

Stenographic Transcript
Before the

COMMITTEE ON
ARMED SERVICES

UNITED STATES SENATE

TO RECEIVE TESTIMONY ON THE FINDINGS OF THE MILITARY
COMPENSATION AND RETIREMENT MODERNIZATION
COMMISSION

Tuesday, February 3, 2015

Washington, D.C.

ALDERSON REPORTING COMPANY
1155 CONNECTICUT AVENUE, N.W.
SUITE 200
WASHINGTON, D.C. 20036
(202) 289-2260

1 TO RECEIVE TESTIMONY ON THE FINDINGS OF THE MILITARY
2 COMPENSATION AND RETIREMENT MODERNIZATION COMMISSION

3

4

Tuesday, February 3, 2015

5

6

U.S. Senate

7

Committee on Armed Services

8

Washington, D.C.

9

10 The committee met, pursuant to notice, at 9:33 a.m. in
11 Room SD-G50, Dirksen Senate Office Building, Hon. John
12 McCain, chairman of the committee, presiding.

13 Committee Members Present: Senators McCain
14 [presiding], Inhofe, Sessions, Wicker, Ayotte, Fischer,
15 Cotton, Rounds, Ernst, Tillis, Sullivan, Lee, Graham, Reed,
16 McCaskill, Manchin, Gillibrand, Donnelly, Hirono, Kaine,
17 King, and Heinrich.

18

19

20

21

22

23

24

25

1 OPENING STATEMENT OF HON. JOHN McCAIN, U.S. SENATOR
2 FROM ARIZONA

3 Chairman McCain: Good morning. The committee meets
4 this morning to receive testimony from the commissioners of
5 the Military Compensation and Retirement Modernization
6 Commission.

7 I want to thank each commissioner for your diligence
8 and hard work over many months to develop the
9 recommendations you will present to us today. Our witnesses
10 today are the commission chairman, the Honorable Alphonso
11 Maldon, Jr., the Honorable Larry Pressler, the Honorable
12 Stephen Buyer, the Honorable Dov Zakheim, Mr. Michael
13 Higgins, General Peter Chiarelli -- and I understand that
14 Senator Bob Kerrey is snowed in, in New York -- and the
15 Honorable Christopher Carney.

16 This year, a signature issue for this committee will be
17 thoughtful consideration of the commission's recommendations
18 to modernize military compensation and retirement benefits.
19 As we do, I encourage the members of this committee and my
20 colleagues in the House and the Senate to keep an open mind.

21 We are also eager to hear from any military or other
22 organizations that have constructive ideas to improve the
23 current system. No one has a monopoly on good ideas, and we
24 all come to this debate as patriots who love our Nation's
25 Armed Forces and want to improve the quality of life for all

1 who serve and their families.

2 We honor the service and sacrifices of servicemembers
3 and their families, Active Duty, Guard, and Reserve. And we
4 pledge to keep their well-being foremost in our thoughts as
5 we deliberate the commission's recommendations.

6 But upholding our sacred obligation to them does not
7 mean resisting change at every turn. We must not shrink
8 from the opportunity before us to create a modern system of
9 compensation and retirement benefits that would provide
10 greater value and choice for those it serves.

11 Congress established the commission in the National
12 Defense Authorization Act for the Fiscal Year 2013 to
13 conduct a review of the military compensation and retirement
14 systems, and to make recommendations for modernization. We
15 asked the commission to develop recommendations that would,
16 one, ensure the long-term viability of the all-volunteer
17 force during all levels of conflict and economic conditions;
18 two, improve the quality of life for servicemembers and
19 their families to ensure successful recruitment, retention,
20 and careers for those members; and three, modernize and
21 achieve fiscal sustainability for the compensation and
22 retirement systems in the 21st century.

23 The military's current compensation and retirement
24 systems are decades old and in their current form may be
25 less than suitable for modern-day military members. Today,

1 we have a nearly 70-year-old military retirement system and
2 TRICARE, the military's health program, was implemented in
3 the mid-1990s.

4 Both the retirement system and TRICARE were appropriate
5 for their time, but clearly, times have changed. We are
6 here today to learn how the commission's recommendations
7 could make compensation and benefits better for the military
8 members and families of our current forces and forces of the
9 future.

10 Moreover, in a world of multiple threats and increasing
11 danger, we count on young Americans to enlist or commit to
12 serve in an all-volunteer force that protects us and our
13 families. As this committee evaluates the commission's
14 recommendations to modernize military compensation and
15 benefits, we must carefully consider how any changes in
16 compensation and benefits will motivate young people of
17 today to serve in the 21st century.

18 In a constrained fiscal environment, we must consider
19 how best to achieve the proper balance between providing
20 attractive compensation and benefits for our troops and
21 paying for military modernization and readiness, effective
22 equipment, and advanced training that will enable our
23 military to respond in moments of crisis and keep our
24 citizens safe.

25 We can meet both of these objectives, and we must.

1 Clearly, we will not have enough time today for a complete
2 and thorough review of every recommendation the commission
3 has made. That is why I've asked Senator Graham, chairman
4 of our Personnel Subcommittee, to hold a series of hearings
5 in the near future to explore all of the commission's
6 recommendations in greater depth, especially in those areas
7 of retirement and health care.

8 I thank Senator Graham and Senator Gillibrand for their
9 leadership on these critically important issues.

10 Finally, we look forward to the testimony from the
11 commission today. Their recommendations come to us
12 unanimously after nearly 2 years of hard work, research, and
13 debate. I encourage the commissioners to speak freely
14 without reservations. Some of them I know and I'm sure will
15 do that.

16 Thank you again, commissioners, for your extraordinary
17 efforts.

18 Senator Reed?

19 Oh, Senator Kerrey arrived.

20 Thank you, Senator Kerrey, for arriving.

21 [Laughter.]

22

23

24

25

1 STATEMENT OF HON. JACK REED, U.S. SENATOR FROM RHODE
2 ISLAND

3 Senator Reed: Thank you, Mr. Chairman. Let me join
4 you in welcoming the witnesses and commending them for a job
5 well done. Thank you very, very much.

6 And I think it is extremely important to have this
7 hearing today for the reasons the chairman outlined, and I
8 thank him for holding the hearing.

9 This hearing comes as the department yesterday formally
10 submitted its budget for fiscal year 2016. While we await
11 the full details of the department's proposals, there are a
12 few immediate notable aspects of the request.

13 First, the requested top line is some \$35 billion above
14 the Budget Control Act spending caps for defense. The
15 spending cap, which for fiscal year 2016 was \$499.8 billion,
16 represents no growth in real terms. That the department has
17 requested \$35 billion more than current law allows shows how
18 deep the funding shortfalls run, particularly with respect
19 to force structure and the training and the modernization
20 accounts.

21 Second, the department has again requested measures to
22 slow the growth of personnel costs. The department submitted
23 these proposals last year. Congress supported some and
24 elected to defer others until after this commission reported
25 its recommendations. Many members on both sides of the

1 aisle have been reluctant to support compensation and
2 benefit reforms requested by the department in the past
3 several years while this commission deliberated and
4 suggested that we should wait until this report is
5 submitted.

6 This is the context in which today we hear from this
7 very distinguished panel. These issues are of paramount
8 importance to the Nation and to the military members and
9 their families. We charge the military with fighting and
10 winning the Nation's wars. Implicit in that responsibility
11 is recruiting and retaining the very best in military
12 service in sufficient quantities and ensuring that they are
13 trained and equipped for their mission, prepared for the
14 arduous duty we ask of them.

15 Usually when we talk about caring for our men and women
16 in uniform, the discussion is focused entirely on their pay.

17 But these other elements are equally important if we want
18 our servicemembers to accomplish the mission and come home
19 alive.

20 It is important to state from the outset that the goal
21 of the commission is not to save money. It is to strengthen
22 the all-volunteer force. It is to modernize a retirement
23 system that is 70 years old. And importantly, it is to
24 ensure that servicemembers and their families enjoy a
25 quality of life and a quality of service that will enable

1 the services to recruit and retain the very best men and
2 women for military service needed to meet national defense
3 objectives.

4 Under the current budget situation, I fear we are
5 quickly pricing ourselves out of having a military
6 sufficiently sized and adequately trained to meet the myriad
7 tasks and threats we face all over the world. As we heard
8 last week from the service chiefs, the budget caps currently
9 in law do not allow the services to meet their national
10 defense objectives.

11 Now if these recommendations that you are making are
12 enacted and they do provide savings, such savings should be
13 used to address force structure shortfalls and to reinvest
14 in readiness and modernization.

15 Finally, I would like to highlight one inequity in the
16 current system that the commission has pointed out. Only 17
17 percent of all servicemembers will leave with any retirement
18 benefit under the current system, with officers more than
19 twice as likely to leave with these benefits than enlisted
20 personnel, even while enlisted personnel have always,
21 including in the most recent conflicts, sustained the vast
22 majority of casualties.

23 We are told now that under these recommendations as
24 many as 75 percent of all servicemembers will leave the
25 services with some retirement benefit, even if they do not

1 serve the full 20 years on Active Duty, as most
2 servicemembers do not.

3 Thank you, Mr. Chairman, and thank you to our panelists
4 for this important work.

5 Chairman McCain: Again, I would like to thank all of
6 the members of the panel, all of whom have other
7 responsibilities and work that needs to be done, and they
8 took their valuable time and effort to bring what I think is
9 an excellent, comprehensive report, which I know will serve
10 as guidance for us as we move forward with much needed
11 reforms. I thank all of you again.

12 Mr. Chairman, we are ready to listen to your statement.
13 Thank you, again, for your chairmanship.

14
15
16
17
18
19
20
21
22
23
24
25

1 STATEMENT OF THE HON. ALPHONSO MALDON, JR., CHAIRMAN,
2 MILITARY COMPENSATION AND RETIREMENT MODERNIZATION
3 COMMISSION; ACCOMPANIED BY THE HON. LARRY L. PRESSLER,
4 COMMISSIONER, MILITARY COMPENSATION AND RETIREMENT
5 MODERNIZATION COMMISSION; THE HON. STEPHEN E. BUYER,
6 COMMISSIONER, MILITARY COMPENSATION AND RETIREMENT
7 MODERNIZATION COMMISSION; THE HON. DOV S. ZAKHEIM,
8 COMMISSIONER, MILITARY COMPENSATION AND RETIREMENT
9 MODERNIZATION COMMISSION; MICHAEL R. HIGGINS, COMMISSIONER,
10 MILITARY COMPENSATION AND RETIREMENT MODERNIZATION
11 COMMISSION; GENERAL PETER W. CHIARELLI, USA (RET.),
12 COMMISSIONER, MILITARY COMPENSATION AND RETIREMENT
13 MODERNIZATION COMMISSION; THE HON. J. ROBERT KERREY,
14 COMMISSIONER, MILITARY COMPENSATION AND RETIREMENT
15 MODERNIZATION COMMISSION; AND THE HON. CHRISTOPHER P.
16 CARNEY, COMMISSIONER, MILITARY COMPENSATION AND RETIREMENT
17 MODERNIZATION COMMISSION

18 Mr. Maldon: Thank you, Mr. Chairman.

19 Chairman McCain, Ranking Member Reed, distinguished
20 members of the committee, my fellow commissioners and I are
21 honored to be here today. We thank you for the opportunity
22 to testify. We also thank you for your support of the
23 commission during the last 18 months and for your leadership
24 in protecting our servicemembers' compensation and benefits.

25 Mr. Chairman, I would like to request that our final

1 report be entered into the record.

2 Chairman McCain. Without objection.

3 [The information referred to follows:]

4 [COMMITTEE INSERT]

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

1 Mr. Maldon. The all-volunteer force is without peer.
2 Their unwavering commitment to excellence in the service of
3 our Nation has never been clearer than during the last 13
4 years of war.

5 As commissioners, we recognize our obligation to craft
6 a valued compensation system that is both relevant to
7 contemporary servicemembers and able to operate in a modern
8 and efficient manner. We are unanimous in our belief that
9 the recommendations we offer in our report strengthen the
10 foundation of the all-volunteer force, ensure our national
11 security, and truly honor those who served and their
12 families who support them now and into the future.

13 Our report is, of course, informed by our own lifelong
14 experience with military service, public policy, and as
15 public servants. However, our recommendations are most
16 informed by insights of servicemembers, veterans, retirees,
17 and families.

18 The commission and staff visited 55 military
19 installations worldwide, listened to the views and
20 preferences of hundreds along the way. More than 150,000
21 current and retired servicemembers provided thoughtful
22 responses to the commission's survey, and we developed
23 working relationships with more than 30 military and
24 veterans service organizations.

25 Additionally, the commission received input from more

1 than 20 Federal agencies, several Department of Defense
2 working groups, numerous research institutions, private
3 firms, and not-for-profit organizations.

4 The result of this process that included 18 months of
5 comprehensive, independent research, review, and analysis,
6 are 15 unanimous recommendations that will improve choice,
7 access, quality, and value within the compensation system.
8 Our work represents the most comprehensive review of
9 military compensation and benefits since the inception of
10 the all-volunteer force.

11 Consistent with our congressional mandate, we reviewed
12 each program to determine if and how modernization might
13 ensure the long-term viability of the all-volunteer force,
14 enable the quality of life for servicemembers and their
15 families, and achieve a greater fiscal sustainability for
16 compensation and retirement systems. Our recommendations do
17 this and more, improving choice, access, quality, and value
18 within the compensation system.

