

RECORD VERSION

STATEMENT BY

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ASSISTANT SECRETARY OF THE ARMY
(MANPOWER AND RESERVE AFFAIRS)**

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Mr. Chairman and members of the Sub-Committee.

I am pleased to appear before you today to report on the state of today's Army from the perspective of Military Pay and Compensation. As you know, people are the key element to the success of any organization, and the Army is no exception. Our successes are directly related to the outstanding quality and exceptional achievements of those who serve our Army. Despite the increasing complexity and uncertainty of the current world security environment, and despite force reductions, constrained resources and frequent deployments, the soldiers *and* civilians who comprise our Army today remain ready to respond to any crisis around the world with unparalleled professionalism and selfless service.

I would like to begin, however, by congratulating Chairman Allard on his having been appointed as Chairman of what I believe to be the most important subcommittee in the Armed Services Committee structure. I am also particularly pleased that Senator Cleland is staying as the ranking minority member. I would like to encourage the members of the Personnel sub-committee to continue their bipartisan support for our Army and the men and women who serve in it. More than many, I know the tremendous role this subcommittee plays in ensuring the continued support for the men and women in uniform. The men and women of the Army and their families appreciate the subcommittee's efforts last year in providing for the pay raise, the Army Aviation Officer Retention Bonus, the increased amounts authorized for the Army enlistment bonus, repeal of

the 10% limitation on certain selective reenlistment bonuses and the other initiatives. It should go without saying that the posture of our forces would not be what it is today were it not for the support of the Armed Services Committee, in general, and were it not for the specific support of the Personnel Subcommittee.

Today, as we discuss military pay and compensation, we must remember that, although pay and financial compensation are integral parts of the recruiting-retention-readiness equation, they are only two of the many parts that make up the complicated mosaic we refer to as personnel readiness. I mention this to highlight the idea that, despite the perceived importance of pay and financial compensation in determining personnel readiness, they should not be viewed in isolation from the other factors that combine to provide a ready force.

When we talk of military pay, we think of actual salaries, allowances, bonuses and special pays. Other financial compensation includes education and retirement benefits. Non-financial compensation includes those programs, benefits and opportunities that fall under the rubric of Quality of Life enhancements: a safe and secure environment for families, childcare, exchange and commissary benefits, the many Morale, Welfare and Recreation Programs available to service members and their families such as physical fitness centers, youth centers, clubs, libraries and schools.

All of these elements must be considered and balanced when developing a viable pay and compensation plan for the Army. I realize that it will be impossible today to address in detail each of these elements and their contributions to personnel readiness. So, I will focus only on the pay and financial compensation components of the equation—keeping in mind that such an approach does not address the whole picture, and that

any proposals to change pay and financial compensation should be viewed as part of a comprehensive approach to personnel readiness.

Military Pay and Compensation

The Army's highest pay and financial compensation priorities articulated in the President's Budget include eliminating the perceived pay gap, reshaping the pay tables to recognize the importance of promotion over longevity; and restoring retirement benefits to the pre-REDUX level.

I believe pay is the most visible compensation component and has the most direct impact on soldier's standard of living. Recent survey results indicate some enlisted members perceive that their pay is not as good as it would be if they had similar employment in the private sector. A perceived "pay gap" between military and private sector pay is one tangible way this dissatisfaction is articulated. Base pay, however, is only one component of a military compensation system. And the military compensation system is only one part of a larger military lifestyle that offers unique opportunities for experience, skill training, national service, and personal growth.

Eliminating the perceived pay gap and restoring the value of military pay relative to the private sector continues to be among the highest priorities for the Army. There has been much debate about the extent of a "pay gap" and some question whether there really is a pay gap at all. I would suggest that debate about the existence of or the extent of a "pay gap" is largely irrelevant. Our soldiers and their families believe there is a "pay gap" and that is what matters. They believe that this "pay gap" reflects society's viewing them as second class citizens despite the tremendous sacrifices they are often called upon to make. In that light, it is important that pay raises for the military not be calculated in terms of

“some percentage” less than the ECI. As long as the law provides for pay raises institutionalized at a level less than ECI, the “second class citizen” perception will persist. If ECI is used as the basis from which to calculate pay raises for federal civilian employees and federal judges--and if our intent from year to year is to ensure that the military at least maintains an acceptable standard of living, we must recognize the importance of raises at or above ECI. We appreciate your continued support for the maximum allowable pay increases for our men and women who serve in uniform. With that in mind, we support the Administrations request for an across the-board 4.4 percent pay raise effective 1 January 2000, and across the-board 3.9 percent increases in the remaining four years of the Five Year Defense Plan (FYDP). We believe that this would eliminate the perception of a “pay gap” and maintain the critical balance in the allocation of resources.

Second, to enable us to retain more of our most highly skilled non-commissioned officers, warrants and mid-grade commissioned officers, we are proposing the most substantial reform of the basic pay table since its inception. Pay table reform will begin to reshape a pay table that has previously reduced the incentive for promotion over longevity due to past across-the-board pay increases.

