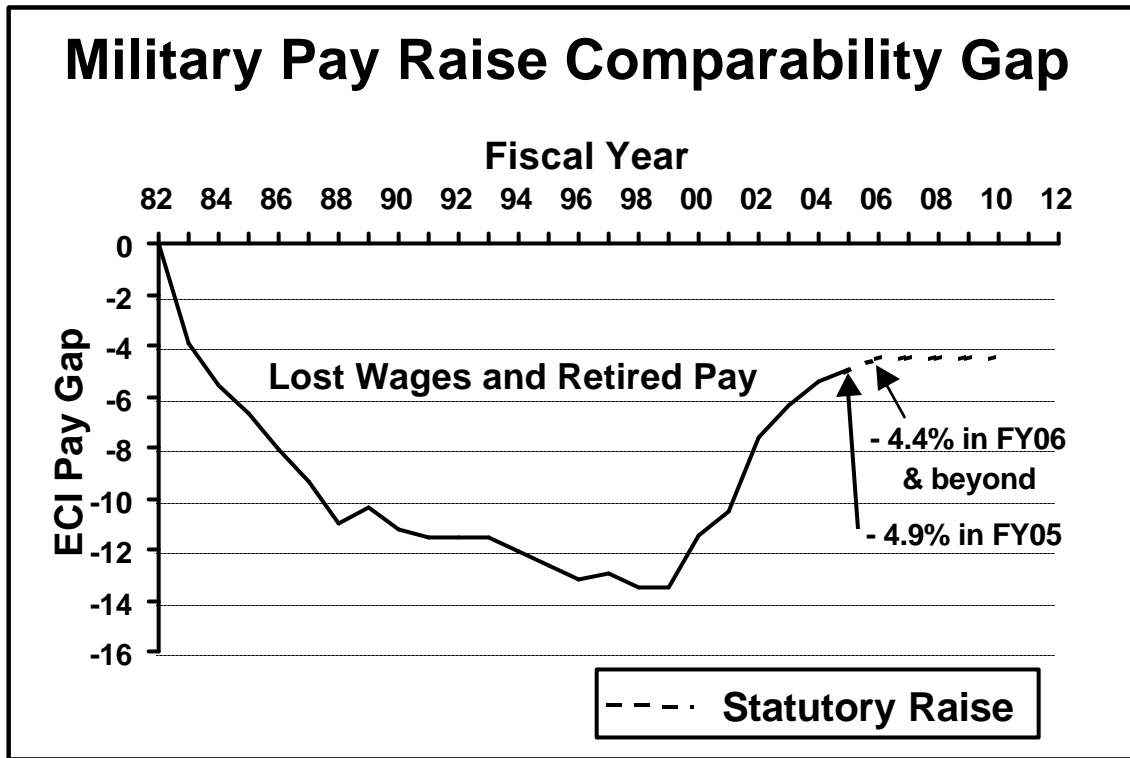
Although the Committee has a panel focused on special and incentive pays, it is difficult to divorce these specific issues from the overall pay package.

Pay Comparability. Scrimping on military pay raises has helped cause retention and readiness problems more than once since the advent of the All-Volunteer Force. Congress and the Coalition have made restoring military pay comparability a top priority. During the last seven years, Congress reversed the previous practice of capping servicemembers' annual pay raises below the average American's pay raise. In servicemembers' eyes, those previous pay raise caps provided regular negative feedback about the relative value the Nation placed on retaining their services. Now that the current law reflects the objective of matching annual pay raises with private sector wage growth, the Coalition believes the Executive Branch needs to "stay the course" to sustain and reinforce the pay comparability goal in the future.

Unfortunately, the failed practice of capping military raises periodically rears its head as each successive Administration seeks ways to trim the budget. In the past, the Office of Management and Budget has advocated capping future military pay raises at the level of inflation and increasing use of bonuses and special pays, rather than keeping overall military pay on par with private sector wage growth. The measure of merit with pay raises is not inflation – it's the draw from the private sector. Pay raise comparability with private sector wage growth is a fundamental underpinning of the all-volunteer force, and it cannot be dismissed without dire consequences for national defense, especially at the current operations tempo.

When years of pay raise caps had left military raises lagging civilian raises by a cumulative 13.5 percent as of 1999 – resulting in predictable readiness problems – Congress took responsible

action to change the law. As a result of this change, the gap since has been reduced to 4.9 percent in 2005 see chart below).



The Coalition recognizes that simply tracking military vs. civilian pay raises since 1982 may no longer adequately describe any pay comparability shortfall in the current pay table. We support the Department of Defense’s previously stated goal of establishing military pay at the new standard of the 70th percentile of private sector pay for similarly experienced and educated private sector workers, with targeted raises as needed to achieve that standard in the current basic pay table on a cell-by-cell basis.