19 Our retirement recommendations propose a blended plan
20 that extends retirement benefits from 17 percent to 75
21 percent of the force, as Ranking Member Reed has already
22 stated. It leverages the retention power of traditional
23 military retirement to maintain the current force profiles,
24 protects the asset of servicemembers who retire at 20 years
25 of service, and reduces annual Federal outlays by \$4.7

1 billion.

2 Our health benefits recommendations improve access,
3 choice, and value of health care for Active Duty family
4 members, Reserve component members, and retirees while
5 reducing outlays by \$3.2 billion.

6 Our recommendations on commissaries maintain patrons'
7 grocery discount while also reducing the cost of delivering
8 that benefit by more than \$500 million annually.

9 While these savings to the taxpayer are significant,
10 the commission did not engage in a cost-cutting drill. In
11 fact, our recommendations to improve joint readiness,
12 servicemember financial literacy, support for exceptional
13 families, and transition assistance require additional
14 funding to ensure program efficacy.

15 In summary, our recommendations represent a holistic
16 package of reforms that modernize the structure of
17 compensation programs rather than adjust the level of
18 benefits delivered to the servicemembers. They sustain the
19 all-volunteer force by maintaining or increasing the overall
20 value of the compensation and benefits for servicemembers
21 and their families, and they provide additional options for
22 service personnel managers to design and manage a balanced
23 force.

24 This approach creates an effective and efficient
25 compensation and benefits system that after full

1 implementation saves taxpayers more than \$12 billion
2 annually, while sustaining the overall value of compensation
3 and benefits for those who serve and have served, and the
4 families who support them.

5 My fellow commissioners and I thank you again for the
6 opportunity to testify today, and we are honored to present
7 our unanimous recommendations. Mr. Chairman, we stand ready
8 to answer your questions.

9 [The prepared statement of Mr. Maldon follows:]

10 [COMMITTEE INSERT]

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

1 Chairman McCain: Thank you very much, Mr. Chairman.
2 If it is okay, I'll just have a couple of brief questions,
3 because I was briefed by you already. If any of the members
4 of the committee wish to respond to any questions by me or
5 other members, just signify and you'll be recognized.

6 Just two brief questions, Mr. Chairman. How do you
7 know that your recommendations will provide the same force
8 structure to the services, on the issue of the proposed
9 compensation system? In other words, right now, there is an
10 incentive to remain for 20 years. In this present plan,
11 there will be retirement compensation literally throughout.
12 So do we have incentive for people to remain in for a career
13 or disincentive?

14 Mr. Maldon: We do, indeed, Mr. Chairman. In our
15 recommendations, we did a blended plan here. We already
16 have a defined benefit, and we added a defined contribution
17 to this to make sure that we can do the retention or provide
18 for the retention that the services told us that they wanted
19 us to.

20 I am going to have Commissioner Higgins talk to the
21 specifics of that recommendation, Mr. Chairman.

22 Chairman McCain: Thank you.

23 Mr. Maldon: Commissioner Higgins?

24 Mr. Higgins: Thank you very much, Mr. Chairman, and
25 Chairman McCain.

1 Sir, the system we have devised includes the
2 incentives, the flexibility, and the choice that people want
3 in force, so we feel, at its essence, it's going to be a
4 very powerful retention tool. When we look forward at how
5 the system will operate over time, our belief is, and
6 supported by our analysis, and in this case, it was the Iran
7 model, which was the dynamic retention model used, we
8 believe that our proposal will exactly model the current
9 force profiles. It will have the tools within it, including
10 continuation pay, Thrift Savings Plan, which is currently
11 with matching, which is currently not offered today. It
12 will include the tools that will draw people through the 20-
13 year career, much like the defined benefit does today, and
14 to some large extent, because the defined benefit is
15 retained under our proposal, about 80 percent of that
16 defined benefit.

17 So these new tools to meet the demands of choice
18 flexibility, along with the defined benefit that is
19 retained, we believe will operate very effectively. And the
20 modeling that we have done will support that.

21 Chairman McCain: Thank you. On the issue of health
22 care, how does this incentivize beneficiaries to seek the
23 most cost-effective means of getting health care?

24 Mr. Maldon: Mr. Chairman, thank you for the question.
25 That was very important to us as we took a look at the

1 programs that are providing the benefits to our
2 servicemembers.

3 As we traveled across the country and we talked to
4 families, servicemembers, Reserve component members,
5 retirees, after listening very, very carefully to the
6 conversations and discussions that we had in terms of what
7 people said they wanted, they preferred as values choice,
8 access, and value of health care. Those were the themes
9 that just kept coming time and time again.

10 And I'm going to ask Commissioner Buyer to speak
11 specifically to that question.

12 Mr. Buyer: Thank you, Chairman and members of the
13 committee. Cost-effective means, I look at it from two
14 ways. One is to the government. The other is to the
15 families.

16 When we looked at this, it was at how we can achieve
17 both. Presently under TRICARE, we don't, because there
18 really aren't sufficient unitization management tools. It
19 is a very limited network because of the very low
20 reimbursement rates and how the TRICARE contractors actually
21 recruit providers into the networks and pay below Medicare
22 rates.

23 So with regard to the families, we said, can we do
24 better, not only for the government with regard to the cost
25 but also with regard to the families and improve the quality

1 of care, give them the choice that they want and get better
2 access? And we found that if we move to a system whereby we
3 have what we call TRICARE Choice, which is very similar to
4 an FEHB model whereby they select from available plans in a
5 particular geographic region. It does call for more
6 empowerment of the individual. We are asking that that
7 individual is able to select a plan that best fits their
8 family. And when we do that, the plans themselves that are
9 then managed and administered by OPM, those plans will have
10 effective management unitization tools, and it becomes more
11 cost-effective not only to the families but, in particular,
12 to the government, Chairman.

13 Chairman McCain: Thank you.

14 Senator Reed?

15 Senator Reed: Thank you very much, Mr. Chairman.

16 Let me direct this question to General Chiarelli, and
17 anyone else who would like to respond.

18 Part of your recommendation with respect to health care
19 is also strengthening the military treatment facilities, the
20 traditional facilities that have to be ready to deploy, if
21 we deploy. And part of it, as I understand the proposal, is
22 that they would be part of these health care systems.

23 Can you comment from your perspective as former vice
24 chief on this whole issue of strengthening the military
25 medical infrastructure along with giving individuals more

1 choices in the health care? Or if someone else wants to.

2 General Chiarelli: No, I'm more than happy to.

3 Senator Reed: Yes, sir.

4 General Chiarelli: I think we are in a death spiral
5 right now in our MTF, from the standpoint of they just don't
6 have the number of reps that they need to keep their doctors
7 up to standard. And this is a way that we can bring into
8 our military treatment facilities the kind of cases that
9 contribute to battlefield medicine.

10 That is what makes this system so different than any
11 other system. We need well-trained doctors, not only to
12 treat patients in hospitals, but to be ready to deploy
13 wherever we send them and provide that same kind of
14 treatment on day one of the conflict.

15 This will allow us to attract into our military
16 treatment facilities the kind of cases that will keep those
17 skills up, and are so absolutely crucial to our survive-of-
18 wounds rate in the last 14 years of war.

19 And it will do that on day one of the next conflict. I
20 really believe that this is something that is going to
21 ensure that we have that combat medical readiness capability
22 we need moving into the future. And if we don't do it, we
23 are going to have a very, very difficult time being able to
24 provide that.

25 Senator Reed: So this is not just about the benefits

1 to the individual military personnel. This is about the
2 overall viability of the health care system in the military?

3 General Chiarelli: Absolutely. And that is one of the
4 reasons why we looked so strongly at a readiness command,
5 because we really believe there is going to have to be
6 somebody who is keeping an eye on this system to ensure that
7 the services are doing the kinds of things that are
8 necessary to keep those MTFs viable training grounds for our
9 physicians.

10 Senator Reed: Let me direct this to the chairman. You
11 can decide who is appropriate.

12 I'm sure I'm not alone, but when we mobilize National
13 Guardsmen and Guardswomen and Reservists, they are the ones
14 who sometimes have the most difficulty getting into the
15 health care plan, getting their benefits, making sure that
16 their family who is not close to a medical facility, who may
17 be far removed. It seems to me that this approach that you
18 are suggesting, choosing among a set of private insurance
19 plans, would be much more easily accessed by Reserve
20 components. Is that accurate, Mr. Chairman?

21 Mr. Maldon: That is correct, Senator Reed. One of the
22 things that happens with our proposal for the Reserve
23 components is, anytime they are mobilizing or being
24 activated, the family members normally will go without
25 coverage. There is a period of time that they just don't

1 have coverage when that happens. This will solve that
2 problem for them because they won't have to worry about
3 going long periods of time without coverage of health care
4 when the Reserve component member activates and deactivates.

5 Mr. Buyer: Senator Reed, I mean, that is an excellent
6 question. That strategic Reserve that we built over time
7 really wasn't prepared operationally. We know that. You
8 funded it. You did a lot of things to bring it up, round it
9 out, and make the total force that better in the 13 years of
10 war. But with regard to the undesirable choices that
11 Reservists and their families had to make upon those
12 mobilizations to be part of those contingency operations,
13 you are absolutely right, Senator.

14 So when we looked at this and said, with regard to that
15 total force, even though we really pressured the chiefs, do
16 we really want an operational Reserve versus a strategic
17 Reserve? They really do, but they don't want to call it
18 that because they don't want to fund it.

19 But what is realistic is, when we talk about the war
20 after next or how to fund the war after next, and caring for
21 the people, when it comes to the health care, that benefit
22 needs to be for the total force. So for the Reserve
23 components, that continuity of care that your questioning
24 goes to, it is so disruptive for the family.

25 If we say from day one when you join the Reserve

1 component that health care is part of that benefit, you can
2 select the type of plan that best fits your family, your
3 premium is 25 percent. We capped it at 25 percent for the
4 premium. Then there is no disruption in the continuity.
5 They like their local providers.

6 And then if they are on for a longer period of time,
7 they've come, gone on Active Duty, they are part of the
8 contingency operation, then they go on to the Active Duty
9 plan, they receive their basic allowance for health care
10 that takes care of the premium for that of their family.

11 Senator Reed: Thank you very much, Mr. Chairman.

12 Mr. Maldon: Senator Reed, if you don't mind, I would
13 like to have another member of our commission speak to that
14 as a Reservist, please, Commissioner Carney.

15 Mr. Carney: Thank you, Mr. Chairman.

16 Mr. Reed, those of us who lived in sort of rural areas
17 and were on Reserve duty, it wasn't TRICARE exactly. It was
18 more like "try to find care." And this takes care of that.

19 What we are offering now is a system that provides a
20 network that is robust enough to care not only for the
21 member when they are on their civilian side, but also for
22 the families when the member is deployed. That is exactly
23 what we are trying to do here and do it in a way that is
24 fiscally sustainable.

25 Medical readiness as well as dental readiness are

1 critical aspects of the overall readiness mission. If we
2 can do that with this kind of system, with a TRICARE Choice
3 system, then I think this is a good step forward.

4 Senator Reed: Thank you very much.

5 Thank you, Mr. Chairman.

6 Chairman McCain: Senator Inhofe?

7 Senator Inhofe: Thank you, Mr. Chairman.

8 I would say to my good friend Steve Buyer, who I used
9 to sit next to on the House Armed Services Committee, that I
10 agree with you, except I'm more concerned about today's war
11 than I am the war after next. Right now is when we are
12 having the problems that we are having.

13 We had a hearing last week. We had Schlesinger, George
14 Schultz, Madeleine Albright. They went back and reminisced
15 about what our capabilities were at that time, and what is
16 expected, and even read the charge that President Reagan had
17 made at one time in determining what a defense budget should
18 be.

19 The reason I'm saying this is I look and I agree with
20 Senator Reed who talked about the inadequacy in meeting the
21 threats. I agree with Director Clapper when he says,
22 "Looking back over my now more than half a century in
23 intelligence, I have not experienced a time when we have
24 been beset by more crises and threats around the globe" than
25 we are right now. That in light of the fact that we also

1 have the force structure problems.

2 I'm very proud of all of our chiefs. General Odierno
3 has been before us, and all of the rest of them, talking
4 about how significant this is and it is something that is
5 unprecedented.

6 The reason I bring this up, we have a quality group
7 here, I would say, Mr. Chairman. I just think after this is
8 over, you should reconvene and get into this thing as to the
9 current threat that is out there and the inadequacy that we
10 are facing. It is one thing for the chiefs to come forward
11 and talk about what is going to happen with sequestration.
12 But when you folks with your backgrounds come forth, to me
13 that gives a different sense of meaning. And I would hope
14 that we might consider that.

15 I was a product of the draft and look at things a
16 little bit differently than others. In fact, I was one that
17 was not at all optimistic that the all-volunteer force would
18 be the quality force that it is. I was wrong, although
19 there were some advantages to the draft at that time.

20 I think that when you are examining the charge that
21 were given to you, and I would ask you the question, what
22 have you decided motivates the young people to serve in the
23 all-volunteer force? And then, why are so many of them
24 leaving, if you could zero in on two or three reasons as to
25 why they don't stay on?

1 Quite often, we go back and talk about how much cheaper
2 it is for us to retain than to retrain. The extreme example
3 is to get a pilot to the point where they can do an F-22
4 quality and the reenlistment bonus is \$250,000 but the cost
5 to retrain is \$17 million. Now scale that down to whatever
6 forces that we have here.

