



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 FOR THE RECORD

OF

THE MILITARY COALITION (TMC)

Submitted to the

**HOUSE AND SENATE ARMED SERVICES COMMITTEES
SUBCOMMITTEES ON PERSONNEL**

concerning

Uniformed Services Personnel and Compensation Programs

June 1, 2017

CHAIRMAN _____, RANKING MEMBER _____, AND DISTINGUISHED MEMBERS OF THE SUBCOMMITTEE, The Military Coalition (TMC), a consortium of nationally prominent uniformed services and veterans' organizations, is grateful to the committee for this opportunity to express our views concerning personnel and compensation issues affecting the uniformed services community. This statement 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
Army Aviation Association of America
Association of Military Surgeons of the United States
Association of the United States Army
Association of the United States Navy
Chief Warrant 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 US
Fleet Reserve Association
Gold Star Wives of America, Inc.
Iraq and Afghanistan Veterans of America
Jewish War Veterans of the United States of America
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 Guard Association of the United States
National Military Family Association
Naval Enlisted Reserve Association
Non Commissioned Officers Association
Reserve Officers Association
Service Women's Action Network
The Retired Enlisted Association
Tragedy Assistance Program for Survivors, Inc.
United States Army Warrant Officers Association
United States Coast Guard Chief Petty Officers Association
Veterans of Foreign Wars

The Military Coalition, Inc. does not receive any grants or contracts from the federal government.

Executive Summary

Sequestration

The Coalition strongly supports the Subcommittee's efforts to end sequestration in favor of a more responsible approach to funding national defense requirements for personnel and other critical programs.

Currently Serving Issues

Force Levels:

The Coalition urges the Subcommittee to sustain needed personnel strengths in both active and reserve components, and to ensure associated funding for approved force levels to meet national security strategy requirements and dwell time needs.

Military Pay Raise:

The Coalition urges the Subcommittee to provide a full 2018 military pay raise equal to the growth in the Employment Cost Index, determined by the Bureau of Labor Statistics to be 2.4% for FY2018, and establish the goal of restoring full pay raise comparability.

Basic Allowance for Housing:

The Coalition urges the Subcommittee to sustain current applicable BAH calculations for all servicemembers, regardless of their housing-sharing status, and restore BAH rates to match 100% of median housing costs once fiscal conditions permit.

DoD Resale Operations:

The Coalition urges the Subcommittee to continue close oversight of ongoing management initiatives to ensure Congressional requirements are met regarding protection against erosion of commissary, exchange and MWR benefits.

National Guard and Reserve Force Issues

Blended Retirement:

The Coalition recommends the Subcommittee require DoD to report on how it plans to provide financial counseling to National Guard and Reserve members; create timely mechanisms to ensure monthly matching of drilling Guard and Reserve members' TSP elections; and provide recommendations on TSP contributions / matching for "points only" military training (other than correspondence coursework). To the extent current law does not allow appropriate accommodation, DoD should be required to submit recommendations for enabling legislation.

Reserve Duty Status:

The Coalition urges adoption of a modernized and simplified Reserve Component duty status system to improve and standardize accounting of activations for early reserve retirement purposes; to ensure combatant commanders, service and reserve component leaders are using Guard and Reserve capabilities in the most efficient and effective manner to support national

security needs; and to ease financial and other burdens imposed on Reserve Component members and families under the current cumbersome accounting system.

Educational Assistance Programs:

The Coalition continues to endorse a single platform for all GI Bill programs to support recruitment, retention and readjustment outcomes for our nation's volunteers. In particular, the Reserve Montgomery GI Bill (MGIB – Selected Reserve) (Title 10, Chapter 1606) should be re-codified in Title 38, Chapter 33.

Servicemember Civil Relief Act:

The Coalition urges Congress to cancel the effect of 'forced arbitration agreements' in certain financial contracts by making them unenforceable under the Servicemembers Civil Relief Act.

Retirement Issues

Military Retirement System:

With regard to the proposed adjustments to the new blended retirement system, the Coalition recommends the Subcommittee:

- Extend the period of government match to include all years of service for all eligible servicemembers, **both officer and enlisted** (current law offers no match beyond 26 years);
- Increase the government matching contribution from 4% to 5%; and
- Resist any delay in the start of matching contributions (currently, matching will begin after two years of service).