The Department’s research has confirmed that noncommissioned/petty officers and warrant officers have become substantially better educated and more highly trained in the age of technology, accepting greater responsibilities and increased authority. Their leadership skills are sorely needed in the AVF where for years they have trained not only their subordinates, but also most of the young officers coming into their respective military service.

For this reason, the Coalition believes additional targeted raises are particularly needed to reestablish pay comparability for senior enlisted members and warrant officers with their similarly trained and educated civilian peer groups. Unfortunately, the Department has never published an “objective pay table” to identify exactly what adjustments need to be made to which cells of the current pay table to attain this standard. The Coalition believes this needs to be done.

Contending that pay raises can be capped below private sector pay growth as long as retention is satisfactory and that it is more efficient to put money into bonuses than pay raises ignores the historical long-term effects of this process. Eventually, over-reliance on bonus differentials ends up creating and chasing shortages rather than preventing them. In effect, this is like driving by looking in the rear-view mirror.

Role of Bonuses and Special Pays. The Coalition believes strongly in the need for special and incentive pays to compete in the marketplace for high-demand skills and incentivize specific behaviors, but that these must be additive to an overall pay comparability standard for Regular Military Compensation.

Some argue for stepping back from the traditional military “institutional” model to a civilian-style “occupational” model that pushes more money into skill-specific pays and bonuses, or establishing entirely different pay scales for different specialties.

The Coalition believes strongly that this is unwise. Servicemembers share a common bond to a far greater extent than civilian employees. Cooks, clerks, personnel types and truck drivers all deploy with the combat troops, all suffer family separations, frequent relocations, loss of personal freedoms, etc. It’s not just the Marines who consider themselves a brotherhood for life. Services need troops to be soldiers, sailors, airmen and Marines first – and pilots, doctors, computer specialists and aircraft mechanics second – not pilots, doctors, mechanics, etc. who happen to be in the military.

While necessity may drive some different rules, special pays, and bonus systems for different specialties, there needs to be a common core personnel and compensation system that serves as a continuous reminder that “a member is a member is a member,” regardless of specialty or service. The Coalition believes that function is properly served by providing common basic pay and allowance tables, retirement system, health benefits, etc.

Compensation Cost and Value

The Coalition believes that many of the measures being used to describe current trends in military compensation do not reflect a reasonable context.

Baseline for Comparison of Cost Increases. We’re troubled by charts published by the GAO and briefed to the DACMC citing that “compensation costs have risen 29% between 2000 and 2004” and “the current average cost of military compensation is \$112,000 per member.” The Coalition believes such figures are not being presented in a reasonable context.

For example, the Coalition believes strongly that 2000 is an inappropriate baseline for measuring cost growth, since the military compensation package was widely acknowledged as having considerable problems at that time – which had led the Joint Chiefs to petition the Administration and Congress for corrective actions. In 2000:

- The troops had endured an 11.4% cumulative pay shortfall vs. private sector pay growth over the previous 18 years;

- DoD was among a small minority of large employers in the country at that time that provided no Medicare supplemental coverage for older retirees;
- The Joint Chiefs of Staff had just petitioned the Administration and Congress to repeal the REDUX retirement system that was being cited as a primary reason for worrisome increases of separations.

The 29% increase in compensation costs over the next four years was incurred because Congress felt the necessity to enact changes to redress service manpower problems that had resulted from scrimping on military pay and benefits in the past.

Cost vs. Value. Even more importantly, focusing solely on cost to government misdirects attention from what the Coalition believes are the real issues:

- What is the value to the country of military members' service and sacrifice?
- What price will the country have to pay if we suffer inadequate recruiting and retention?

A more appropriate formula for considering compensation value for servicemembers is "pay and benefits received divided by work and sacrifice expended." In 2000, there was no 9/11, no Iraq and Afghanistan wars, no massive mobilization of the Guard and Reserve, no mass repeated and prolonged family separations, and far less prospect of continuing sacrifice in the future for those who continue in service. Nobody would dispute that the troops are working far harder and sacrificing far more now than in 2000.

One could rationally argue that their service and sacrifice is more than 29% greater now, and therefore they actually have incurred a reduction in real compensation since 2000.