7 What is the major reason that they come in and then
8 they leave?

9 Mr. Maldon: Thank you for the question, Senator
10 Inhofe.

11 We spent a lot of time looking at that, that specific
12 issue that you address. It is a very important one. As we
13 think about how to modernize the compensation programs,
14 compensation programs for tomorrow, we are thinking about
15 exactly what is required for the military to be able to
16 recruit and retain people. And we have to think about the
17 way the new generation think, what they value, what they
18 prefer. Those are the kind of things that we listened to
19 and heard as we talked to people.

20 As it was already indicated here today, 83 percent of
21 the enlisted force actually wind up leaving without any kind
22 of retirement benefits, which is one of the reasons that we
23 made the recommendation that we did, to be able to extend
24 some of the retirement benefits for those servicemembers who
25 will serve and then move on to do other things from 17

1 percent to 75 percent.

2 I'd also like to point out that a couple of things that
3 we were told specifically by the servicemembers is that they
4 are concerned about the service to their country and the
5 G.I. Bill. Those were two of the things that were very
6 important to them in terms of why they would come in, what
7 they were looking for. Get an education benefit, be able to
8 take advantage of that, which is a strong recruiting tool,
9 and then move on to something else.

10 Senator Inhofe: Very good. Thank you, Mr. Chairman.

11 Chairman McCain: Senator Manchin?

12 Senator Manchin: Thank you, Mr. Chairman. Thank you
13 all for being here.

14 I guess this would be to anybody who wants to answer
15 the question. But my thing is, is that it is a very
16 difficult position you are being put into and we all are,
17 because I don't think anyone questions the commitment the
18 service people and all people in military have to the United
19 States of America.

20 I know in West Virginia we feel very strongly about
21 that, people willing to take a bullet. I have always been
22 able to explain when I was Governor, when they would explain
23 or complain about whether it be our state police retirement
24 or our fireman's retirement, they are willing to put their
25 life on the line every day for you.

1 So people are willing to pay a higher price for that
2 but they still want it to be fairly comparable. Do you all
3 look at that from the standpoint -- I can tell you, in most
4 all State budgets or municipality budgets, the firemen and
5 police pensions are out of whack, they are under water, and
6 we are trying to get them back. There is going to have to
7 be some sacrifices. But to the point, we have to recognize
8 the sacrifice they are making for us.

9 How do you balance this out? What would I tell the
10 National Guardsmen of my State that have been deployed maybe
11 three and four times, and we are looking at changing some of
12 the compensation? What type of literacy training are we
13 giving to help them on their retirement? And why do we have
14 so many that leave at 10 years of service in the military to
15 go into private contracting for the extra pay overseas in
16 Afghanistan and Iraq? What is the magic number of 10 years?

17 I find most of our soldiers of fortune that leave our
18 military that we spent an awful lot of time and energy
19 training them, leaving and going for the higher pay. Can
20 you give me that magic thing at 10 years what they lock in
21 and what gives them that freedom to do that? Whoever wants
22 to chime in on this.

23 Mr. Maldon: Yes, Senator. Senator, thank you very
24 much for that question. We, certainly, have spent a lot of
25 time talking about that. I am going to ask Commissioner

1 Kerrey, Bob Kerrey, to share the specifics of that.

2 Senator Kerrey: Well, first of all, I think you would
3 be having a difficult time retraining men and women to serve
4 in the military had this Congress not made all of the
5 changes that it made since we have been fighting this war
6 for the last 14 years. I mean, if you just look at what
7 you've done with pay and compensation, it is now better than
8 market. And it needs to be.

9 The changes that have been enacted by Republicans and
10 Democrats have not been given enough praise, in my view,
11 because had those changes not been done, given the stress on
12 families today -- you know, I'm a very proud geezer father.
13 I've got a 13-year-old. If we think about having to move
14 our son once every 4 or 5 years, it is a traumatic thing
15 inside of our household. That is way more stability than
16 anybody in the military gets.

17 So the stress on the families has increased over the
18 past 14 years. And thanks to congressional action, the pay
19 and benefits now are quite strong, and they need to be in my
20 opinion. Otherwise, we are going to have a difficult time
21 retaining men and women.

22 The second thing that has happened, and the Senator and
23 fellow draftee referenced the good old days, the American
24 people now are quite proud of their military. And they are
25 quite confident that they are getting the kind of support

1 that they need. But Americans are a lot more patriotic and
2 they care deeply about the men and women who are serving.

3 I think that attitude makes a big difference to
4 people's willingness to serve. I would say the combination
5 of patriotism and the combination of pay and benefits, those
6 two things together have made a big difference.

7 When I looked at the recommendations, Senator, that we
8 are making, the two big questions that I ask are, are we
9 keeping faith with the men and women who have served? And
10 those of you who have understand that what happens is that
11 you give up your freedom. If you get ordered to do
12 something or go some place, you do it.

13 So are we keeping faith with those who have served and
14 are serving? I answer emphatically yes.

15 Secondly, the recommendations that we make, will it
16 enable us to continue to recruit and retain in the all-
17 volunteer force. Again, I answer emphatically yes.

18 But it is something that you constantly have to pay
19 attention to. I think there is a qualitative difference
20 between the public pensions at the fire and police level.
21 As you know, those firemen can get a little ornery, and the
22 police can get a little ornery. They don't have a Commander
23 in Chief that tells them exactly what to do. I get orders
24 to report to so and so location, I say yes, sir, and go.

25 Whereas in negotiation with the fire union and the

1 police union, you have serious negotiations about where
2 they're going to go and what they're going to do.

3 So I think there is a qualitative difference between
4 the relationship of the American people and the men and
5 women who have signed up and sworn that oath, given up their
6 freedoms, and even in training exercises, put their lives
7 and health at risk.

8 Senator Manchin: Well, it's not a hard sell.
9 Basically, in my State and most States around the country
10 are very committed to our military force, and they want to
11 make sure they are compensated and taken care of and given
12 the care they need. They just want to make sure we are
13 doing it in an efficient manner, and if we are giving them
14 the training and expertise and literacy training they need
15 to make decisions.

16 Senator Kerrey: I would say, Senator, I think the
17 moment that ends, no matter what you pay men and women, they
18 are not going to sign up. The moment that that attitude
19 changes, as it was in the 1970s, it is going to be difficult
20 to recruit people to service.

21 Senator Pressler: We have a tradition on our Indian
22 reservations. A lot of people serve 3 or 4 years and very
23 rarely go for a career. I always had a difficult time
24 getting our Native Americans to go to the military
25 academies. But it seems that, aside from whatever we do,

1 there is a tradition in our country of a lot of people
2 wanting to serve 3 to 5 years. Of course, we need those
3 people. And that is particularly true in rural areas in
4 States such as mine and with Native Americans.

5 Senator Manchin: Thank you, Mr. Chairman.

6 Chairman McCain: Senator Fischer?

7 Senator Fischer: Thank you, Senator McCain.

8 Mr. Chairman, you've mentioned flexibility a couple of
9 times here in your statements. And in the report, it says
10 that the force may benefit from a flexible retirement system
11 that incentivizes them to remain in service longer than
12 other occupational specialties with regard to doctors,
13 cyber-personnel.

14 Do you have specific proposals? I would like to dig
15 down a little bit into this. Do you have any specific
16 proposals that the commission recommended? And do you see
17 each service setting a different requirement there? And if
18 so, do you anticipate any problems? Do you see competition
19 among the services?

20 Mr. Maldon: Thank you very much, Senator, for the
21 question. I am going to ask Commissioner Zakheim to respond
22 to the specifics of your question first.

23 Mr. Zakheim: Thank you, Mr. Chairman.

24 Senator, as you know, each of the services already has
25 different types of bonuses to keep people on. For instance,

1 nuclear engineers and specialists get special bonuses from
2 the Navy and so on.

3 Our proposal does not tell the services how they should
4 do it. What we are trying to do here is give them maximum
5 flexibility, so that if there are, as you pointed out,
6 certain specialties that, frankly, like doctors, you
7 actually get better with more time in your practice, then
8 the services up front can decide that they want to recruit
9 an individual and have that individual stay on longer than
10 the normal term. But it works both ways, actually. It is
11 not just to keep people longer. They can sign up some for
12 less.

13 We wanted to give them maximum flexibility, so at the
14 same time that we are giving the individual choice, we are
15 giving the services flexibility. Again, it goes back to the
16 question about what kind of a force do you want to shape?
17 The services are the ones who know that best, of course.

18 Senator Fischer: When you looked at the surveys, were
19 there any issues identified that the commission did not make
20 recommendations on? I guess I'm thinking specifically of
21 the housing allowance. That has been a big issue in the
22 past. The President has made proposals but yet it was not
23 addressed by the commission. Are there other instances
24 there? And really, why didn't you address the housing? We
25 hear about that a lot.

1 Mr. Maldon: Senator, thank you so much for the
2 question. We, indeed, took a very, very hard look at the
3 housing BAH and BAS, and we actually looked at the pay
4 table. We looked at the structure of all of those programs.

5 And we clearly asked ourselves three questions. Number
6 one, were these programs delivering the benefits that they
7 were intended to? Number two, were the benefits being
8 delivered in the most cost-effective way possible? And
9 thirdly, could this commission design a clear path for
10 modernization to those programs, in terms of improving those
11 programs.

12 After looking at those, we did not feel that we could
13 design a clear path to modernization for those programs, and
14 instead we could provide a much better benefit to the
15 servicemembers and do it in the most cost-effective way by
16 making the recommendations that we have made.

17 Senator Fischer: Would it be fair to say that the
18 commission supports with what the Congress did then with the
19 housing allowance? Or do you support the President's
20 proposal?

21 Mr. Maldon: Senator, again, thank you for the
22 question. I am going to ask Commissioner Higgins to respond
23 to the specifics of that question

24 Senator Fischer: Thank you.

25 Mr. Higgins: Thank you, Mr. Chairman, Senator.

1 Clearly, BAH, in our view, is operating effectively to
2 provide the housing that our servicemembers need. There are
3 a number of the elements of the compensation system that
4 drew our attention very dramatically that we did not elect
5 to meddle in, if you will, because we believe they are
6 operating effectively. Others would include the pay raise
7 mechanism. The pay table itself we believe is operating
8 correctly, special pays and allowances, and BAH, I think
9 along with that.

10 Now on each, if you believe that you need to save
11 money, then obviously the Congress could act to produce
12 programs. And that is your choice. Our objective was
13 modernization, and systemized modernization where we go into
14 the structure of a program. We did not believe that the
15 structure of those programs were deserving of modernization.

16 If I could go back to your other question as well,
17 Senator, the service chiefs asked for flexibility. One of
18 the primary complaints about the retirement system as it
19 exists today is that it is overtly rigid, inflexible.
20 Service chiefs implored us to seek opportunities for greater
21 flexibility. And we delivered that section you are
22 referring to.

23 Are there some potential frictions between the
24 services? Would it cause some concern? Do we believe it is
25 going to be used instantaneously? No. There will be

1 uncertainty, and I think that will keep that proposal in
2 check, perhaps for years. But there will come a day when
3 greater flexibility in the retirement system will be needed.
4 And that provision will be there to deliver that to the
5 managers.

6 Senator Fischer: And it would also allow the services
7 then to compete for the men and women that they need to
8 perform in different areas, correct?

9 Mr. Higgins: Always a difficult issue, controlling
10 competition between the services. The service cultures are,
11 indeed, incredibly strong. You always want to endeavor to
12 limit competition and create systems that operate for the
13 best interest of the total force. But there will be some
14 insecurity, and I think that will cause this, as enticing as
15 it may be to some people inside the Pentagon. Whether or
16 not it rises to a level where it is implemented is a serious
17 question that is going to take time to resolve.

18 Senator Fischer: Thank you, sir.

19 Thank you, Mr. Chair.

20 Chairman McCain: Senator Gillibrand?

21 Senator Gillibrand: Thank you, Mr. Chairman, for this
22 hearing. Thank you to all of you for your very hard work.

23 One of the most important considerations for me in
24 terms of potential changes to benefits and compensation is
25 that the approach be holistic and that we ensure the lower

1 enlisted troops and families do not disproportionately feel
2 the impact. Can you please walk me through why you believe
3 this is holistic and how it will impact lower enlisted
4 troops and their families? Anyone can answer.

5 Mr. Maldon: Thank you, Senator, for your question. I
6 am going to ask Commissioner Chiarelli if he would please
7 respond to the question.

8 General Chiarelli: I think we have done everything we
9 possibly can to make it holistic and apply to everyone. We
10 have two charts that go into the retirement. One enlisted
11 E-7 to show what his retirement is under the current system,
12 and what it would be under the new system. I think you can
13 see that it is clear that he or she would do much better
14 under our proposed system than they would under the current
15 system.

16 We have one for officers that shows the same thing.

17 I don't think it's just the retirement system you
18 should look at. I think you should look at what we are
19 doing with health care. We are giving them the ability in
20 health care to go out and immediately go to see a private
21 provider that is in their insurance network. Or if they
22 would rather choose to go to the MTF because that is where
23 they feel they can get the best care, they can go to the
24 military treatment facility.

25 Today, under most of the TRICARE programs, it takes a

1 period of time before you can get that TRICARE referral, and
2 it is up to 30 or 40 days from the time you want to see
3 somebody until you can get out to see them, if you can find
4 a provider.

5 This applies not only to officers and warrant officers,
6 but it applies to our enlisted soldiers. So I think
7 everything in our recommendations was geared to ensure that
8 whatever we recommended was holistic and applied to both
9 officer and noncommissioned officer in the same way.

10 Senator Pressler: In a holistic sense, we included
11 exceptional family provisions and childcare issues in our
12 report, which normally might not be in such a report. But a
13 lot of the lower ranking servicemembers have a very hard
14 time with waiting lists on childcare and so forth, so we
15 tried to be holistic in that sense.