The Coalition urges the Subcommittee's continued vigilance to:

- Ensure the Defense Department implements a high-quality education program that assists members under the new system in developing prudent investment strategies and also provides objective criteria to assist members with less than 12 years of service in making prudent decisions between remaining under the current system or converting to the blended system;
- Ensure the calculations used to determine lump-sum payment options for newly eligible retirees under the blended system reflect reasonable discount rates that do not disproportionately erode their retired pay value. In this regard, the Coalition notes a significant number of actuaries have expressed concern the planned discount rate will result in substantially devalued lump sum payments to future retiring servicemembers.

Retired Pay Cost of Living Adjustments (COLA):

The Coalition is grateful to the Subcommittee for its vigilance in protecting the full value of retired pay COLAs, most recently by providing final relief in the FY2016 NDAA from the impact on future service entrants to military service of the COLA-1 provision in the FY2015 Budget Enforcement Act.

The Coalition urges the Subcommittee to oppose the adoption of a chained Consumer Price Index (C-CPI) computation *or any other COLA reductions* which would devalue retired pay, survivor benefits, disability compensation and other programs over time.

Concurrent Receipt:

The Coalition recommends the Subcommittee seek to extend authorization for Concurrent Retirement and Disability Payments (CRDP) to disabled retirees not eligible under the current statute, with priority emphasis on extending eligibility to severely disabled Chapter 61 (military disability) retirees with less than 20 years of service due to wounds, illnesses, or injuries that forced their premature medical retirement. The Coalition strongly supports legislation introduced in both the House and Senate in the 115th Congress that supports this position.

Uniformed Services Former Spouse Protection Act (USFSPA):

The Coalition recommends additional adjustments to USFSPA, to include:

- Prohibiting courts from forcing a currently serving member to make immediate payments to the former spouse, which effectively compels the member's premature retirement;
 - Authorizing DFAS to make payments to former spouses whose marriages to servicemembers spanned less than 10 years;
 - Authorizing flexibility to deduct SBP premiums from a former spouse's share of retired pay if ordered by the court or agreed by the parties; and
- Authorizing a current or former spouse to voluntarily waive SBP payments.

Survivor Issues**SBP-DIC Offset:**

The Coalition urges the Subcommittee to seek senior leadership and Budget Committee assistance to identify the necessary funding for repeal of the SBP-DIC offset. As a minimum back-up to the proposed repeal, support a multi-year extension and annual increases to the Special Survivor Indemnity allowance, working toward the goal of phasing out the SBP-DIC offset.

Wounded, Ill, and Injured Service Member Care

The Coalition recommends Congress:

- Continue to press for full implementation of a joint DoD and VA interoperable electronic health record.
- Implement and sustain an integrated, multidisciplinary, comprehensive behavioral health system to address the rising rates of post-traumatic stress disorder (PTSD), traumatic brain injury (TBI), and sexual assault or military sexual trauma.
- Support research on the impact of exposure to environmental toxins or hazardous substances, and resultant illnesses (e.g., burn pit exposure in Iraq and Afghanistan, and Camp Lejeune contaminated water) and ensure health care and benefits are established to appropriately compensate and support service members and veterans, family members and survivors whose health and lives are jeopardized.
- Standardize terminology, definitions, eligibility criteria, and roles and responsibilities associated with wounded warrior policies, programs, services, and administration of medical and non-medical support.

Introduction

Chairman _____, Ranking Member _____, and distinguished members of the Subcommittee, The Military Coalition thanks you for your ongoing support of our active duty, Guard, Reserve, retired members, and veterans of the uniformed services, their families and survivors. Your efforts have had a very positive impact on the lives of the entire uniformed services community.

As the Coalition is providing a separate statement outlining our collective views on military health care programs, this statement will focus on personnel and compensation issues.

First and foremost, we very much appreciate the important stands you took in the FY2017 National Defense Authorization Act to increase active and Reserve Component end strengths, provide a full-comparability 2.1% military pay raise, preserve housing allowances, protect and improve survivor benefits, and much more.

Considering all these and the many other provisions to improve healthcare access, quality, and timeliness, we believe this was the most important defense bill in many years.

We know only too well these choices weren't easy to make in the current fiscal environment, which makes them all the more important in the Coalition's eyes.

In decades past, once erosion of force levels, military pay raises, housing allowances, healthcare and other benefits began, those trends continued until they caused retention problems.

The Coalition is grateful you had the foresight to break that pattern, and our greatest hope is you will be able to continue in that vein.