It's also important to examine more closely which government costs should be considered as adding real compensation value for servicemembers. For example, every parent in America has a right to expect decent schools for their children. The cost to DoD of providing dependent schools or additional funds to military-impacted civilian schools is a function of DoD assigning people to places where there aren't adequate schools, or where DoD's decision to send large numbers of military people to a location requires additional schools. Therefore, money DoD spends on dependent schooling is spent to satisfy a national need or to rectify a problem of DoD's own making. It does not add any real compensation value for servicemembers. It's simply a cost of doing government business. A similar case could be made concerning the cost of building barracks or providing food in military dining facilities. In most cases, such assignments are made for the services' convenience and not for the members'. Many single troops would prefer to live and eat off-base. To them, these are negative compensation issues. One may as well count the cost of building and maintaining their workplace as a compensation cost.

In the matter of health care, a recent GAO report cited by the DACMC staff assigned a \$23,000 annual health care benefit to each active duty member, including not only the cost of providing

current care, but an imputed accrual charge for all future care provided by DoD and the VA for the rest of the member's and his family's lives. This all-consuming cost accounting methodology may seem technically reasonable for budgeteers, but it does not reflect compensation value, as was pointed out during the second DACMC meeting. For one example, it's a cold and one-sided analysis that counts so carefully every dollar the government will ever spend on treating service-incurred wounds and disabilities or on providing disability compensation without any consideration for the cost to the individual (in life expectancy, quality of life, and lost future earnings) of incurring and living with service-connected disabilities.

The Coalition believes strongly that a panel making recommendations on military compensation must take such issues into consideration, and not merely focus on costs to the government.

The Coalition also would ask the Committee to consider another perspective on the "cost" of the tax advantage associated with the tax-free nature of food, housing and certain other allowances. It's true that servicemembers often misunderstand and underestimate the compensation value of the tax advantage. However, it's also true that any effort to monetize the tax advantage would significantly increase costs to DoD (basic pay costs, retirement costs and certain other basic-pay related compensation costs) or reduce servicemembers' take-home pay (if we didn't also monetize the tax savings on payroll taxes, state income taxes, other income, etc.), or both. It's precisely for this reason that Congress always has rejected proposals to convert the military to a salary system. The nation is not going to accept raising costs while cutting the troops' pay just to make the military compensation system look "pretty on paper" for the economists.

For this reason, the Coalition believes it's questionable practice to include the tax advantage as part of government costs for military personnel. The associated "lost" tax revenue has never been lost because there has never been and likely never will be any "salary" on which those taxes ever would have been collected. Having the government assert that it incurs billions of dollars in tax advantage costs is little different than having servicemembers say that military service is costing them billions because they could have been employed as high-paid businessmen. In short, while the tax advantage provides real compensation value for servicemembers, it has never been a real cost to the government.

Unique Conditions of Military Service

While the military needs a core pay comparability standard and additional bonus and special pay programs to compete for high-demand skills, the reality remains that the military will always be at a distinct disadvantage in competing with the private sector for manpower because of the extraordinary demands and sacrifices inherent in a military career.

Military-Civilian Differences. In his minority report to the 1978 President's Commission on Military Compensation (PCMC), Lt Gen Benjamin O. Davis, Jr. (USAF-Ret) quoted this testimony presented to the PCMC by the Secretary of the Air Force:

"The Air Force and other military services are unique callings. The demands we place on our military men and women are unlike those of any other country. Our worldwide interests and commitments place heavy burdens and responsibilities on

their shoulders. They must be prepared to live anywhere, fight anywhere, and maintain high morale and combat efficiency under frequently adverse and uncomfortable conditions. They are asked to undergo frequent exposure to risk, long hours, periodic relocations, and family separation. They accept abridgement of freedom of speech, political and organizational activity, and control over living and working conditions. These are all part of the very personal price our military people pay.

“Yet all of this must be done in the light of— and in comparison to — a civilian sector that is considerably different. We ask military people to be highly disciplined when society places a heavy premium on individual freedom, to maintain a steady and acute sense of purpose when some in society question the value of our institutions and debate our national goals. In short, we ask them to surrender elements of their freedom in order to serve and defend a society that has the highest degree of liberty and independence in the world. And, I might add, a society with the highest standard of living and an unmatched quality of life.

“Implicit in the concept of military service must be long-term security and a system of institutional supports for the serviceman and his family which are beyond the level of compensation commonly offered in the private, industrial sector.”

The Military Coalition believes this description of the difference between military and private sector employment is even more true today, when we have a much smaller and more-heavily-deployed force than we had when those words were spoken in 1978.

Therefore, attempting to equate military to civilian deferred compensation programs (health, retirement, survivor benefits, etc.) is an “apples and oranges” comparison when we factor in career service and sacrifice.

Reciprocal Commitment. It is impossible to monetize the service and sacrifice military members incur over an entire career. The military benefits package is the embodiment of the reciprocal commitment and agreement between the member and the Service/Nation.