16 Mr. Buyer: Ma'am, holistic was not only off the
17 moment. We were very reverent to the past for our military
18 traditions and heritage.

19 Senator Gillibrand: Thank you.

20 Senator Kerrey: If I could?

21 Senator Gillibrand: Please.

22 Senator Kerrey: There is one area we have not talked
23 about. First of all, you completely destroyed me, because I
24 tried to get the chairman and the rest of the commissioners
25 to stop using the word "holistic."

1 Senator Gillibrand: Sorry.

2 Senator Kerrey: Obviously, I failed in that effort.

3 Among the things you really need to think about is all
4 these men and women at some point are going to transition
5 back into the civilian life. And the changes we are
6 recommending in the health care side and the changes we are
7 making on the retirement side make it much easier to do
8 that, because there isn't an abrupt differential between
9 what we are recommending and what the civilian population is
10 doing.

11 Senator Gillibrand: So to continue along that line,
12 I'd love to understand better the health care proposal. I
13 understand that part of the recommendation is to create a
14 basic allowance for health care based on the average
15 family's out-of-pocket costs to cover the cost of premiums
16 and the co-pays. So how do you account for families with
17 extraordinary needs? Will they pay more? And I'm
18 especially concerned about families with the special needs
19 dependents, children with special needs specifically.

20 Mr. Maldon: Senator, thank you for the question. We
21 spent an inordinate amount of time talking to families
22 across the country about the challenges they had with
23 exceptional family members. And I'm going to as
24 Commissioner Buyer to speak to that, the specifics of that
25 question.

1 Mr. Buyer: There are two parts to the question. I'll
2 do the health care and then the extraordinary families
3 piece.

4 To the basic allowance for health care, you are
5 correct. In order to make that determination, it will be
6 decided by OPM. OPM will manage the plans and they will
7 take the average of those premiums of the plans that were
8 selected in the prior year. They also then will look at
9 that average to come up with the co-pays and the
10 deductibles.

11 Senator Gillibrand: And does OPM help families
12 navigate it, because this is a new system for them.

13 Mr. Buyer: Part of our recommendations with regard to
14 literacy training, literacy is not only for financial
15 literacy, because now, as we move into the Thrift Savings
16 Plan and government contribution, there is a financial
17 literacy piece. But there is also a health piece to help
18 people navigate.

19 This really is calling for more empowerment of the
20 individual. It goes to that opening question that Mr.
21 Higgins really posed to all of us on day one, which is that
22 we are very used to our military being paternalistic. So as
23 we look at what is happening in society and how dynamic, I
24 want to say the new generation is, not that they are the
25 selfie generation. They are the generation who want to have

1 greater controls about themselves. They watch their peers
2 making contributions into 401(k). "How about me? I am in
3 the military. I want to participate, too." So we have come
4 up with that blended.

5 With regard to health care, we are also making that
6 empowerment of choice in educating them about how important
7 it is to make the best plan for themselves and their family.

8 When we give them the financial literacy and the health
9 literacy, when they leave the service, it is a better
10 individual and it is a better family.

11 Mr. Maldon: Senator, if you don't mind, I'd like to
12 have Commissioner Higgins follow up on the latter part of
13 the question. It was two pieces.

14 Senator Gillibrand: My time has expired. It is up to
15 the chairman.

16 Chairman McCain: That is okay. Go ahead, Mr. Higgins.

17 Mr. Maldon: Thank you, Mr. Chairman.

18 Mr. Higgins: Thank you, Mr. Chairman, Chairman McCain.

19 Senator, we had a great deal of concern about
20 exceptional family members and how we would care for them.
21 We have a proposal, of course, that would add a new level of
22 benefits for those families. It was one of those areas
23 where we would increase costs, so we were not all about
24 cutting. We were about making life better for
25 servicemembers.

1 In addition, if you had a catastrophic situation in a
2 family where you had extreme cost that was related to an
3 exceptional family member, there is also a fund that we
4 would propose to ensure that those out-of-pocket costs did
5 not get excessive. And we plan on that for about 5 percent
6 of the people. So there is help there.

7 Chairman McCain: Senator Ayotte?

8 Senator Ayotte: Thank you, Chairman.

9 I want to thank all of you for the hard work and
10 thoughtfulness you put into this commission and for having
11 this important discussion with us.

12 I do have to say, today, I'm walking back and forth
13 between this committee and the Budget Committee. And as I
14 look at where we are, Senator Kerrey, to use the word
15 "holistic" in a way that I think the point needs to be made
16 here, is that if you look at where we are, for example, the
17 President's budget that was just submitted, by 2021, our
18 interests costs, what we are paying in interest, is going to
19 exceed the Defense budget.

20 As I look at the work that you have done, a bipartisan
21 commission, and we look at what the biggest drivers in our
22 debt are overall, looking at the big budget, mandatory
23 spending, programs that we need to have similar looks at --
24 Medicare, Social Security, that are very, very important
25 programs to people.

1 I appreciate that you have done all this work. I think
2 we are looking at our military stepping forward first in
3 making many changes. And I think that we need to look
4 across the entire budget too, because where we are is that
5 we are going in 2016 to defense budget only 3.1 percent of
6 GDP and 14.3 of Federal spending, which is the bottom of the
7 historic range since 1950.

8 The reason I want to put that in perspective in the big
9 picture for everyone, we look at the sacrifices that our men
10 and women in uniform make -- the separations from family,
11 obviously the sacrifices they make putting their lives on
12 the line, all of that. I think that the work you have done
13 is really important, and we look forward to delving into it
14 more deeply.

15 But I hope in the bigger Congress, as we scoot between
16 here and the Budget Committee today, that we look at the big
17 picture and we won't be sitting in a situation where we are
18 going to continue to shrink the defense of a Nation because
19 we won't take on the other hard challenges that need to be
20 taken on for this Nation.

21 It would be great to see a group like you look at the
22 bigger picture as well. I just wanted to say that, and
23 thank all of you for your work.

24 In terms of a specific question, I wanted to follow up
25 on the retention issue, because obviously that is important

1 to all of us in terms of keeping the very best military in
2 the world and wanting our best and brightest to join the
3 military.

4 As we look at your proposals on recruitment and
5 retention, what assumptions did the commission use regarding
6 economic conditions in the country and operational tempo?
7 So meaning, what did you assume would be the rest of the
8 private economic growth, because that always drives,
9 obviously, what opportunities our best and brightest have?
10 And also operational tempo?

11 Mr. Maldon: Senator, thank you very much for the
12 question. We took quite a bit of time actually looking at
13 that and deliberating over those issues. We actually had
14 experts come in and talk to us about the millennials and
15 what that means, as well as what it means with the social
16 environment and those kind of societal changes that have
17 taken place and how that would affect retention.

18 I am going to ask Commissioner Chiarelli to speak to
19 the specifics of your question.

20 General Chiarelli: I would totally agree with the
21 chairman, Senator. We did.

22 A good example where we provided flexibility is at the
23 12-year mark with continuation pay. That is not a fixed
24 amount someone is going to get. We were going to allow the
25 services to set that amount based on the economic conditions

1 that they have at the particular time to maintain the
2 retention rates, not only the total retention rate but the
3 retention rates by specialties that they need to continue
4 past that 12-year mark.

5 So everything we did was based around an operational
6 tempo from peacetime to the fact that we would have to
7 deploy the entire force.

8 If you had told me when I was in the Army Operation
9 Center on 9/11 that we would be able to maintain the all-
10 volunteer force at the op tempo that we did for 13 years, I
11 would have told you there was no way whatsoever. And we
12 did.

13 I had aviators that literally knew that, on the 365th
14 day of the year, they were going to be back down range.
15 They would stay down for a year and come back and get
16 another year at home before they were going back down range.

17 Why they did that? A lot of it is pure patriotism,
18 love of country, and a mission they believed in.

19 I think it is absolutely critical that in times where
20 we don't have that operational tempo, we give the services
21 the tools they need. I think you will find throughout our
22 report we have done that, everything we can to give them
23 that flexibility to maintain those retention rates.

24 I would argue, in the earlier question, as I live
25 around Fort Lewis, Washington, today, the biggest issue for

1 retention today is uncertainty. They just don't know
2 whether they are going to have a job tomorrow. There is
3 real concern in the force, as you wander around that post
4 and see folks, how far the cut is going to go. Is there a
5 future for me here?

6 I think our retirement plan speaks to that and puts us
7 in much better position, should we ever have to cut the
8 force again to provide people who are leaving something when
9 they leave.

10 Senator Ayotte: I want to thank all of you. I have
11 some additional questions I'll I submit for the record.

12 I would just say, General, to your point, that goes to
13 the sequester issue too, in terms of continuing to diminish
14 what we are going to spend on the overall force and our
15 readiness, and that is issue we already had hearings on, and
16 we need to do something about. Thank you.

17 Mr. Maldon: Senator, thank you. Senator, there was a
18 modeling component to your question. I would like to take
19 that for the record and then get back to you, too, because
20 we do have very specific data and details for that.

21 Senator Ayotte: Thank you.

22 Chairman McCain: General Chiarelli, I wish that every
23 member of the Senate could have heard your last comment,
24 because, as you know, we are going to be in a very
25 significant struggle here in regard to sequestration. You

1 reflect the views that were expressed to this committee by
2 our four service chiefs last week, and I thank you for that.

3 Senator Donnelly?

4 Senator Donnelly: Thank you, Mr. Chairman.

5 I want to thank all of you for your service to the
6 country. You have all done so many extraordinary things for
7 us.

8 My fellow Hoosier, Congressman Buyer, is here. Thank
9 you for all your work. And to all of you.

10 I also want to say the importance of the extended care
11 that you are providing for exceptional family members, what
12 you have done in that area is really significant, and will
13 change lives for family after family.

14 General Chiarelli, I wanted to ask you about the
15 unified drug formulary between DOD and V.A. You have done
16 exceptional work in trying to stop the scourge of suicide.
17 You have worked tirelessly to provide solutions and answers
18 here.

19 If you would tell us a little bit the challenge when
20 you transfer from DOD to V.A. with the drug formulary and
21 what that is causing?

22 General Chiarelli: Thank you for that question,
23 Senator. I really appreciate that.

24 When I was vice chief of staff in the Army, I had no
25 idea there were two different drug formularies between DOD

1 and V.A. I really believed every single soldier who used
2 drugs the way they were supposed, who had posttraumatic
3 stress or traumatic brain injury and was taking an off-label
4 antidepressant that was developed 30 to 40 years ago, not
5 for the disease that they had, that their doctor had to work
6 through a whole bunch of the different drugs to get them to
7 the right one, that when they showed up to their V.A. on day
8 one, they would be able to provide that prescription to
9 their doctor, and he would automatically refill it. That is
10 not the case.

11 We have two different drug formularies. The DOD's is
12 very expansive, just about anything FDA has approved, they
13 can prescribe them, and they do. And when an individual
14 finally gets on the right drug at the right dosage and goes
15 over to the V.A., many, many times in this particular area,
16 antipsychotics and antidepressants and antipain medications,
17 they find themselves in a situation where the doctor looks
18 at them and says I'm sorry, I cannot refill that
19 prescription.

20 You are going to hear a lot of different stories from
21 folks, but I continue to have soldiers come to me, sailors,
22 airmen, and Marines today -- just last week, I met with one
23 for coffee who had the exact same thing happen to him.

24 If there is anything we can fix to get at this suicide
25 problem, it would be to make sure that once we get a kid on

1 the right drug and at the right dosage, wherever he goes in
2 the system, he is able to get that same drug and not be
3 told, "I'm sorry, that's not in our drug formulary."

4 Senator Donnelly: Isn't there also a confidence factor
5 for that person, that they feel comfortable with the drugs
6 they are receiving, with the treatment they are on, and
7 changing it up is like a life-changing experience?

8 General Chiarelli: Most of them don't, Senator. What
9 they do is they go find a private doc to go ahead and give
10 them the prescription and they pay for it out-of-pocket.

11 So here we have told them, "We are going to take care
12 of you. We really care for your service. This is your
13 benefit." And they go over and say, "I'm sorry, you can't
14 have that drug."

15 I'm telling you, no one cares if you get St. Joseph
16 aspirin in DOD and Bayer aspirin in V.A. That is not an
17 issue. But on this drug formulary issue for
18 antidepressants, antipsychotics, pain medications, these
19 things you have to be weaned off of, we should not put our
20 service-men and -women in this situation when they transfer
21 over to the V.A.

22 If it is not on the drug formulary, somebody should
23 hand them a card and say go to your local pharmacy and get
24 the drug.

25 Senator Donnelly: As the General and all of you know,

1 we are losing 22 veterans a day to suicide. In the Active
2 Duty, we lost 132 young men and women in combat in 2013. We
3 lost 475 to suicide, almost four times as many. So your
4 efforts on this are life-changing.

5 I would like to then follow up with a question. As we
6 transition from DOD to V.A., for a number of our young men
7 and women, obviously, there are electronic health record
8 challenges. What do you think is the next largest challenge
9 we have to tackle and knock out?

10 Mr. Maldon: Senator Donnelly, thank you very much for
11 the question. We spent a lot of time talking about the DOD-
12 V.A. collaboration and what that really means, what effect
13 it has on health care for veterans.