Sequestration

At the heart of the budget challenges facing DoD is the devastating effect of the sequestration provision of the Budget Control Act of 2011.

The Bipartisan Budget Act of 2015 mitigated the sequestration impact for FY2016 and FY2017. However, the original, full force of sequestration's arbitrary cuts will return in FY2018 and will further place national security at risk.

Secretary of Defense Carter noted in late 2016 that, barring legislative relief, sequestration will force defense budget reductions totaling \$100 billion over the next five years.

The Coalition appreciates the Armed Services Committees are making every effort to alleviate the adverse effects of sequestration. We also are grateful the new President pledged to end sequestration's harmful effect on defense.

The Coalition pledges to work with you as needed to end this threat and protect against imposing an undue share of sacrifice on the current and former servicemembers and families who already have sacrificed more for their country than any other segment of Americans.

The Coalition strongly supports the Subcommittee's efforts to end sequestration in favor of a more responsible approach to funding national defense requirements for personnel and other programs.

Currently Serving Issues

Force Levels – The Coalition is thankful Congress recognized the national security risk posed by continued reductions to service end strength levels in light of the nation's global security responsibilities and requirements. The Coalition further appreciates the committee took action to reverse this course in the FY2017 NDAA by stabilizing and increasing the end strength of the services, especially the Army and the Marine Corps.

Still, the Coalition remains very concerned about potential future sequestration-driven force reductions even while we work to strengthen our security posture in Europe, in light of recent Russian aggressions; the Pacific, as we continue to rebalance forces to confront continuing provocations by North Korea; and elsewhere abroad as we remain engaged—battling several terrorist networks. Budget conditions notwithstanding, the nation remains at war.

The previous force reductions and continuing mission requirements have only increased burdens on service members and their families who already had endured unprecedented sacrifices over 16 years of war.

We believe the nation needs to sustain a surge capacity for unexpected contingencies and retain combat experience by encouraging departing veterans to join the Guard and Reserve. On September 10, 2001 no one in Washington anticipated being engaged in combat in Southwest Asia and the Middle East for the next 16 years.

Stabilizing and even increasing end strength for Guard/Reserve forces as well as active forces is essential to meet current and future readiness requirements.

The Coalition urges the Subcommittee to sustain needed personnel strengths in both active and reserve components, and to ensure associated funding for approved force levels to meet national security strategy requirements and dwell time needs.

Military Pay Raise – The Coalition thanks the subcommittee for its support of the 2017 pay raise, which was the first in 4 years to equal the average American's, as measured by the Employment Cost Index (ECI). We urge the Subcommittee to continue this support by providing a full-ECI pay raise for 2018.

The Coalition supports a pay raise consistent with the Bureau of Labor Statistics' ECI of 2.4%. The Administration's FY2018 budget proposes a 2.1% pay raise which is below the ECI. Should

this be put into law, it will reflect a cumulative 2.9% gap between military pay raises and the ECI over four years.

This Subcommittee engaged in a persistent, protracted effort over the first decade of this century to address shortfalls caused by past pay cap history and restore military pay raise comparability as of FY2010. As part of that process, you enacted statutory language explicitly tying annual military raises to the average American's, as measured by the ECI.

We know the Subcommittee doesn't take breaking that tie lightly, as you demonstrated in the FY2017 NDAA. Our sincere hope is the Subcommittee will avoid returning to the previous pay cap trend.

The Coalition urges the Subcommittee to continue providing annual military pay raises that match the Employment Cost Index and establish the goal of restoring full pay comparability.

Basic Allowance for Housing – The Coalition very much appreciates the House and Senate conferees' action in sustaining Basic Allowance for Housing (BAH) rates for dual-military couples and other housing sharers in the FY2017 NDAA.

The Coalition believes the BAH is an integral element of Regular Military Compensation for every servicemember, and that its receipt should not be dependent upon whether a member marries another military member vs. a civilian or whether the servicemember shares quarters with another servicemember vs. a civilian. Penalizing dual-member couples would be particularly adverse for female servicemembers, because 20% of military women on active duty are in dual-military marriages, compared with only 3.8% of active duty men.

This is a particularly sensitive issue in that the new Blended Retirement System will require servicemembers and their families to accept more responsibility for personal saving to build their military retirement benefit. One of the primary ways (especially younger) people generate more savings capacity is by sharing housing. In this context TMC believes it would be unfair and counterproductive to penalize them for sharing housing costs.