Services are dependent on retaining and internally promoting leaders to meet future senior force needs and simply cannot just go buy replacements for highly experienced mid-career losses. Those from whom we demand such loyalty, commitment and sacrifice have earned and deserve the nation’s loyalty, commitment and (financial/paternal) sacrifice in return.

That commitment includes ensuring that those who spent a career protecting our freedoms are treated fairly later in life. We know the real-life impact, for example, of failing to provide inflation protection for retired pay and survivor benefits, even though today’s troops may not fully appreciate the importance of long-term protection of benefits they may not see. Yet, the government has an obligation not to take financial advantage of their misunderstanding or naivete.

Those who focus solely on the benefit packages' cost to the government, in effect, conceptualize military members as "commodities" or "human capital", where the "efficient" objective is to extract the most service at the least expense. The Coalition believes this is a dangerously mistaken point of view, and the government has an obligation to be a better long-term steward of servicemembers' welfare and our national security welfare.

If we foster conditions and trends that contribute to servicemembers' perceptions – eventually if not immediately – that their sacrifices outweigh the nation's reciprocal commitment to care properly for them and their families, then retention and readiness will suffer.

DoD has acknowledged this in its widely publicized "New Social Compact: A Reciprocal Partnership Between the Department of Defense, Service Members and Families" (2002):

"The world has changed and so must the military to keep pace with the emerging US social trends and to meet the expectations of new generations of service members and their families. The Department must address the American standard of living—in housing, medical care and education—as well as recognize the needs of dual earner families. Efforts must be directed to reaching the Total Force, which is increasingly diverse, resides primarily off-base, and is challenged by today's complex financial environment. New policies and laws must reflect these changing demographics and the transformation of the military, fostering the tacit agreement that 'families also serve.'"

Members' Benefits Perspectives. The Coalition is perplexed to see some in DoD now contending that repairing benefit inequities for retirees and survivors doesn't help retention, and that if we just give today's soldier a lump sum of cash for a pickup truck, that soldier won't care about future retirement benefits. Congress has been wise enough to see what DoD officials have not – that it is not enough to meet the short-term desires of the 19-year-old new enlistee. Members and their families grow more sensitive as they get older, often after multiple family separations, about whether the long-term benefits of a military career offset the extraordinary and persistent demands and sacrifices of serving 20 to 30 years in uniform.

History also indicates that today's members are sensitive to publicity about inequities and benefit shortfalls afflicting those who preceded them in service. If it were true that today's troops don't care about deferred benefits, why were "erosion of benefits" concerns such a retention issue in the late 70s and late 90s, and why does the GAO cite the existence of continuing concerns among today's force?

When Congress enacted retirement reductions in 1986, Secretary of Defense Weinberger expressed concern about future retention implications. Less than 15 years later, Defense leaders were pressing Congress to reverse the REDUX plan because of its adverse impact on retention/separation behavior. The idea of providing a retirement system worth less than the pre-1986 program had little negative effect on the military member until the affected members became career-oriented and closer to a retirement date. Their subsequent hue and cry forced Congress to make hasty amendments – changes that were advocated by many of the same elected legislators who earlier voted for the 1986 program.

Military surveys consistently have identified the retirement system as the single greatest incentive for a service career, and many who left service in the mid- to late-1990s cited the REDUX retirement reductions as a primary factor in their decisions.

Vesting Issues. Even while criticizing the cost of the military retirement system, some analysts have cited the disparity between vesting concepts of military vs. civilian retirement systems. One retirement reform proposal frequently suggested is to follow the civilian model more closely by increasing military vesting rights through such means as 401(k)/Thrift Savings Plan matching benefits.

But treatment of the military's 20-year cliff vesting as a military-civilian equity issue ignores real world cost issues as well as fundamental military-civilian differences. Civilian-style vesting works with civilian-style working conditions. The military's retirement system was built to create a powerful career incentive for members who must endure decades of adverse conditions their civilian counter-parts don't have to contend with. Members facing another undesirable assignment or a third family separation at the 10- or 12-year point would have far less incentive to continue service if they knew they could leave and take a substantial share of their government-funded retirement benefits with them.

As a practical budgetary matter, increased incentives to leave would have to be offset by increased incentives to serve a career. But a government already expressing concern about retirement costs surely would be reluctant to plus up 20-year service benefits even further to offset increased separations associated with vesting/401(k) matching. Based on past experience with civilian initiatives such as the Federal Employees Retirement System and previous military retirement reform proposals, it would be more likely to reduce normal military retirement benefits to offset that cost. Thus, increasing vesting/401(k)-matching benefits for those who leave almost certainly would have to come at the expense of those who stay for a military career.