14 I am going to ask Commissioner Buyer to speak to the
15 specifics of that question first.

16 Senator Donnelly: Great. Thank you.

17 Mr. Buyer: When you look at our recommendation eight,
18 Senator Donnelly, we are asking that the Joint Executive
19 Committee that has authority, it doesn't have power now.
20 That is pure heterodox. We are asking that you give it
21 statutory power to actually implement the recommendations.

22 When we met with Secretary McDonald, two things we
23 learned. One is they said they agree with the commission.
24 But could you also -- this wasn't in our recommendation and
25 I throw this to you, because I anticipate the Secretary of

1 the V.A. would say I would like to have parity, so when the
2 Joint Executive Committee meets, the Deputy of the V.A.
3 meets with the Undersecretary for Personnel. It is not the
4 same. If you raise that so that the Deputy Secretary of the
5 V.A. and the Deputy Secretary of the DOD meet at the Joint
6 Executive Committee, and give them the authority with the
7 power to implement, big difference.

8 So with regard to the blended recommendations and the
9 exact antidepressants or antipsychotics General Chiarelli
10 spoke of, or pain medications, let the experts make that
11 decision with regard to where in the formulary it should be
12 blended. With respect to large capital projects, never
13 again should we have the scenario where we all struggle
14 trying to get the time lines for the building of an Army
15 hospital and a V.A. hospital. That shouldn't ever occur to
16 us again.

17 With regard to your specific question, "What do you
18 really anticipate, Steve, the biggie that is going to happen
19 next?" It really is this challenge, as the country moves to
20 set these national standards for the electronic health
21 records. So we have the scenario whereby you are responsive
22 with regard to the V.A. and the scheduling debacle. We said
23 that we will move to this Choice program, Senator McCain,
24 that you talked about. And we will have this increase of
25 more non-V.A. care. When you are on the Committee on

1 Veterans Affairs in the House, around the '04, '05
2 timeframe, we were spending about \$400 million for non-V.A.
3 care. Today, \$6 billion. It is only going up.

4 So think of this, DOD has a contract let to create
5 their own new version of their electronic health record.
6 V.A. is doing the evolution of VistA, and they want to make
7 sure, as they move to their new programs, that they have
8 data standards so they can be bidirectional.

9 At the same time, the V.A. is doing more non-V.A.-based
10 care in the private sector. And in order for there to be
11 continuity of care, those private docs have to be able to
12 communicate then with the V.A. So we are talking about
13 bidirectional, so they can communicate. That is a huge
14 challenge.

15 Now in DOD, as they move to their new electronic health
16 record, and as we make recommendations to you to move toward
17 the selection of plans, meaning there is going to be a lot
18 of care provided in the private sector.

19 So this setting of national standards on how the
20 country will communicate is extremely important. And that
21 is what I would see, Senator Donnelly, as the biggie that is
22 about to come. It is about your leadership on setting those
23 national standards.

24 Senator Donnelly: Thank you to all of you, and thank
25 you for your extraordinary service across-the-board.

1 Thank you, Mr. Chairman.

2 Chairman McCain: Senator Sullivan?

3 Senator Sullivan: Thank you, Mr. Chairman.

4 I wanted to also thank the members of the commission
5 for the great work that you have been doing for the country,
6 now and before.

7 I first want to get a sense of kind of the big macro
8 issues, the competing issues that you have seen, Mr.
9 Chairman, as part of your mandate. In particular, what I
10 was interested in, is there a concern about the projected
11 growth of benefits, of retirement, that ultimately will be
12 or could be taking away from training and readiness? I
13 think we all want to make sure we are taking care of our
14 troops. I think, though, sometimes what gets lost is
15 ultimately the best way to take care of them is to make
16 sure, if and when they need to go fight, that they come home
17 alive.

18 Is that an issue that the commission has had to deal
19 with on a broad scale? This kind of tension between
20 competing issues that we are looking at with regard to
21 military expenditures?

22 Senator Kerrey: Mr. Chairman, can I take that
23 question?

24 Mr. Maldon: Senator Sullivan, thank you very much for
25 your question. I knew that Commissioner Kerrey would want

1 to answer this question, so I'm going to ask him to respond.

2 Senator Kerrey: Since I'm notoriously holistic in my
3 thinking about such things.

4 I argued and I think commissioners were persuaded that
5 for us to address this problem that you have identified,
6 without addressing the big one -- the big one is Social
7 Security and Medicare. That is crushing all the
8 appropriation accounts.

9 It would be unfair to identify military retirement as
10 the big problem, because it isn't. The big problem is
11 Social Security and Medicare.

12 So it seems to me to address military retirement
13 without going after Social Security and Medicare is
14 basically saying we are going to balance the budget on the
15 back of our military retirees, and I think that would be a
16 wrong thing to do and send a terrible signal.

17 Mr. Zakheim: Could I jump in here?

18 Senator Sullivan: Yes, sir.

19 Mr. Zakheim: Since I had to deal with exactly that
20 question at DOD when I was comptroller.

21 First of all, there is a huge misunderstanding as to
22 how much is being spent on military, as part of the defense
23 budget. People think it is 50 percent. It is not. It is
24 29 percent. We write about that in our report.

25 If you add the civilians, the defense civilians, that

1 brings it up to about 40 percent. But that is a whole other
2 category. That is not something we focused on.

3 The real issue is, can you modernize what you are
4 offering to your military at the amount of money that you
5 are spending? If you can spend a little less and modernize
6 a little more, so much the better.

7 That is where we started. We started with modernizing.
8 We started with choice. We started with what my fellow
9 commissioner doesn't like, holistic approaches. But that is
10 where we began.

11 Then we looked how things fell out. It turned out, it
12 fell out that you could actually save the government money
13 as well. You could actually do better by your people and
14 still save the government money, which tells you how
15 inefficient the current system is.

16 The reason it is inefficient is not that it was
17 deliberately so. When the all-volunteer force started, who
18 was in it? Mostly young men, unmarried. Now look at what
19 we have. A completely different kind of force.

20 So we have to be concerned about ECHO programs. We
21 have to be concerned about childcare. We have to be
22 concerned about a lot of different things that just weren't
23 paramount in 1975.

24 That is how we approached it. And we did save some
25 money, but that wasn't the driver. And it shouldn't be.

1 Mr. Buyer: Senator, I'd be very careful about getting
2 sucked into this debate of people versus procurement.

3 Senator Sullivan: I'm not talking about just
4 procurement. I am talking about hard training for our
5 troops.

6 Mr. Zakheim: Again, frankly, this is not the issue,
7 because the amount of spending on personnel has been level.

8 The real problem, and I think Senator Ayotte pointed it
9 out, and several others, is there is just not enough money
10 going to defense, full stop. That is the issue.

11 Mr. Buyer: When you hear that personnel costs are
12 unsustainable, the baseline that is used for that is year
13 2000. The question you should and is why was the year 2000
14 chosen as the baseline to prove that somehow personnel costs
15 were unsustainable? Congress made a lot of the conscious
16 decisions to improve the personnel system. We did REDUX
17 reform. We did the V.A. formulary reform. And we changed
18 the pay tables. And we did TRICARE for life. Then as you
19 went into war, we did the G.I. Bill and the pay raises.

20 So there was a reason, a clever reason, why the year
21 2000 was chosen.

22 General Chiarelli: And I would only add, and I'm
23 telling on myself now, my staff used to tell me to come up
24 here 21 times, and if you go back and look at my testimony,
25 I always quoted the fully burdened cost of a soldier.

1 I learned through this commission work that the cost of
2 a soldier hasn't really gone up. It is what you hang on
3 that soldier.

4 Look at an M16 rifle and what it looked like in
5 Vietnam, and look at that same weapon system today with all
6 the sights and bells and whistles that we are putting on it.

7 When you look at the fully burdened cost, you are rolling
8 in the additional costs of other things and applying that to
9 personnel accounts, which I was totally wrong in doing that.
10 And I apologize.

11 Mr. Zakheim: And one last point, which is really
12 important. General Chiarelli pointed out that he couldn't
13 imagine, and neither could I when I came in in 2001, that we
14 would be at war for 13 years and be able to keep all the
15 people we kept. Well, if Congress and the executive branch
16 had not done what it had done, as Congressman Buyer said, in
17 2000, 2001, 2002, do you think we would have kept them?

18 Senator Pressler: Let me add to that, that when this
19 commission was created legislatively, we were very limited
20 in the sense we had to assume an all-volunteer force and we
21 would not take anything away from anybody who has it now in
22 certain areas.

23 So really a lot of the commissioners might have had
24 great, grand ideas, but we tried to stay within the confines
25 of our legislative directives.

1 Senator Sullivan: Thank you.

2 Thank you, Mr. Chairman.

3 Chairman McCain: General Chiarelli, it is very rare we
4 get an apology from a General before this committee. And I
5 hope we will mark this as a historic moment. I thank you.

6 [Laughter.]

7 Senator McCaskill: Mr. Chairman, I'm surprised
8 balloons and confetti didn't drop from the sky.

9 [Laughter.]

10 Chairman McCain: Senator Heinrich?

11 Senator Heinrich: Thank you, Chairman.

12 I want to thank all of you. Lord knows what a
13 difficult charge this was. And coming from a State with
14 incredibly high rates of volunteerism, I want to say how
15 much I appreciate the fact that you came to these
16 recommendations unanimously. Serving in this body right now
17 we don't hear that word "unanimously" as often as we would
18 like to.

19 But I wanted to ask you if you could elaborate a little
20 more for everyone here and, certainly, for this panel about
21 the process you used in terms of gathering feedback from our
22 servicemembers, from their families, at military
23 installations and at VSOs, veterans service organizations?
24 That was one of the things I was concerned about in this
25 process, but I was quite impressed with the level of

1 feedback as you move towards your recommendations.

2 Mr. Maldon: Senator Heinrich, thank you so much for
3 the question. We spent a lot of time traveling across the
4 country meeting at different military installations. We met
5 with servicemembers -- that is, active service members,
6 Reserve component members, as well as retirees.

7 We held sessions. We held town hall meetings. We held
8 public hearings as we traveled. We would spend a lot of
9 time trying to really listen. We listened very carefully to
10 the comments that the servicemembers and their families
11 shared with this commission, about things that they really
12 were concerned about.

13 They talked about op tempo, the challenges with that.
14 They talked about the long waiting list of trying to get
15 their child into a childcare center. They talked about not
16 getting access to health care and the problems that they had
17 with trying to get specialty care and waiting to get through
18 the referral system. All of those kind of things are what
19 we used.

20 We received tens of thousands of comments that came in
21 to the office from across the country from servicemembers
22 about things they were concerned about. Then we also
23 received the many, many responses from the survey. The
24 survey was a very, very instrumental part of this process.
25 We sent out surveys to over 1.3 million retirees. We sent

1 it out to our active components and Reserves. We received
2 over 150,000 responses back that said, "Here is what it is
3 that is important to us. Here is what we prefer. Here is
4 what we value."

5 They basically stack ordered one benefit over the
6 other, so we have a pretty good indication of exactly what
7 is important to them.

8 Senator Heinrich: I want to thank you for that. I
9 want to move my next question to Senator Pressler, because I
10 really appreciated your comments about the culture of
11 service that exists in our Native American communities.
12 Certainly, that is one of the reasons why New Mexico has had
13 such an enormous overall rate of volunteerism, military
14 volunteerism, over the years.

15 I was wondering if you had looked at the
16 recommendations in terms of having the sort of TSP model and
17 a contribution portion, if you serve as an enlisted person
18 for 4 years, very much at the beginning of your lifetime
19 career, and you build that early nest egg through this
20 process, what that looks like at aged 65-plus, whenever you
21 actually retire? And what impact would that have on tribal
22 communities, as well as on rural communities, where there
23 are very, very high rates of volunteerism?

24 Senator Pressler: We do have a problem, in the sense
25 of the Native Americans. I just couldn't get mine to go

1 through the academies, but they do join the service for 3 or
2 4 years. And they have a very high rate of service, and
3 they are very proud of it. You go on the reservations, and
4 I know your State, they have American Legion veterans and
5 Vietnam veterans groups and so forth.

6 The component that they would take out at least, and
7 most of them go with no retirement, but they would have at
8 least 1 percent the government would contribute to a TSP.
9 And after 2 years -- one of my colleagues might correct me
10 -- they can contribute up to 6 percent, through the match.

11 But when they are elderly, they will have something,
12 something. It depends how our stock markets work out.

13 But I think, in our country, we have to depend on
14 the citizen soldier. In my view, it isn't just to retain
15 everybody for 20 years. It is for 3, 5, 6. In my case, I
16 served for 3 years. I got no retirement, but my percentage
17 counted when my Federal civil service retirement came. So I
18 did get something. I got 2 percent a year for the time I
19 was in the military.

20 Most Native Americans don't get to that. And we also
21 have the compounded thing that most of them do not go back
22 to careers. They go back to unemployment, and they do have
23 all the problems that you know about it. But for them to
24 have some connection to some small retirement benefit at the
25 end I think would be a very good thing for us to have in our

1 country.

2 Mr. Maldon: Senator, I'd like Commissioner Higgins
3 also follow up on that question, if you don't mind, very
4 quickly.

5 Senator Heinrich: Chairman, I'm out of time. Would
6 you be willing to indulge?

7 Chairman McCain: Not a problem.

8 Senator Heinrich: Thank you.

9 Mr. Maldon: Thank you, Mr. Chairman.

10 Senator Heinrich: Commissioner Higgins?

11 Mr. Higgins: Thank you, Mr. Chairman.

12 Senator, tapping into the economic power of the United
13 States through the Thrift Savings Plan is, indeed, a really
14 powerful financial incentive.