The Coalition continues to have concerns about legislation already enacted that will reduce BAH rates by one percent per year until BAH rates offset 95% of median housing costs. The Coalition believes BAH should cover 100% of median housing costs, as DoD and Congress previously acted to achieve. Once budget conditions ease and the threat of sequestration is ended, our hope is the 100% standard can be restored.

The Coalition urges the Subcommittee to sustain current applicable BAH rates for all servicemembers, regardless of their housing-sharing status, and restore BAH rates to match 100% of median housing costs once fiscal conditions permit.

Military Compensation System – The FY2017 NDAA required DoD to assess the potential for developing a salary-type pay system for the uniformed services, versus the current basic pay and tax-free allowances system.

Such a plan has been proposed on many occasions in the past, but has never been implemented for a variety of reasons, of which the following is a selected summary.

Basic Allowance for Housing. One difficulty has been rationalizing a single payment, regardless of the servicemember's family status. Raising single members' allowances to the with-dependent rate has been seen as budgetarily prohibitive. Similarly, there has been an unwillingness to reduce married members' pay by cutting their allowances to the single rate. Creating a median rate between the two was seen as combining the worst elements of the other two options.

Basic Allowance for Subsistence. While there is a difference between officer and enlisted rates, there has been no consensus on a need to establish a single rate. One option has been to simply roll the respective BAS rates into taxable basic pay, which would reduce servicemembers' (especially enlisted) tax-home pay by making BAS amounts subject to taxation (see the Tax Advantage paragraph next below), but would increase retired pay outlays over time.

Tax Advantage. Past salary system proposals have generally envisioned monetizing the federal income tax advantage on BAS and BAH. As mentioned above, this would be necessary to avoid significantly reducing servicemembers' take-home pay, and would significantly raise DoD pay outlays and federal income tax revenues. In addition, it would raise future retired pay outlays significantly for the enlisted force.

Other tax issues. Rolling BAH and BAS into basic pay would impose other take-home pay reductions for servicemembers by making the current allowances subject to FICA payroll taxes and state income taxes. This would increase FICA tax income for the government, but would also lead to higher longer-term outlays for Social Security payments. Past salary proposals have not typically envisioned monetizing these current tax advantages for the allowances, which would leave take-home pay cuts in place, especially for servicemembers who are residents of states with income tax requirements.

Retirement changes. Because of all of the above changes, salary system proposals have generally acknowledged an associated need to change the military retirement system to prevent "windfall" retired pay increases for those who serve a career. For example, if BAH were rolled into basic pay it would also then factor into retirement pay in perpetuity, unless the retirement system was changed. This would cause significant additional disruption as DoD works to implement and educate personnel on the retirement reform already enacted by Congress.

Results. The conclusion of most studies in the past (and the practical result even for studies that recommended such changes be adopted) is they were not pursued because Executive and Legislative Branch leaders concluded any simplifying arguments for such a system would be more than offset by the downsides of:

- (a) raising DoD personnel costs (through monetizing the federal income tax advantage),
- (b) cutting the troops' net take-home pay significantly (because of FICA and state income tax increases and potential housing allowance cutbacks for currently serving members and families), and

- (c) requiring development of a completely different military retirement formula that would disrupt implementation and education efforts on the recently enacted retirement reform.

DoD Resale Operations – The Military Coalition believes military commissary; exchange; and Morale, Welfare and Recreation (MWR) programs contribute significantly to a strong national defense by sustaining morale and quality of life for military beneficiaries both within the United States and around the globe.

The previous Administration acknowledged its FY2016 budget proposal to phase out the commissary subsidy over several years was focused principally on cutting spending, with little regard for the dramatic reduction in compensation value such action would impose on millions of currently serving, retired, and survivor patrons and family members.

After you restored the funding in the FY2016 NDAA, we were deeply gratified when DOD's Deputy Chief Management Officer assured beneficiary associations that maintaining current levels of savings for patrons is now the Department's priority, and the Department would be content with whatever level of efficiency savings could be achieved while sustaining the value of the commissary benefit for patrons.

We understand Congress and DoD continue to seek ways to reduce commissary appropriations but appreciated the provisions in the FY2017 NDAA that directed the Defense Commissary Agency (DeCA) to find means of doing so without reducing the value of the benefit for patrons or redirecting funds away from NAF entities or MWR programs. As we stated in our testimony last year, we support changes that are invisible to patrons and preserve the savings, satisfaction and quality they deserve and have come to rely on.