Retention concerns generated by the REDUX system already demonstrated the undesirable effects of reducing incentives to complete 20 years of arduous service. The adverse retention effect would be considerably greater if members considering leaving service had the added incentive of knowing they could take part of their government-funded retirement with them.

Wartime Considerations. Much of the effort of past compensation studies, particularly those focused on the retirement system have been aimed at achieving optimal efficiency in managing continuation and separation at various points in a service career. But these kinds of analyses overlook that military force management has never been and never will be a matter of efficiency.

The only thing we can predict with confidence is that circumstances will be different in 20 years than they are now. The past 40 years have seen massive fluctuations in force sizes and wild swings in manpower philosophy from trying to downsize forces to trying to retain every possible warm body.

When it has been appropriate to change management philosophy and adjust the force profile, Congress has provided tools to serve this end, and those tools are still available – upon request in some cases. So assertions that DoD has few management tools don't stand up to scrutiny. If the

massive manpower drawdown of the 1990s could be completed successfully using existing statutory tools, then it won't require radical new changes to military compensation programs to manage far less significant year-to-year adjustments.

It's essential to recognize up-front that substantial alteration of long-term service incentives entails a heavy dose of risk for retention and readiness of the next decade's force and the defense of the next decade's United States. This doesn't mean changes shouldn't be looked at, but only that the risks should be recognized explicitly. This, after all, is a major reason why the vast majority of the major retirement changes proposed over the last three decades have not been implemented.

The Coalition is concerned that some who would propose major changes in military compensation programs may find themselves – along with most of the rest of America – overlooking the reality that our military members are the only Americans who are in a full wartime mode today. We already are experiencing significant recruiting shortfalls in active, Guard and Reserve forces. Despite continuing reassurances that retention is fine, the Coalition is concerned that – like too many past confident assurances from the Pentagon – this may turn out in the long run to have been a case of “whistling past the graveyard.”

The Coalition believes current retention trends are unrealistically skewed by stop-loss practices and the powerful incentive for members to accelerate reenlistments while assigned to combat zones to take advantage of large tax-free reenlistment bonuses. There is too much stress on the current force and too little relief in sight to have high confidence of a positive retention outlook. The Coalition is very concerned that it won't take much – perhaps a new “erosion of benefits” scare – to generate a full-blown military manpower crisis.

In the best of times, proposing adjustments to the fundamental underpinnings of national security should be approached with considerable caution. The Coalition believes a healthy extra measure is appropriate at this particularly vulnerable time.

Health Care Issues. Especially in this environment, the Coalition is perplexed by government leaders' mixed messages in regard to military health benefits.

Only a few years ago, the Pentagon pushed to increase military health benefits by reducing copays for active duty families and establishing the TRICARE Prime Remote program to protect those assigned away from military medical facilities from having to incur higher health costs.

Congress enacted TRICARE For Life and the TRICARE Senior Pharmacy program only a few years ago to redress what was seen as a significant shortfall in military health benefits compared to the sacrifices accepted by career servicemembers. Many current Defense leaders lauded these initiatives when they first came to office.

Yet a scant few years later, active and retired members hear a constant drumbeat from their leaders that their health benefits are too rich, exceed civilian standards, and more health care costs should be shifted back onto military beneficiaries to better reflect civilian practices.

Have we forgotten in a few short years why these programs were enacted? Do we really want to send the message to those who are sacrificing more than any generation since World War II that we believe their service and sacrifice are not worth the amount of money the government is investing in them?

Simply put, the fact that civilian firms are shifting more of the cost of health care onto their employees doesn't mean that the government should reverse course and shift part of its expenses back to military beneficiaries. That civilian practice already had been ongoing for years before the recent military improvements were enacted.

Current Defense leaders' rhetoric directly contradicts decades of institutional effort to provide the unique military benefit package needed to offset unique military service conditions – and proposes backtracking on initiatives that almost all government leaders enthusiastically embraced only a few years ago.

In enacting these recent benefit improvements, Congress acknowledged and reinforced the principle that military benefits have to be *better than* civilian benefits. Do those from whom we demand such constancy of commitment deserve no similar constancy of commitment in return? In such circumstances, should we be surprised that active and retired members maintain a certain level of concern on the “erosion of benefits” theme?