15 We looked at your point about examining what kind of
16 growth would be experienced when the individual arrived at
17 retirement age, say 67. The individual who had done no
18 personal contributions would still, if they leave at 8 years
19 of service, would still have \$18,000 available to them in
20 the their Thrift Savings Plan.

21 But if they contributed and received the full matching
22 of 5 percent of their base pay, they receive at age 67 over
23 \$90,000 in benefits that would be available to them. So it
24 is a pretty powerful mechanism, and I think would serve any
25 community, including Native American.

1 Chairman McCain: Senator Rounds?

2 Senator Rounds: Thank you, Mr. Chairman.

3 Gentlemen, I most, certainly, echo the message from the
4 rest of the committee up here when we talk about the work
5 that you have done. Senator Pressler and I have been on the
6 campaign trail together for a couple of months in the last
7 year and we have met with a lot of members of the Native
8 American tribes. And they truly are a warrior society and
9 we respect what they have provided to our country in terms
10 of service to the Armed Forces.

11 My question to you today is that you are trying to put
12 together a system that while it is similar or at least you
13 want similarities for services being provided, you are
14 trying to provide these services and benefits to a whole lot
15 of different groups. You have the folks that are over the
16 anyone of 65, those between 60 and 65, retirees who have
17 left with 20 years of service but not yet reached retirement
18 age. Then you are also looking at those individuals who are
19 still there within the military. Then you are looking at
20 those who are coming into the military.

21 How do you transition this from what it is today? I
22 got a letter from a man who served over in Iraq, and he had
23 20 years in, came back. He says, after sequestration, the
24 message he gets is, my retirement because I've done my 20
25 years but I'm not yet 60 is I get my retirement, but instead

1 of having an inflation factor, I get inflation factor minus
2 1 percent.

3 The savings to us was \$6 billion, but he says, in the
4 middle of sequestration, the first thing people do is come
5 back to the service-men and -women who have served to be the
6 first to give back. Why are we the first in line to get
7 cut?

8 And now today, I think the challenge this commission
9 has and the challenge that this committee is going to have
10 is to go back to a lot of those same individuals and say,
11 look, here is \$12 billion that is being reduced, or at least
12 being reallocated. Are they doing it on our backs? And
13 those of us who came in and thought we had a deal, knew what
14 we had for retirement, knew what we had for health care,
15 what is it? How are we being taken care of? And is there a
16 transition plan that says we get a chance to choose A or B?

17 If you could, please, I think the work you are doing
18 here is important to do, but I think the challenge we are
19 going to do have is how do you convince these men that are
20 serving or have served that they have some options
21 available? And is there a transition plan that you have
22 thought about for those individuals?

23 Mr. Maldon: Senator Rounds, thank you very much for
24 the question. We, indeed, spent quite a bit of time talking
25 about that very issue that you raised in your question. And

1 as we thought through all the transition assistant kind of
2 challenges that a servicemember faces when they are
3 transitioning out, we took all of that into consideration.

4 I'm going to ask Commissioner Chris Carney to talk to
5 the specifics of that.

6 Mr. Carney: Thank you, Mr. Chairman.

7 Once again, you know, with my colleague right here to
8 my right, the holistic approach that we took to consider the
9 retirement and to make sure that we first of all did no
10 harm, was one of the mandates given us to. And Senator
11 Kerrey also mentioned something very important, and that is
12 that we don't try and balance the bank on the backs of the
13 military. We tried to not do that.

14 So in terms of specifics, some of the programs, and we
15 could talk about this in further committees later on if you
16 want to, but when we talk about RAMP programs, so we don't
17 transition automatically into something that might cost a
18 little more to a retiree or a servicemember, that there
19 would be build-ups over 15 years, for example.

20 But one of the things that we thought was vitally
21 important in all the things we recommend is a good sense of
22 financial literacy. So if our recommendations are adopted,
23 there would be a very robust financial literacy component
24 for all the troops. That starts when they are in boot camp
25 or basic training, and at various points in their career, so

1 they can make good financial decisions going forward.

2 What the Federal Government does often impacts them,
3 and that cannot always be accounted for. You know, promises
4 have been made, and sometimes promises have been, I don't
5 want to say broken, but perhaps bent a little bit.

6 But when you do the financial planning, when you enable
7 the servicemember to have the tools at their disposal to
8 make good financial decisions, the impact of the bending of
9 the promise by the government may be reduced somewhat.

10 So I have a son who is a lance corporal in the Marine
11 Corps. He's making a little money now and came to me on his
12 last leave and said, "Dad, what do you know about Ford F-
13 250s?" I said, "I don't know much, but I know you can't
14 afford one." But a lot of kids aren't making those
15 decisions. They are going ahead and buying that expensive
16 vehicle, so they don't have the money necessary later on.

17 We want to have a robust, as I said before, financial
18 training system so they understand the value of money, they
19 understand the value of money later in their careers. So
20 when they hit the 12-year mark and they are making that
21 decision, do I want to stay in and continue on, or do I want
22 to go out, the money is there to make a good financial
23 decision for them.

24 So to try to reduce the impact of maybe a bent promise,
25 we want to empower the servicemember with the ability to

1 make good financial decisions to kind of reduce some of
2 that.

3 General Chiarelli: I would only add also that the
4 specific thing you said, sir, about somebody who has served
5 20 and is retired, is grandfathered in the current system.
6 They will not be part of this system.

7 Now, in the area of benefits that may fluctuate and
8 change, that might affect them. Co-pays, but that is done
9 over a period of a 15-year RAMP, medical co-pays.

10 But that 20-year person is grandfathered in the current
11 system, and it would not change.

12 Senator Rounds: Thank you, Mr. Chairman. I would just
13 say I hope when we are all done with this, that the thought
14 of bending the promises is one that we try to get away from.

15 Mr. Carney: That was, certainly, our intent, Senator.
16 Yes.

17 Senator Kerrey: And I think you should see the
18 recommendations too, Senator, as a continuation of what
19 Congress has done for the last 13 years.

20 Our goal is to improve the quality of paying benefits
21 for our military. That was the primary objective of the
22 commission. And we have sent a group of holistic
23 recommendations to you that we do think accomplish that
24 objective.

25 Mr. Carney: Senator, we really honest to God tried to

1 keep the faith.

2 Mr. Maldon: Senator, let me just say that I think, in
3 summarizing what my colleagues have said here is that,
4 everything that we did was totally done to protect the
5 benefits, protect the interests of the servicemembers. I
6 wouldn't want anyone to get the impression that we are
7 implying that we were actually cutting benefits of the
8 servicemembers. It was quite the contrary. Even though we
9 yield savings as a result of the approach that we took in
10 reforming the structure of those programs, there was
11 absolutely no interest on our part to reduce the benefits of
12 the servicemembers, in fact, it was to support those and
13 improve those benefits. And I'd just like to make that
14 point.

15 Chairman McCain: Senator Kaine?

16 Senator Kaine: Thank you, Mr. Chairman.

17 Thanks to all of you for your service. This is an
18 incredibly important topic, a very difficult one, and maybe
19 even a thankless one.

20 I have had a chance to begin to review the
21 recommendations, and I see a lot of real positives. I think
22 some of the focus on matters like financial literacy, the
23 transition from veteran status to civilian life in terms of
24 employment training and assistance, these are very far-
25 reaching recommendations. Very much appreciate your work.

1 I am going to make an editorial comment that has
2 nothing to do with any of you. You all were asked to serve
3 on this, and you said yes, and you've done a good job.

4 I am not particularly a sensitive person. But when I
5 walk in and it is a panel, and we are supposed to talk about
6 military compensation, and there is not one woman sitting
7 here, it's just like, wow. I mean, really?

8 One of the first things that happened when I got in the
9 Senate was the order came down from then-Secretary Panetta
10 to open up combat billets to women, to work on that.

11 We have so many women serving in the armed services
12 now, and on these issues, military compensation, the role of
13 military families and their thought about these things are
14 critical.

15 I have a youngster in the Marine Corps, too. And as
16 he's talking to his guys, they are often talking about what
17 their own families are saying to them about things
18 commissaries, exchanges, retirement, health care, salary.

19 So we send a signal. And you didn't form the
20 committee, in terms of the membership. It was probably on
21 us or the executive. But I just got to say that it seems so
22 obvious that if we are really trying to have a military open
23 to women --

24 Senator Kerrey: Strike "probably." It was you and the
25 executive.

1 Senator Kaine: Okay, yes. So then I'll make it as a
2 point obviously not critical to any of you who said yes, but
3 it is to us. I am stunned about it. That is my editorial
4 comment.

5 Mr. Buyer: Senator?

6 Senator Kaine: Yes?

7 Mr. Buyer: I would invite you to actually meet the
8 women who serve on the staff. They are sharp, tight, sharp,
9 brilliant.

10 Senator Kaine: I'm a hundred percent certain about
11 that, but it is no substitution for sitting at the --
12 because we always have panels in this committee that look
13 just like this where the folks backing up the panel members
14 are the smart, talented, incredibly competent women. And I
15 just want to see some women at the table. That's my
16 editorial comment.

17 Senator Kerrey: Raise it in the caucus, Senator.

18 Senator Kaine: Yes.

19 Let me ask about collaboration opportunities. I don't
20 think this was gotten into in significant detail when I was
21 gone, but what are the collaboration opportunities we can
22 harvest between the DOD health system and the V.A.? Looking
23 down the road, there have to be some economies of scale on
24 the cost side, but there also have to be improvements in
25 quality of care at both ends of the spectrum, if we do

1 additional collaboration.

2 Did you get into that at all, or what thoughts would
3 you have for us?

4 Mr. Maldon: Senator Kaine, thank you for the question.
5 We spent a lot of time talk about the DOD-V.A.
6 collaboration. It was mentioned earlier by one of my
7 colleagues as we talked about the formulary issues, the
8 benefit of having a uniform formulary. We talked about
9 shared services. We talked about a need to do better
10 standardization, have standardized policies. And we have
11 actually had conversations with the Secretary of V.A. about
12 that and we talked to people at the Department of Defense
13 about that.

14 I am going to ask Commissioner Buyer to talk a little
15 bit about some of the additional specifics here as to how we
16 respond to the challenge of that and what we did about it
17 within our recommendations.

18 Commissioner Buyer?

19 Mr. Buyer: Thank you. Senator, earlier we talked
20 about the real empowerment of the Joint Executive Committee.
21 And it really lies to the heart of ensuring that two
22 departments of government work together seamlessly. So as
23 that solder, sailor, airman, Marine transitions from their
24 active status into the V.A., they really shouldn't feel it.
25 As soon as they come over, they should feel that medical

1 record is there and that the doctor who has just taken other
2 my care, that there is true continuity of that care.

3 That Joint Executive Committee that has authority, it
4 doesn't have the power to implement. So they can just
5 create a lot of paper. So we are recommending that you
6 actually give the Joint Executive Committee, not only do we
7 create parity between the DOD and V.A. who lead the
8 committee but also give it the power to actually implement,
9 and implement what.

10 So the recommendations on blending the formularies with
11 regard to the antipsychotics, call it the mental health
12 drugs, antidepressants, pain medications, let them set
13 classifications of those drugs and how it should be blended.
14 Extremely important, and General Chiarelli spoke to that
15 earlier.

16 The other would be on capital projects, whether it is
17 building military hospitals or a V.A. hospital in close
18 proximity, or outpatient or super-clinics, have some
19 resource sharing. A lot of sharing initiatives that you
20 find when you go around, there are a lot of local
21 agreements. It is based on personality-driven. But there
22 are a lot of things that work and are effective from those
23 crucibles and that the Joint Executive Committee can
24 actually then centralize those decisions rather than that
25 being decentralized.

1 With regard to the medical information, that is the
2 I.T. issue. The Joint Executive Committee can really drive
3 how the electronic health record is developed through its
4 evolutionary process between the evolution of VistA and this
5 new electronic health record that is about to come out of
6 DOD, and how we then communicate with the civilian doctors
7 who are providing the non-V.A.-based care to the V.A. And
8 then if you adopt what we are recommending, this choice of
9 civilian plans, you have doctors out there that are
10 providing that care. And that electronic record needs to
11 ensure that it is interoperable between your doctor back at
12 home and that doctor from the MTF. But guess what? When
13 they transition then over into the V.A., you want to make
14 sure it is interoperable, too.

15 Senator Kaine: That is very helpful. I would say, on
16 the collaboration side, as I conclude, my sense is, with
17 Secretary McDonald at the V.A., he is a guy who understands
18 collaboration. So there is a collaboration moment that is
19 coinciding with the issuance of these recommendations, and
20 we ought do what we can to take advantages of it.

21 Mr. Buyer: When we met with the Secretary and the
22 Deputy Secretary, they had already met with us previously
23 and they also had initiated a policy paper. I haven't had
24 to chance to talk to General Chiarelli about it, but they
25 are asking that doctors, that that they default to the

1 prescription that DOD doctor had written.

2 It is kind of nice to put it on paper. I would feel
3 much more comfortable if it were something that the Joint
4 Executive Committee looked at and gave it the implementation
5 authority to ensure that if you had a prescription on Active
6 Duty, a mental health drug, when you go to DOD, to ensure
7 that you are going to get that drug is extremely important,
8 because there are a lot of social ills that occur if he
9 falls backwards.

10 Senator Kaine: Right. Thank you.

11 Senator Kerrey: Can I just add something? At the
12 beginning, Senator Kaine, the chairman invited us to speak
13 our minds, which was dangerous in my case.