However, the FY2017 NDAA conferees noted their concern that DeCA's senior management may lack the required expertise to transform the commissary system, and encouraged consultation with commercial grocery industry. We are also concerned about the implications of a transformation that is inadequately planned, implemented, or scrutinized for negative impacts. The process to implement these changes requires vigilance. While we have received periodic reports from the Department of Defense, the transparency of the savings determination process, how variable pricing will affect the bottom line for patrons, and how quality will be maintained (particularly in private label products) while reducing appropriations remains unclear. We hope Congress will exercise the full extent of its oversight in preserving this benefit for patrons and ensure prompt action to correct any changes that result in a reduction of savings, satisfaction or patronage.

We hope all leaders of the defense resale system will be queried about how these reforms are taking place, and how their bottom line is responding. The interconnected nature of the commissaries; exchanges; and Morale, Welfare and Recreation (MWR) system means any reform has the potential to positively or negatively impact military families in multiple aspects of life. While one may not see a change in product pricing, poor execution of these changes could ultimately impact child and youth programs to the extent they result in reduced sales and exchange dividends.

Defense Secretary Mattis has stated that the needs of military families are a high priority, and we look forward to seeing that position translated into action. We hope this priority also includes the commissary, the larger defense resale system, and its dividends for MWR programs.

The Coalition urges the Subcommittee to continue close oversight of ongoing management initiatives to ensure your requirements are met to protect against erosion of commissary, exchange and MWR benefits.

Family Readiness and Child Care – We were disappointed the Administration’s budget proposal included cuts to DoD child care programs. Quality, affordable child care is a top priority of military families, who especially rely on the assurance that their children are safe and well-cared for in order to do their vital work protecting our Nation. As the size of the force increases, and deployments continue to put a strain on those left behind, funding becomes essential to enable child development centers to increase their hours and staffs to meet the needs of military parents. Child care is at the heart of family readiness—we encourage Congress to restore funding for military child care programs.

National Guard and Reserve Force Issues

Since September 11, 2001, approximately 950,000 National Guard and Reserve service members have been called up, including about 350,000 who have served multiple tours. There is no precedent in American history for this sustained reliance on warrior-citizens and their families. Under defense budget sequestration, senior Defense leaders are signaling they will continue to rely extensively on National Guard and Reserve forces to perform national security missions.

The added responsibility of returning to active duty multiple times over the course of a reserve career requires further adjustment of compensation and benefit programs.

Blended Retirement - The new blended retirement system is a case in point. The blended retirement system will have a profound – and potentially negative -- impact on reservists’ financial planning, requiring specialized financial counseling tailored to their needs. The Coalition is concerned Thrift Savings Plan government matching needs to be adapted to the reserve duty and pay environment. Moreover, many senior reservists train for “points only” during the latter stages of their career, rendering TSP participation moot. For these members, the new retirement system reflects a substantial cut in their retired pay, with no offsetting potential for TSP contributions or matching.

The Coalition recommends the Subcommittee require DoD to report on how it plans to provide financial counseling to National Guard and Reserve members; create timely mechanisms to ensure monthly matching of drilling Guard and Reserve members TSP elections; and provide recommendations on TSP contributions /matching for “points only” military training (other than correspondence coursework). To the extent current law does not allow appropriate accommodation, DoD should be required to submit recommendations for enabling legislation.

Reserve Duty Status - The Coalition is disappointed a framework for a simplified reserve duty status system has not yet been adopted as recommended by the Military Compensation and Retirement Modernization Commission (MCRMC) and long-endorsed by TMC.

The current, needlessly complicated administrative process requires repeated issuance of separate orders that stop and start various kinds of pay and benefits for the people affected. It imposes financial penalties through needless pay interruptions – sometimes lasting for weeks or even months -- and leads to inexplicable benefits differences for what amounts to the same duty. It also imposes arcane and wasteful administrative requirements on parent units. A simpler system will save the government significant expenses, eliminate accounting and oversight headaches for commanders and administrators, eliminate inequities imposed by needless technical variations, and ease a major source of financial penalties for Reserve Component members and families.

TMC urges adoption of a modernized and simplified Reserve Component duty status system to improve and standardize accounting of activations for early reserve retirement purposes; to ensure combatant commanders, service and reserve component leaders are using Guard and Reserve capabilities in the most efficient and effective manner to support national security needs; and to ease financial and other burdens imposed on Reserve Component members and families under the current cumbersome accounting system.