Today members receive a pay raise when they are promoted or when their time in service results in a longevity step increase. We propose to reform the pay table in fiscal year 2000 to recognize education, skill, experience, and performance through targeted pay raises of .1 to 5.5 percent effective 1 July 2000. As soldiers enter the career force, they will see additional incentives for promotion, while meaningful and consistent longevity raises are retained. These changes will reward our soldiers more substantially for their commitment, experience, and performance, in a manner they themselves feel is most appropriate. We are convinced

these changes will make our basic pay system a more effective retention and force shaping tool than it is today.

Third, we must resolve the issues of perceived inequities among the various retirement systems for military personnel. I believe that retirement benefits are a significant factor in the decision to stay in the Army, and not necessarily a negative one. The traditional military system has been changed twice since its creation in 1947, and, as a result, the force is currently under three retirement systems. Clearly, changes to the military retirement system – and the way those changes are portrayed to junior personnel by the leadership – have an effect on retention. I believe that, in general terms, the retirement system provides a strong incentive for individuals to remain in uniform until they reach retirement eligibility. After that point, however, the draw of the retirement system attenuates. Other factors including the on-going drawdown and changes in the private sector job market, however, make it difficult to assess accurately the real impact of the retirement system on retention. Nevertheless, we are concerned with the rise in the number of those who have made the decision to leave the military who cite pay and retirement as a dissatisfier among their top reasons on exit surveys. This is especially true among year groups subsequent to the 1986 retirement system change.

The Military Retirement Reform Act of 1986, REDUX, was designed to encourage retention beyond 20 years of service by lowering the annuity at 20 years from 50 percent to 40 percent and increasing the value of each additional year of service by 3.5 percent. Hence, retired pay after 30 years of service remain unchanged at 75 percent of basic pay. Yet an individual retiring at 20 years would only receive 40 percent of base pay until age 62. Because the year groups affected by this change will not be retirement eligible until 2006 (this change only affects those joining the military after July 1986), it is difficult to measure at this time the real

effects of this change. We know that an increasing number of officers and enlisted personnel are expressing dissatisfaction with retirement benefits in exit surveys. Discussions with leaders and soldiers across the nation and overseas provides anecdotal evidence that the REDUX system is a negative influence on those soldiers considering a career in uniform.

At present, the Army is not experiencing significant enlisted retention difficulties, especially not any that can be tied to the REDUX system. We are aware, however, that the REDUX system may be influencing a recent increase in attrition among captains.

The differences in retirement benefits between our career soldiers and our current mid-career and first-term soldiers continue to be perceived as unjust inequities. Because of the fragility of the balance between career force retention and readiness, and because members who joined under the REDUX system continue to ask why their retirement pension is worth less than that of those who retired under the pre-REDUX system, we support returning the multiplier to 50% of base pay at the 20-year retirement point with a 2-1/2 percentage points increase for each additional year of service through thirty years, placing all members entering service after July 1986 on an equal footing with those who joined prior to the REDUX system.

In addition to those initiatives addressing the perceived, pay gap, pay table reform and the REDUX retirement system, it is important to note the significance of special pays and bonuses in making a comprehensive assessment of the pay and financial compensation posture of the Army. Although I have indicated that, in the aggregate, the Army is not experiencing significant enlisted retention problems, there are certain skills that we are finding it difficult to keep manned at the required levels. This is where the special skills and incentive pays that this subcommittee has

been so helpful with in the past come in. Recent efforts have focused on enhancements to these special and incentive pays. America's Army must seriously consider realigning the compensation system to better target soldiers in grades and specialties needed for retention. These pays are proven, powerful tools that can be targeted to remedy specific skill shortages, including technical skills for which private sector competition is especially keen. We will look for your continued help in this critical area.

In closing, I would like to mention several other factors that affect military pay and compensation. I am aware of a number of proposals that address in one way or another the key shortcomings in the pay and financial compensation system described above. I believe that it is important that proposals for change to the current system, if they differ from those recommended by the Administration, meet at least two criteria:

Proposals intended to eliminate a perceived inequity should not create yet another class of individuals perceived to be advantaged or disadvantaged by the change.

Proposals should be accompanied by the requisite level of funding to preclude the Army's having to pay for the change by canceling or reducing programs or by paying for it "out of hide."

Once again, I would like to take the opportunity to acknowledge the members of the subcommittee for everything you have done for our men and women in uniform. The Army is people, and the Personnel Subcommittee has always been there for them. I would also like to reemphasize the Subcommittee's bipartisan approach to matters affecting soldiers, their families and the retiree community. Bipartisanship has always been a hallmark of the Armed Services Committee and its

subcommittees. I look forward to its continuance. The men and women serving this nation in uniform deserve no less.

Mr. Chairman, again thank you for inviting me to present information on what I believe to be a major concern for the Army. I look forward to discussing these issues with you and working with this Committee as you develop pay, compensation and retirement related legislation this year.