14 I think this collaboration idea is not going to work.
15 I don't think you are going to get where you want to go
16 unless you start considering actually putting these two
17 systems together. And because of the readiness component,
18 it has to be DOD who is going to be in charge of it.

19 I think you have to go further. I would give this
20 committee both authorizing and appropriating authority so
21 they can't basically rope-a-dope you. You have to have some
22 pretty substantial change in order to get what you want.

23 This is almost the 7-year anniversary of Dana Priest's
24 story about Walter Reed. I remember Danny Inouye calling me
25 up because both of us had been transferred out of a military

1 system into the V.A. system. What do we need to do?

2 So I spent a fair amount of time thinking about this.
3 We have a good recommendation in there, and you are going to
4 improve collaboration. But unless and until you consider
5 putting these two systems together and changing Senate rules
6 so this committee both authorizes and appropriates, it seems
7 to me, unless you at least consider those two things, it is
8 going to be very difficult to get the kind of changes that
9 you want.

10 Chairman McCain: Senator Tillis?

11 We have always agreed with that, by the way.

12 [Laughter.]

13 Senator Tillis: I want to go back to a question or
14 follow up on a question that Senator Manchin asked about the
15 perception and, Senator Kerrey, I think you responded to it,
16 the perception that we are losing people because we are not
17 competitive with the market, say at year 10.

18 I think you made the comment that we are at or above
19 market. Did you to say that? Could you expand on that?

20 Senator Kerrey: Actually, I did say it, and I cannot
21 expand on it. It came from the analysis we did on the
22 commission, that we are at or above where we are in the
23 private sector.

24 It was congressional action that did it. I think we
25 need to maintain that status.

1 Senator Tillis: So the perception that people are
2 leaving at year 10 based on pay or benefits may not be
3 right? There may be other reasons they are leaving,
4 lifestyle or other, but not pay and benefits?

5 Senator Kerrey: I would say that it is likely you can
6 have individual cases, particularly technical individuals.
7 And earlier Dov was talking about one of the problems we
8 have is a lot of these new civilian companies forming up,
9 and they will pay for a security clearance. And they are
10 apt to bid up what the military is doing.

11 I think you will find exceptions to it. But I think in
12 the aggregate, you will see that the military pay is at or
13 exceeds what is available in the civilian world and the
14 benefit package as well.

15 And I'm for that. General Chiarelli talked about it
16 earlier. I came into this commission believing that it is
17 likely we have a real problem with pay and benefits. I
18 don't believe we do. That is not the problem.

19 That problem has a lot more to do with the retirement
20 issues, and there, as I said earlier, I think it would be
21 grossly unfair to address military retirement without taking
22 on the big ones, which are Social Security and Medicare.

23 Mr. Maldon: Senator Tillis, let me follow up, please,
24 on that question by having Commissioner Higgins talk,
25 because we did quite a bit of analysis and review around

1 that. I want him to talk specifically to what our modeling
2 told us.

3 Mr. Higgins: Thank you, Mr. Chairman.

4 Senator, I believe, in a general sense, retention today
5 is probably as good as the military has ever seen it.
6 Having said that, there are select skills that have always
7 been historically very difficult to maintain. Some of the
8 stories that you hear often are, let's say, nuclear-skilled
9 individuals in the Navy are always difficult to retain,
10 because once they acquire those skills, there are very
11 lucrative opportunities on the outside.

12 In recent years, during the war years, what emerged was
13 the 10-year departure of special operators. Those people
14 obviously acquired significant skills during their tenure in
15 the military that now have very high values placed on them
16 in the private sector.

17 The military responded to that with a significant bonus
18 that I think turned the tide in that community. And the
19 Navy has always struggled with additional bonuses and
20 several of their high-demand skills. But I think as a
21 general rule, and this may rely mostly on the economy and
22 the unemployment rate, but as we have moved through these
23 last few years, retention has been quite good.

24 Senator Tillis: One final question for the chairman,
25 or as directed by the chairman, the recommendations that you

1 put forth, how have they been embraced by the stakeholder
2 community? I have heard it said that we are providing for
3 efficiency and value. It sounds like there winners and not
4 a lot of losers. Are there areas out there that there are
5 concern amongst some of the stakeholder groups?

6 Mr. Maldon: Mr. Chairman, I think at this point the
7 feedback we have gotten from the VSOs, the stakeholders of
8 that like, they are very receptive to what we have done at
9 this point in time. It would be premature to say they are
10 100 percent on board with this, because they are still
11 looking at the details of the report and our recommendations
12 themselves, and they have to do their analysis as well.

13 I think DOD, the Department of Defense, is doing the
14 same kind of thing, although I think the general feedback at
15 this point from the Department of Defense and members of the
16 joint staff is that they totally understand the merits of
17 our report, what we are recommending, how those
18 recommendations support fiscal sustainability of the
19 compensation programs, and the fact that we have been able
20 to achieve efficiencies by reforming the structures of those
21 programs without taking away any benefits, in fact adding
22 benefits in most cases for our servicemembers.

23 Senator Tillis: Thank you, Mr. Chair.

24 Senator Reed: [presiding] Senator Hirono?

25 Senator Hirono: Thank you, Mr. Chairman.

1 I do want to commend Senator Kaine for his observation
2 that it is always good to have women at the table as well as
3 on the committee.

4 I am looking at your retirement plan, and again, I
5 thank all of you for your service, and I'm looking at the
6 retirement plan that significantly increases the number of
7 members who will receive benefits. I think that is very
8 commendable. The plan does require contributions, basically
9 mandatory 3 percent deductions from the servicemember's pay
10 as well as depending on investment return.

11 Can you share with me what the current servicemembers
12 think about a basically mandatory 3 percent contribution to
13 TSP, and what concerns you have about volatility in the
14 market that will probably arise, and what assumptions did
15 you make regarding market volatility in coming up with your
16 charts regarding retirement benefits?

17 Mr. Maldon: Thank you, Senator, for the question.

18 Senator, on each of those counts that you just
19 mentioned, we actually looked at those. And the response to
20 the first part of your question, regarding what
21 servicemembers think, I think we were informed that
22 servicemembers felt very strongly that this is an increased
23 benefit. This is kind of what they are wanting. This is
24 what they are looking for.

25 I think they told us through the survey responses that

1 they really want choice. They want the flexibility of being
2 involved in helping design the kind of compensation package
3 they prefer, and then how they would receive pay. Those
4 things are very important to them and they mentioned that to
5 us.

6 I am going to ask the Commissioner Zakheim to talk
7 specifically to the other part of that question and those
8 benefits.

9 Mr. Zakheim: Thank you, Mr. Chairman.

10 Senator, first of all, in the United States generally,
11 97 percent of those who are put automatically into a plan
12 stay in that plan. That already gives you one indicator.

13 Another indicator is that right now 40 percent of the
14 military are voluntarily contributing to TSP. So four out
15 of 10 without any kind of automaticity, without any kind of
16 government matching, or anything like that, are putting
17 their money into TSP.

18 So if you take those two figures and put them together,
19 you are going to get an answer that tells you that they will
20 all see the benefit of this.

21 And frankly, you can always opt-out if you want.

22 Senator Hirono: I understand. That part I think I am
23 reassured by your responses.

24 On the market?

25 Mr. Zakheim: On the market, the volatility, what we

1 assumed is that the money would be invested in very, very
2 conservative kinds of funds. Obviously, again, in TSP, as
3 you know, you can choose from a variety of funds. But our
4 assumptions were that there is one particular fund that
5 would essentially follow people's lifestyle, so when you are
6 younger, you are probably willing to take more risk. As you
7 get older, you get more conservative.

8 Again, I think the record of TSP itself, and the fact
9 that people, that the civilians stay in, that the military
10 voluntarily go in, tells you that they trust the fund
11 managers and, of course, are making their own choices.

12 So I think we felt very comfortable with the
13 recommendation, in terms of market volatility.

14 Senator Hirono: Thank you. That is reassuring.

15 I am looking at one of your other charts, chart nine,
16 where pregnancy and childbirth and newborn care are the top
17 two procedures done in the military treatment facilities.
18 If we move into the private sector insurance market, what
19 kind of effects do you think will occur as a result of that,
20 in terms of cost and other impacts? These are huge numbers
21 for these two procedures.

22 Mr. Maldon: Senator, thank you for the question.

23 Commissioner Buyer, would you respond first to the
24 question?

25 Mr. Buyer: I am going to do a tag team with General

1 Chiarelli in my response to this.

2 I think this chart when you look at it, it is
3 surprising. It will be surprising to a lot of people when
4 they look at this. There is an assumption that the medical
5 providers at the MTF are providing procedures that really
6 hone the skills that make those doctors and nurses combat-
7 ready. Then when you look at a chart like this, you say,
8 well, I suppose building the cohesion of the medical team,
9 that is an added plus. But with regard to the skill sets
10 that are needed, something is missing here.

11 What I am going to do is tag team with General
12 Chiarelli here because there are two pieces of this. As we
13 move to a selection of plans, we want the MTF to be part of
14 the network, because the procedures that the MTF needs are
15 not these procedures that you see in the chart.

16 So the creation of the jointness and the essential
17 medical capabilities, I am going to pass it over to General
18 Chiarelli, if I could.

19 General Chiarelli: I think it is absolutely critical
20 that you understand the concept of EMCs, essential military
21 capabilities. That is built into what we are doing here.

22 Those are those things, simply stated, that transfer to
23 the battlefield. When you get the surgeons general in here
24 and you show them this chart, they will argue that, hey, we
25 get a lot of great training out of taking care of all of

1 those childbearing issues and childcare issues.

2 All we are saying is that probably you do, but if we
3 could rearrange your workload, we would give you more of the
4 kinds of things that you see in combat.

5 I think it is absolutely essential, as you talk to the
6 different interest groups there, as a retired person, I'm
7 looking at how you are going to provide care for me in my
8 golden years. If you get stuck on that, you will miss the
9 essential piece of what we have to do in the medical area,
10 and that is care for our men and women when they are sent
11 into harm's way, and ensure that we have people who are
12 trained to do that based on the kinds of wounds they are
13 going to get.

14 Senator Hirono: Thank you, Mr. Chair.

15 Senator Reed: Thank you.

16 Senator Lee?

17 Senator Lee: Thank you, Mr. Chairman.

18 And thanks to all of you who are appearing here today
19 and who have served on this commission to make
20 recommendations that are so important.

21 This is, of course, something that is going to have a
22 profound impact on the men and women who are currently
23 serving or have previously served in our military.

24 I hope that all Americans, particularly those who are
25 currently serving or are veterans, can take the time to give

1 these recommendations the thorough consideration they
2 deserve. They can become part of a debate, a debate that we
3 need to have to help figure out how we can provide better
4 for the needs of those who serve us and have served us in
5 the past, and simultaneously help us to maintain the
6 strength, the viability of our military.

7 I will ask this question to anyone who would like to
8 answer it. Did the commission find the current lack of a
9 retirement program similar to that recommended by the
10 commission, that the absence of a plan like that right now
11 is having an impact on recruiting and retention? In other
12 words, currently, we don't have a retirement system in place
13 in the military that provides any benefits for those who
14 serve for less than 20 years. Is that impacting recruiting?

15 Mr. Maldon: Senator Lee, thank you for the question.

16 When we looked, we took a very strategic approach to
17 designing the right kind of structure for the compensation
18 programs that are going to really support an all-volunteer
19 force for the future. As we designed the structure for the
20 program, in terms of how we might make a recommendation to
21 modernize the current retirement system, we wanted to make
22 sure we knew exactly what was of interest to the
23 servicemembers that we would need to recruit and retain.

24 The recommendations that we provided, we are absolutely
25 convinced that they are the right set of recommendations

1 here on having a blended retirement plan, because it does
2 two things. It actually supports the retention needs by the
3 services, and it also supports the recruiting challenges
4 that the services would have.

5 We believe that the recommendations that we made will
6 absolutely take care of the recruiting and retention needs,
7 and it is very important that they also support the current
8 force profiles. The services were very interested in making
9 sure that we provided them with the tools so they could make
10 those adjustments to continue to meet the recruitment and
11 retention needs for the services as we move into the future.

12 Senator Lee: So moving forward, if we were to adopt
13 something like this, you think it would help recruiting and
14 retention?

15 Mr. Maldon: Absolutely.

16 Senator Lee: Let's talk about the commission's
17 finding. Let me quote this to make sure I get it right.
18 The commission found, "The current compensation system is
19 fundamentally sound and does not require sweeping overhaul."

20 But it also recommends that servicemembers who need
21 nutritional assistance be transitioned into the SNAP
22 program, the program formerly known as food stamps. So let
23 me just ask the question, if servicemembers are in need of
24 SNAP benefits, and if the report is contemplating that some
25 or many of them will need SNAP benefits, that would, of

1 course, be in addition to their regular compensation. Does
2 that undermine your conclusion that their current
3 compensation structure is adequate?

4 Mr. Maldon: When we talk about the current
5 compensation structure, we are basically talking about the
6 pay table itself. We didn't see a need to change the pay
7 table, because the pay table has supported the all-volunteer
8 force for the last 42 years, and specifically during the
9 last 13 years of war.

10 But we also recognize that because there are constant
11 changes taking place here, a new generation, and also just
12 the requirements of the servicemembers themselves, with
13 regard to the size of families and that kind of thing, so
14 there is an important purpose that the SNAP program served.

15 We took a hard look at that, talked through that
16 extensively. I will ask Commissioner Carney if he would
17 respond initially. Then very quickly, Senator, I would like
18 to ask Commissioner Higgins to follow up as well.