Educational Assistance Programs - The Coalition notes the Committees adopted the MCRMC recommendation to terminate the Reserve Educational Assistance Program (REAP) (Title 10, Chapter 1607) as duplicative of educational benefits for activated reservists in the Post-9/11 GI Bill.

TMC continues to endorse a single platform for all GI Bill programs to support recruitment, retention and readjustment outcomes for our nation's volunteers. In particular, the Reserve Montgomery GI Bill (MGIB – Selected Reserve), Title 10, Chapter 1606, should be re-codified in Title 38, Chapter 33.

Servicemember Civil Relief Act – The Coalition agrees with the longstanding DoD view that forced arbitration clauses in servicemembers' financial contracts with civilian employers adversely impact military personnel readiness. By requiring referral of any violations to an employer-defined and employer-dominated resolution process, such clauses effectively allow employers to flout statutory requirements and defeat Congress' efforts to legislate fair treatment for servicemembers and their families.

The Coalition urges Congress to cancel the effect of 'forced arbitration agreements' in certain financial contracts by making them unenforceable under the Servicemembers Civil Relief Act.

Retirement Issues

Military Retirement System - The Coalition appreciates the Subcommittee's efforts to ensure the Department of Defense develops and executes in advance of the implementation date of the

new blended retirement system (BRS), 1 January 2018, a high-quality financial education program that provides both service members and their spouses with the knowledge and information necessary to help them: (a) understand the new retirement system, and (b) in the case of members with less than 12 years of service, help them assess whether the legacy system or the new BRS, is best for them.

The Coalition recommends the Subcommittee acknowledge the value and importance of every year of service and its relevance in the savings calculations by:

- Extending the period of government match to include all years of service for all eligible servicemembers, **both officer and enlisted** (current law offers no match beyond 26 years);
- Increasing the government matching contribution from 4% to 5%; and
- Resisting any delay in the start of matching contributions (currently, matching will begin after two years of service).

The Coalition urges the Subcommittee's continued vigilance to:

- ***Ensure the Defense Department implements a high-quality education program that assists servicemembers and spouses under the new retirement system in developing prudent investment strategies and also provides objective criteria to assist servicemembers with less than 12 years of service in making prudent decisions between remaining under the current system or converting to the blended system; and***
- ***Ensure calculations used to determine lump-sum payment options for newly eligible retirees under the blended system reflect reasonable discount rates that do not disproportionately erode their retired pay value. In this regard, the Coalition notes a significant number of actuaries have expressed concern the planned discount rate will result in substantially devalued lump sum payments to future retiring servicemembers.***

Retired Pay Cost of Living Adjustments (COLA) - The Coalition is grateful to the Subcommittee for your efforts in protecting the value of military retired pay COLAs.

The Coalition remains concerned over proposals in recent years that suggest adjusting the Consumer Price Index (CPI) methodology via the so-called "chained CPI" calculation as a means of holding down COLA growth for military and federal civilian retired pay, Social Security and all other federal annuities over time.

COLAs are particularly important to military retirees, disabled retirees, and survivors because they start drawing their annuities at younger ages than most other COLA-eligibles and thus experience the compounding effects over a greater number of years. To the extent COLAs fail to keep up with living costs, real purchasing power continues to decline ever more dramatically as long as one lives.

In this regard, the Coalition is particularly concerned at the FY2018 Administration budget proposal to eliminate COLAs for current and future retirees under the Federal Employees

Retirement System and reduce COLAs by .5 percentage point per year for Civil Service Retirement System employees. While these proposals would not affect military retirement payments, they raise major concerns on two counts:

- (a) They would impose a dramatic rule change on federal employees who were induced to serve a federal career in part by the promise of full inflation protection of their earned retired pay. Congress has always rejected such “bait and switch” changes for military retirees, and we recognize the budget proposal is just that – a proposal. Still, it is concerning leaders of the Executive Branch, who propose such changes for one segment of federal retirees, may contemplate extending such changes to other segments.
- (b) To say the proposed change would not affect the military community would be inaccurate, since many retired servicemembers and servicemembers’ spouses and survivors also serve and have served in federal civilian positions.

The Coalition urges the Subcommittee to oppose the adoption of a chained Consumer Price Index (C-CPI) computation or any other COLA reductions which would devalue retired pay, survivor benefits, disability compensation and other programs over time.