The Coalition understands that the Defense Department is dealing with budget pressures caused by several factors, including civilian employers' choices to curtail health benefits for employees who may be military spouses, retirees or Guard/Reserve members. But we believe shifting more costs to military beneficiaries -- aping the practices of for-profit civilian employers who do not share the same obligation to their employees -- is not the appropriate answer. DoD may need to seek efficiencies in delivering the benefit and examine voluntary incentives for beneficiaries to use civilian employer coverage, as well as providing additional funding to sustain the relatively richer – and richly deserved – military health benefit.

But health cost pressures are a national concern. It is simply wrong to approach this problem as if it's somehow the fault of military beneficiaries, who are already absorbing more than their fair share of national sacrifice. This also is true for retired members, who absorbed similar sacrifices in past hot and cold wars. Finally, it's essential not to forget that, before enactment of TRICARE For Life, older military retirees already spent decades when DoD paid nothing to supplement their Medicare coverage -- when it was common practice for large corporate civilian employers to provide substantial supplemental retiree coverage. Retired members must be considered as having earned considerable “sweat equity” on the health care front for enduring that out-of-pocket financial burden for so long in the past.

National Guard and Reserve Compensation

About 500,000 members, or 57%, of the Selected Reserve – Guard and Reserve personnel who train regularly and are assigned to military positions - have been mobilized since September 11, 2001, and many thousands more are in the activation pipeline. Today, they face the same

challenges as their active counterparts, at a deployment pace greater than at any time since World War II.

Guard-Reserve (G-R) operational tempo is placing enormous strains on Reservists, their family members and civilian employers alike. Homeland defense and war-on-terror operations continue to generate demands on citizen soldiers that were never anticipated under the “Total Force” policy. The Coalition understands and fully supports that policy and the prominent role of the G-R forces in the national security equation.

Under the revised application of the Total Force policy, Reservists can expect multiple, lengthy activations over the course of a reserve component career. As a consequence, many G-R members are finding it increasingly difficult to juggle family, civilian employment, and military commitments. Senior G-R leaders are rightly concerned over worsening recruiting, retention, and force structure (or organizational) imbalances if action is not taken to relieve pressures on these forces. The Coalition believes that addressing critical G-R compensation issues—along with active duty manpower increases—are needed to alleviate those pressures and help attract and retain qualified, trained professionals.

No longer can it be said that G-R volunteers are part-time contributors to the national security. The 21st century reservist must meet every deployment standard applicable to active duty troops. Because of the dramatic increase in operations and personnel tempo, it is becoming clear that compensation schemes designed at the dawn of the Cold War no longer address today’s realities.

The Coalition maintains that compensation models must ensure that the G-R remain an essential element of the national security strategy. At the same time, G-R compensation must be evaluated on the principle of the nation’s reciprocal obligation to its citizen-soldiers.

The New Reserve Contract. Last year, Congress recognized the need for a comprehensive review of G-R forces by establishing a commission to examine them in depth. One of the commission’s charges is to develop and recommend improvements to Reserve compensation. TMC looks forward to that review and to offering its collective views on the future of Reserve compensation. We also appreciate the work of the DACMC on Reserve compensation.

On 20 July, the Selected Reserve Compensation Committee presented to the full DACMC a framework for improving Reserve compensation. The suggested G-R compensation framework would:

- Take a system approach between active and reserve compensation;
- Enhance flexibility;
- Structure compensation to support choice and volunteerism;
- Simplify the system;

- Tie improvements to force management to actual or anticipated staffing issues;
- To gain efficiency, use cash instead of in-kind compensation and prefer current instead of deferred benefits.

This framework is a useful departure point to address TMC's perspective on G-R compensation. Increasing demands on G-R personnel to perform national security missions at home and abroad indicate that the compensation system ought to be modernized to attract and retain those willing to shoulder the additional responsibility of the new mobilization reality. The Reserve compensation system must adequately reflect the demands of increased Reserve service, without creating disproportional incentives that could undermine active force retention.

“System Approach” To Active/Reserve Compensation. In recent years, the Office of Reserve Affairs conducted a study of the reserve duty (orders) system. The study found that there were approximately 28 different duty statuses that are used to compensate G-R members on active duty and inactive duty. Those duty statuses were created to address access to a variety of funding sources earmarked for specific military functions from training to operational support. Along the way, cumbersome administrative mechanisms were developed to track specific duty and the associated funds.

Problems with this system became apparent in Gulf War I and have been highlighted again in the ongoing Global War on Terror. Many members of the G-R have reported difficulties in getting paid accurately and on time even after serving months on active duty. TMC believes strongly that speeding up the fielding of an integrated pay system for the active and reserve forces must be a top priority.

There is also a need to simplify the reserve duty order system while maintaining or enhancing its current value to G-R servicemembers.

Some have proposed scrapping the current method of paying one day's basic military pay for each reserve component 4-hour drill period in favor of a day-for-day pay model under which G-R members would receive 1/30th of full pay and allowances for each full day of duty served when not on active duty – the duty day being eight or more hours' duration.

The models developed by the office of the Assistant Secretary of Defense for Reserve Affairs found that the proposed proportional model would pay G-R members less than the current pay system. A retainer payment was suggested to make up the difference, but this created such a complex accounting equation that the current system would be cheaper to administer.

The “two days' pay for one day's work” was not viewed as double compensation when it was created and should not be viewed in this way now. The reality is that half of the drill payment is reimbursement for military duty or training. The second half has served as a necessary retainer payment to assure continuation/retention in anticipation of future mobilization. The current pay system helps mitigate the risk of the member's election to cease participating, thus sustaining retention.

Flexibility and Force Management. The framework proposed by the Selected Reserve Compensation Committee emphasized flexibility and force management requirements in the redesign of G-R compensation. Force management requirements should be an important element of reserve compensation design. At the same time, it's important for the DACMC to recognize circumstances that are unique to the G-R environment.

Reserve Component chiefs need flexibility to target bonuses and other incentives to access manpower, distribute it to the right skills, and manage it over time.

The Selected Reserve Committee briefing also recognized the locale- or region-specific nature of reserve manpower and the traditional reliance on the pool of prior-service recruits. Prior-service veterans once comprised 60% to 70% of G-R gains and brought military experience and leadership into the reserve community. But that source of manpower is now far less reliable than in the past. Members leaving active duty cite high operational tempo pressures as a primary motivation to leave service, and the prospect of affiliating with a G-R unit is viewed as virtually assuring additional future deployments. Additionally, the post-Cold War force is 40% smaller, further reducing the manpower pool as a source for G-R recruitment. This changing accession demographic has forced G-R recruiters to rely on non-prior-service entrants, which increases training requirements and decreases availability of these new accessions.

Reciprocity of Commitment. But force management imperatives alone do not assure reserve participation and continuation. While the Reserve component is a professional body as a whole, individuals are caught between conflicting loyalties as they balance the competing demands of the military, their families, and their civilian employers. TMC maintains that Reserve compensation models must recognize the reciprocal nature of the government's commitment to G-R members who live dual lives in the civilian and military communities.

G-R members make enormous personal sacrifices to serve their country. The GAO found that 41% of the G-R takes a pay cut when called to active duty. Additionally, these members are compelled to make significant additional sacrifices in their civilian careers under proposed policies that require their activation every four or five years. To retain these citizen-soldiers and attract new volunteers, the compensation system must recognize and respond to reduced civilian compensation and retirement.

“Current compensation” tools such as bonuses have their place, but should not be the only driver in G-R compensation. Due to the periodic offset to civilian compensation, TMC sees the need to develop policies that fairly address civilian income and retirement plan loss. One initiative is to upgrade the reserve retirement system, a system built nearly 60 years ago.

The fundamental assumption for the G-R retirement system established in 1947 is that a Reservist has a primary career in the civilian sector. But it's past time to recognize that greatly increased military service demands over the last fifteen years have cost tens of thousands of reservists significantly in terms of their civilian retirement accrual, civilian 401(k) contributions, and civilian job promotions.

DoD routinely relies on the capabilities of reserve component forces across the entire spectrum of conflict, from homeland security to overseas deployments and ground combat. This reliance has become a central fixture in the national security strategy. DoD, however, has shown little interest adjusting the Reserve compensation package to counteract this long-term civilian compensation drain to Guard and Reserve members. Inevitably, civilian career potential and retirement plans will be hurt by frequent and lengthy activations, with an accompanying adverse effect on retaining experienced combat veterans in the reserve forces.

The time has come to recognize that the G-R retirement system needs to be adjusted to sustain its value as an offset to declining civilian retirement programs. The future penalties that G-R members will incur are clear. The government has a responsibility and a reciprocal obligation to make some compensating adjustment in the G-R retirement benefit. Failing to acknowledge and respond to the changed environment could have far-reaching, catastrophic effects on Reserve component recruiting, participation, and career retention.

In-kind benefits also should have a prominent place in reserve compensation. A recent GAO study found that 20% of the G-R have no health insurance coverage. Among junior enlisted personnel, the rate is over 40% uninsured.

TMC members' ongoing communication with senior G-R leaders reveal that continuity of health care is a major concern for them and their troops.

DoD recognized the importance of a continuity of benefits to support its changed reserve policies. Even before 9/11, DoD unilaterally began to pay the health premiums of reservist-Federal workers called into active service. Congress followed up by authorizing all Federal agencies to do the same. Having recognized the need in the Federal work force, DoD must acknowledge the need for continuous health coverage options for all members of the G-R.