Concurrent Receipt – Congress clearly recognized the inequity of the disability offset to earned retired pay during the past decade and has gone to great lengths to establish a process to end the offset for many disabled retirees. But many others are still subjected to a law that forces them to fund part or all of their own VA disability compensation from their service-earned military retired pay.

The Coalition strongly believes in the principle that career military members earn their retired pay by service alone, and those unfortunate enough to suffer a service-caused disability in the process should have any VA disability compensation from the VA added to, not subtracted from, their service-earned military retired pay.

We recognize only too well the challenges associated with adding new mandatory spending provisions in this difficult budget environment. But making at least some progress to address this grievous inequity (e.g., covering all 100-percent disabled retirees with less than 20 years of service) remains an important goal.

The Coalition recommends the Subcommittee seek to extend authorization for Concurrent Retirement and Disability Payments (CRDP) to disabled retirees not eligible under the current statute, with a priority emphasis on extending eligibility to severely disabled Chapter 61 (military disability) retirees with less than 20 years of service due to wounds, illnesses, or injuries that forced their premature medical retirement.

The Coalition supports legislation introduced in the 115th Congress in both the House and Senate that supports extending CRDP eligibility to severely disabled Chapter 61 retirees with less than 20 years of service due to medical conditions that forced early retirement.

Uniformed Services Former Spouse Protection Act (USFSPA) – The Coalition is very grateful for the provision in the FY2017 NDAA that requires basing divisible retired pay under USFSPA on the servicemember’s grade and years of service at the time of divorce rather than at the time of retirement.

Congress’ action in this regard is in line with a change recommended by the Department of Defense in its 1999 report to Congress on USFSPA inequities.

Unfortunately, a number of other USFSPA inequities identified in that report are still awaiting redress. Other inequitable situations under current law identified in the DoD report include:

- *Forced Retirement:* In many cases, courts have compelled a retirement-eligible servicemember to begin making payments immediately to the former spouse – effectively compelling the member to retire as soon as eligible. The DoD report stated, “USFSPA does not authorize State courts to issue orders that compel the member to retire to make retired pay available for a former spouse. To provide for our national defense, the armed forces must be allowed to control when a member is permitted to retire. If military retired pay is awarded solely as property, a court should not be able to compel the member to provide any payments to the former spouse before the member retires. Since the member is not entitled to receive retired pay prior to retirement, the former spouse should also be precluded from receiving it (when it reflects an award as property) prior to the member's actual retirement...DoD recommends that the USFSPA be amended to explicitly prohibit a court from requiring a member to begin payments (as property) to a former spouse before actual retirement, as economically, this may compel the member to retire. There should be no exceptions to this requirement.”
- **10-year Rule:** Under current law, the marriage must have lasted for at least 10 years during service before the Defense Accounting and Finance Service may make direct payments to the former spouse. For divorces involving shorter-duration marriages, the servicemember is responsible for paying the former spouse. “Overwhelming justification exists for abolishing this requirement,” said the DoD report. “First, no other examined public or private retirement plan or system contains such a restriction. Second, repeal should prevent the courts, practitioners, and parties to divorce proceedings from mistakenly interpreting a rule applicable to direct payments as a prerequisite to allocation of retired pay. Third, repealing this requirement would allow DFAS to issue separate Federal income tax reporting documents to the parties for their respective shares of the allocations.”

SBP Inequities. Under current law, SBP premiums must be deducted from the servicemember’s share of retired pay, even if the court orders the premium payments should come from the former spouse’s share. Recommendations offered by the DoD report included: “[a] Permit the courts (or the parties) to establish and designate responsibility for payment of premiums related to SBP coverage (at present, applicable law requires them to be deducted from disposable retired pay). [b] Require premium costs of SBP to be withheld from the responsible party’s share of retired pay. [c] Permit

any spouse or former spouse to waive any or all of his or her proportionate coverage under SBP.”

The Coalition recommends additional adjustments to USFSPA to include:

- *Prohibiting courts from forcing a currently serving member to make immediate payments to the former spouse, which effectively compels the member’s premature retirement;*
- *Authorizing DFAS to make payments to former spouses whose marriages to servicemembers spanned less than 10 years;*
- *Authorizing flexibility to deduct SBP premiums from a former spouse’s share of retired pay if ordered by the court or agreed by the parties; and*
- *Authorizing a current or former spouse to voluntarily waive SBP payments.*

Survivor Issues

The Coalition is grateful to the Subcommittee for its significant efforts in the past decade-plus to improve the Survivor Benefit Plan (SBP), including:

- Elimination in 2005 of the significant annuity reduction SBP survivors formerly experienced upon attaining age 62;
- Implementation of the Special Survivor Indemnity Allowance (SSIA) in 2008 to recognize the inequity associated with deducting VA Dependency and Indemnity Compensation (DIC) from SBP annuities when the sponsor’s death is caused by military service;
- Authorizing a further extension and increase of SSIA rates in 2009;
- Extending the sunset date of the SSIA to May 31, 2018 in the FY2017 NDAA; and
- Increasing SBP benefits for survivors of members who die during inactive duty for training in the FY2017 NDAA to match SBP for survivors of members who die on active duty.

SBP-DIC Offset – The Coalition believes strongly current law is unfair in reducing military SBP annuities by the amount of Dependency and Indemnity Compensation (DIC) payable from the VA.

The Coalition believes SBP and DIC are paid for different reasons. SBP is an insurance annuity purchased by the retiree to provide the survivor up to 55% of SBP-covered retired pay if the retired member dies for any reason. DIC is a special indemnity compensation paid to the survivor when military service caused the member’s premature death. In such cases, the VA indemnity compensation should be added to the SBP annuity paid for by the retiree, not substituted for it.

In contrast, survivors of federal civilian retirees who also were disabled veterans and died of service-connected causes can receive DIC without losing any of their federal civilian SBP benefits.

The reality is, in every SBP-DIC case, active duty or retired, the true premium extracted by the service from both the member and the survivor was the ultimate one – the very life of the

member. This reality was underscored by the August 2009 Federal Court of Appeals ruling in *Sharp v. U.S.* which found, “After all, the service member paid for both benefits: SBP with premiums; DIC with his life.”

The Veterans Disability Benefits Commission (VDBC) was tasked to review the SBP-DIC issue, among other DoD/VA benefit topics. The VDBC’s final report to Congress in 2007 agreed with the Coalition in finding the offset is inappropriate and should be eliminated.

The best solution, and the Coalition’s goal, is to eliminate the SBP-DIC offset in its entirety or through a phased approach consistent with the urgency of finding a solution and fiscal challenges.

Special Survivor Indemnity Allowance (SSIA) – Acknowledging the inequity of the offset, but lacking the mandatory spending headroom to repeal it, Congress several years ago authorized SSIA as partial recompense for SBP-DIC widows.

Originally established in the amount of \$50 per month, the SSIA amount has been increased over the years, through your efforts, to the current \$310 per month.

The progress achieved to date through phased SSIA increases eliminates roughly 25% of the SBP-DIC penalty.

Congress acted in the FY2017 NDAA to extend authority to pay the current \$310-monthly SSIA through May 31, 2018.

That means further action will be required in the FY2018 NDAA to prevent its expiration.

We know members of the Subcommittee are sympathetic to this goal. We also are more than sensitive to the Subcommittee’s struggles in dealing with mandatory spending requirements to address this and a range of other issues.

The Coalition believes strongly it will be important to send a message of intent to the affected SBP-DIC survivors by pursuing a multi-year extension with annual increases in the SSIA amount. In this regard, we believe it is important to demonstrate to these survivors this important compensation will not be held hostage to potential expiration every year and the government will take on this responsibility to fund an equitable solution.

That is why the Coalition could not support a proposal last year to make the current \$310 monthly SSIA permanent and fund that by increasing TRICARE pharmacy copays. From beneficiaries’ perspective, this wouldn’t do anything to reduce the inequity of the SBP-DIC offset, but it would create a new inequity by shifting responsibility for funding survivor benefits to military beneficiaries themselves.

For that reason, the Coalition pledges to work with you to seek assistance from House and Senate leadership and from the Budget Committees to identify necessary non-defense offsets in the budget resolution to fund a multi-year extension and annual increases in the SSIA.

The Coalition urges the Subcommittee to seek senior leadership and Budget Committee assistance to identify the necessary funding for repeal of the SBP-DIC offset. As a minimum back-up to the proposed repeal, support a multi-year extension and annual increases to the Special Survivor Indemnity allowance, working toward the goal of phasing out the SBP-DIC offset.

Conclusion

The Military Coalition again thanks the Subcommittee for your unfailing support of the entire uniformed services community and for taking our concerns and priorities into consideration as you deliberate on the future of the one weapon system that has never let our Nation down – the men and women who wear and have worn the uniform and their families.