Last year, Congress established a new "TRICARE Reserve Select" health benefit. Mobilized reservists may purchase one year of TRICARE coverage for each 90 days served in a contingency. The new authority – along with permanent pre- and post- activation TRICARE coverage – begins to address the need for a continuum of benefits that underpin the principle of reciprocity. By themselves, however, these authorities do not provide the long-term coverage necessary to attract and retain increasingly reluctant volunteers into reserve service.

Many G-R members are unwilling to drop their permanent health coverage for a military program that may only offer them coverage for 1 to 4 years. Others will be reluctant to enroll because the new guidelines force them to make a decision before departing active duty – which means many will be unable to conduct face-to-face discussions on this important issue with their spouses.

The Coalition believes Congress will act this year to authorize permanent TRICARE Reserve Select coverage for all members who agree to continue in the Selected Reserve. TMC supports this initiative, but also shares the DACMC Subcommittee's apparent view that many G-R members would prefer to have the government subsidize the premiums for their civilian employer health coverage during periods of mobilization. The Coalition believes providing

these family health continuity options must be an important in-kind feature of reserve compensation in recognition of the fundamental change in the nature of “reserve service.”

Any reserve compensation model must recognize that the government has radically and permanently increased the service and sacrifice demanded of G-R service men and women. It is, therefore, inappropriate for policy makers to assert that these members should be compensated using outdated “part time” models while expecting them to serve as much as a quarter of their working lives in military service (in one- and two-year increments of full-time military duty). TMC respectfully suggests that the DACMC consider these observations in developing its recommendations.

Other Reserve Compensation Elements.

- **Compensation Credit for Military Service.** The role of the G-R has changed significantly under the Total Force Policy. During most of the Cold War era, the maximum number of inactive duty training (IDT) points that could be credited was 60 per year. The cap has since been raised to 75 and most recently, to 90 points. However, the Coalition believes G-R members should be permitted to credit all inactive duty military training performed toward their retirement. Placing a ceiling on the amount of training that may be credited for retirement serves as a disincentive to professional development and takes unfair advantage of G-R servicemembers’ commitment to mission readiness.
- **Reserve Enlistment Bonuses, Special and Incentive Pays.** To maintain readiness, a number of G-R members are required to perform hazardous duty, and maintain unique qualifications. These skills are required to maintain Military Occupation Specialties (MOS) credentials, and may often be contributing to operational support. Currently, G-R members are receiving only 1/30th pay for each day of specialized duty. In some cases the Guard or Reserve member performs more special duty days during the month than the active duty average. The Coalition believes strongly that the government needs to revisit the rule that now limits G-R special pay amounts to 1/30 of the active duty amount for each day served.
- **Eliminate BAH II.** The DACMC Selected Reserve Compensation Committee highlighted differences in the Basic Allowance for Housing (BAH) pay between activated G-R servicemembers and active duty. BAH II is paid in lieu of regular BAH to G-R members who are on orders of less than 140 days. BAH II is an antiquated standard that no longer bears any relation to real housing expenses and is, on average, far less than the BAH rate for any given locality. The Coalition believes strongly that members activated for more than 30 days should be eligible for full, locality-based BAH.

The Military Coalition urges the Commission to recognize that there has been a dramatic and permanent increase in the service and sacrifice of G-R forces. Compensation models must be structured to suit the new reality and provide value-added incentive to Reservists in exchange for compromised civilian career stability, earnings, and long-term financial security.

Conclusion

Again, on behalf of The Military Coalition, we are grateful to the Committee for this opportunity to express our views concerning compensation and benefits issues affecting the uniformed services community.

The Coalition believes now is not the time for leadership to view military compensation and benefits through a cost-to-government lens without taking into consideration the compensation value delivered to members and the incalculable value of their service to the Nation.

We must sustain a unique institutional benefit package that is significantly better than civilian benefits to offset the unique and arduous conditions of military service.

If servicemembers deserved the health benefits increases sought and enacted only a few years ago, it does not make sense that their significantly increased service and sacrifice today no longer merits the expense of providing those benefits.

Vastly increased demands on G-R forces demand a substantial upgrade of G-R personnel, compensation and benefit programs if we hope to rely on the availability of G-R forces for the long term.

With G-R recruiting and retention efforts at high risk and active troops and families already overworked and overstressed, with little relief in sight, the last thing the military needs is another benefit cuts threat.

Thank you very much for the opportunity to present the Coalition's views on these critically important topics.