19 Senator Lee: Okay. And, Mr. Chairman, if I could, I
20 have one minor follow-up question I want to add to that, if
21 he is going to answer that as well.

22 I also am curious to know how many people might be, if
23 you were to eliminate FSSA, how many servicemembers might be
24 enrolled in SNAP and whether we have any kind of estimate as
25 to what the increased cost would be.

1 Mr. Carney: Senator, right now, the number of
2 enrollees in SNAP from the Department of Agriculture is
3 somewhere between 2,000 and 22,000. That is their estimated
4 range. That is the best information we received.

5 On FSSA, I think there are 285 people altogether in the
6 military in FSSA. Now, FSSA is restrictive. It is harder
7 to get. There is also kind of a stigma attached with it as
8 well. You have to go through your chain of command to get
9 it, so does that impact your career somehow? So there are
10 these kinds of things that make it probably less attractive
11 and probably less useful, certainly, for the CONUS and the
12 near territories. Now for overseas, it may still serve some
13 useful purpose.

14 But the SNAP program, notwithstanding the fact that it
15 needs to exist for some of our military, it is something
16 that is easier to get. It provides better nutritional value
17 for the families that require it.

18 So either phasing out or reducing the FSSA program is
19 not a bad idea because SNAP fills in the gap very nicely.

20 Senator Lee: Okay.

21 Thank you, Mr. Chairman.

22 Senator Reed: Senator McCaskill, please.

23 Senator McCaskill: First, I want to note that your
24 votes were unanimous; is that correct?

25 Mr. Maldon: Yes. That's correct, Senator.

1 Senator McCaskill: That is quite an extraordinary
2 thing for all of us who sit on this side of the table. We
3 don't see much very much that is unanimous, especially with
4 the makeup of this particular commission. And I am familiar
5 and I have worked with many of you, and I know it is
6 bipartisan, and I know you come from different perspectives.
7 I know you probably came to the commission with different
8 viewpoints at the beginning. And the fact that you worked
9 this hard and came up with this proposal adopted unanimously
10 is something that I hope, before we get off to the races
11 trying to politicize anything on this side of the table,
12 that we pause a moment and realize that you might have
13 gotten this right. And this might exactly be what we need
14 to be doing.

15 So I want to compliment you in that regard.

16 First of all, I think our country needs to save more.
17 And our military always sets the example for our country, in
18 terms of the values and ethics embraced by our military. So
19 I think the way this plan embraces saving is terrific.

20 I think most Americans don't know that if you are in
21 the military, that your TSP contributions are not matched
22 currently, unlike all other Federal employees who get a
23 match. I think that is, obviously, a double standard that
24 is inappropriate. So the fact that we would move to a match
25 for members of the military makes a great deal of sense. I

1 think this part of it is terrific.

2 Now, here is the tricky part. If we are going to
3 reduce defined benefits to 40 percent, and someone can
4 retire with 20 at 38, so they are 38 years old, they can't
5 access that TSP until they are 59 1/2. Then eventually, not
6 too long after that, they would be looking at Social
7 Security in addition to that.

8 So during that period of time, assuming someone is
9 retiring at 38 or 39 or 40 from the military with 20, was
10 there any discussion on the commission about making a
11 special rule or special circumstances where someone could
12 access TSP before they were 59 1/2?

13 Mr. Maldon: Senator, I'm going to ask Commissioner
14 Zakheim. These are the kind of questions that these former
15 comptrollers really love to have.

16 Senator McCaskill: I have missed him. We had great
17 work, when I first arrived in the Senate. So I am happy to
18 hear from you.

19 Mr. Zakheim: Thank you so much, Chairman and Senator.

20 Right now, as you well know, you retire at 20, and then
21 you start getting a monthly payment. So by definition, the
22 40 percent you are speaking about, you are going to get.

23 Now in addition to that, once you retire, you can get a
24 lump sum payment, if you choose to do so. Or you may say
25 no, I don't want that, I want it later on.

1 So you have in fact given the individual much more
2 choice than he or she has today, because you can choose the
3 lump-sum payment, and you will get that with a reduced
4 payment until full Social Security kicks in. Or you can say
5 no, I'm staying with my 40 percent, my monthly payments. So
6 you basically, now, are in much more control of your
7 financial situation.

8 One other point as well, and this was mentioned by my
9 colleague Commissioner Carney and others. We put a huge
10 premium on financial education. We actually spoke to some
11 of the foreign militaries to see how they do it as well.

12 Right now, you take an 18-year-old or a 19-year-old or
13 20-year-old and you fire hose them for a few hours about
14 financial management, and it is in one ear and out the
15 other. What we are proposing to do is have regular sessions
16 at key points in their careers, key promotions, or something
17 happens in your family life, you get married, you have
18 children, whatever. So they can learn the nuances of
19 financial management in a way that, when they hit the 20 or
20 if they leave sooner, they can make an informed choice about
21 what they want to do with the money they are entitled to.

22 So to answer your question, it seems to me, at least,
23 that you are putting the person in uniform at a far greater
24 advantage even with the 40 percent versus the 40 percent,
25 because of the lump sum, because of the financial education,

1 than they currently have today.

2 Senator McCaskill: I know my time is almost up, and I
3 thank you for that.

4 I will have some questions for the record about whether
5 or not we should allow them to continue to make
6 contributions matched to TSP during the pendency of their
7 retirement before they are eligible to pull out with their
8 payment, whether or not that costs out in a way that would
9 make sense to the commission. Some questions about why not
10 just going to FEHPB, instead of creating another system.
11 What are the advantages there? Are they substantive in
12 policy or are they political?

13 Finally, the one that I really would like to hear from
14 you about, and I want to recognize General Chiarelli for the
15 trailblazing he worked, especially in the suicide area. I
16 am very familiar with how hard you worked on that, both
17 while you were active and after your retirement.

18 But I'm a little worried about the most expensive
19 recommendation you made, which is another command, standing
20 up a three star. We tried to work against quite so many
21 flags. In fact, Gates, as you all know, did away in 2011
22 with the joint forces command, and I am trying to think how
23 this new \$300 million a year stand-up adds to the expertise
24 we have now, because we are still going to have surgeons
25 general in every branch.

1 I have to be convinced that we need another group at
2 the Pentagon. I have a great deal of affection for all of
3 our generals and what goes with them, but three stars are
4 expensive, especially everything that goes with them. And
5 what are we really going to gain by adding this new command
6 at the Pentagon.

7 I am over my time by 1:48, so I don't know whether the
8 chairman want that to be answered now or whether you want to
9 take it for the record. But that is the only part of this
10 that I start out a little skeptical about.

11 Mr. Maldon: Senator McCaskill, thank you very much.
12 Just very quickly, I know we are out of time here, but I
13 would like to take the opportunity so that we can respond to
14 that.

15 Let me just say real quickly, the readiness command
16 that was recommended, we really deliberated on that. We
17 took a lot of time and spent it on that. Every
18 recommendation that we made in this report was made with
19 that in mind, the need for readiness. And there was a
20 readiness implication to every recommendation that we made.

21 So when we proposed a readiness command, we did this in
22 a context of understanding that it is much bigger than a
23 medical readiness component that it has oversight for. They
24 are much larger in terms of a number of things that fall
25 underneath readiness.

1 The medical readiness piece is only one component of
2 that, and we were basically wanting to make sure that, if we
3 are going to ensure success of the medical readiness, we
4 must have proper oversight. And that means having the right
5 kind of people, the right person in charge with the right
6 kind of ranking to be able to go to the budget meetings, and
7 to those decisionmaking venues and hold the presence with
8 the other service chiefs, and to be able to actually have
9 influence with the surgeons general of the services.

10 I will ask Commissioner Chiarelli to speak to that more
11 specifically, if you will.

12 General Chiarelli: Senator, I will only tell you that
13 it is absolutely essential that in this whole process of
14 changing the way we deliver medical care that we keep our
15 MTFs a viable training ground for not only the doctors and
16 physicians, but the entire medical team, to include our
17 corpsmen and our medics, so that they are trained for the
18 thing that civilian hospitals don't do and that is go to
19 war.

20 There will be a tendency as we give the opportunity to
21 get their health care on the outside, there could be a
22 tendency in future budget periods to draw down on what is
23 left in that MTF with our eyes covered not realizing that we
24 may have to deploy the people in those MTFs far away to
25 support those individuals who are in combat.

1 To me, that is an absolute essential piece of this
2 entire thing, to ensure that we do not allow that to atrophy
3 should we enter into an extended period of time when those
4 resources do not have to be deployed.

5 And every single one of our recommendations, as I went
6 through them, and I understood where I sat before, without
7 getting into great detail, I will tell you every single one
8 of our recommendations impacts readiness in some way. And
9 someone from a joint readiness standpoint, remember, this is
10 what is critical, we gain efficiencies in jointness.
11 Somebody from a joint readiness perspective has to look at
12 the entire readiness portfolio to include medical and ensure
13 that we maintain that.

14 I will end by saying I think the \$300 million is a very
15 conservative large number. We believe many of these
16 resources exist currently. When we took down JFCOM, many of
17 them were transferred to other locations, many of them in
18 the Pentagon, and the resource, much of that, and we
19 couldn't totally put our hands on it, will be pulled out and
20 you will see a much smaller bill than the \$300 million that
21 is cited in our report.

22 Senator Reed: Thank you.

23 Senator Graham, please.

24 Senator Graham: Thank you, all, for a lot of hard
25 work, and I think a very good product. To those who want to

1 suggest alternatives, you are welcome. We will take any new
2 good idea to make this better. To those who think it is
3 wrong, we will accept criticism. But we will not accept
4 demagoguery. We are not going to play that game.

5 If you have a good idea, bring it. If you think they
6 missed the mark, we will certainly listen to you. But we
7 are not going to play the demagoguery game, because change
8 is afoot, and it is necessary.

9 Congress required you to do your job. Do you
10 understand what we were asking you to do? Were we trying to
11 get you to fix a broken system? There is an old adage, if
12 it's not broken, don't fix it. Or were we trying to get you
13 to make a system better? What was your mandate, in your own
14 mind?

15 Mr. Maldon: Senator Graham, thank you for that
16 question. It is our understanding that our mandate was to
17 modernize, make recommendations for modernizing.

18 Senator Graham: So it wasn't your mandate from
19 Congress to just go save money?

20 Mr. Maldon: Absolutely not. That was not our
21 understanding.

22 Senator Graham: So it was your understanding that
23 Congress wanted you to look at a 70-year-old system and see
24 if you could make it better and more efficient, right?

25 Mr. Maldon: Correct, Senator.

1 Senator Graham: On the combat medicine point, do you
2 agree that we have the best combat medicine any time in the
3 history of the modern military?

4 General Chiarelli: After 13 years of war, we do. But
5 I don't believe we had it going into this. I think we got
6 better and better.

7 Senator Graham: We have it now?

8 General Chiarelli: Yes. And we have to maintain it.

9 Senator Graham: That's right. Don't lose it.

10 So if the core function of military health care is to
11 make sure the force is ready to fight, then we have to make
12 sure we hang on to that. That is what you are telling us,
13 right?

14 General Chiarelli: Exactly.

15 Senator Graham: We learned from the Guard and Reserve
16 when the war first started that a lot of people didn't have
17 dental coverage and 25 percent of Guard and Reserve were
18 disqualified for deployment because of dental problems. Is
19 that true?

20 Mr. Zakheim: That is true.

21 Senator Graham: Congressman Buyer?

22 Mr. Buyer: Yes.

23 Senator Graham: That is true, because your brother is
24 a dentist. We have overcome that, so we don't want to go
25 back to that system of having a health care system that

1 doesn't make you ready to fight, having a health care system
2 that can't keep you in the fight and save your life if you
3 get injured.

4 I think Senator Kerrey probably knows more about that
5 than anybody.

6 So those are my guideposts. I don't want to lose
7 ground on the major functions.

8 As to retirement, no one is suggesting that we are
9 changing the retirement system to 40 percent versus 50
10 percent for those on Active Duty, are you? Everybody is
11 grandfathered?

12 Mr. Maldon: that is correct, Senator.

13 Senator Graham: I heard that conversation. If I just
14 walked into this room not knowing the context, I would think
15 that a 40 percent retirement change had been recommended by
16 the committee for those on Active Duty. That is not true.

17 This chart, who did your polling?

18 Mr. Maldon: That polling was done by True Choice. It
19 has to do with the survey that we conducted.

20 Senator Graham: I can't imagine too many things that I
21 do where 80 percent of the people prefer something new to
22 something they have. So you feel good about those numbers?

23 Mr. Maldon: Senator, we feel very good about that,
24 unanimously.

25 Senator Graham: Okay. What about the retired

1 community? Do you have data about how they feel about the
2 proposed changes?

3 Mr. Maldon: Well, the feedback that we have gotten is
4 that --

5 Senator Graham: Can you poll retired military members
6 and find out?

7 Mr. Maldon: We polled retired as well as Active Duty
8 and Reserve components.

9 Senator Graham: So what were the numbers on the
10 retired community?

11 Mr. Maldon: Senator, let me take that question for the
12 record.

13 Senator Graham: Fair enough. I want to see both ends
14 of the spectrum here.

15 It seems to me that the jury is in, that the people on
16 Active Duty like what you are proposing. If they had an
17 option, they would take the new system.

18 I think what we need to understand as members of this
19 committee is where is the retired force. What do they think
20 about the proposed changes? Because the health care changes
21 are not grandfathered, is that correct?

22 Mr. Maldon: That is correct, just retirement.

23 Senator Graham: All right, so at the end of the day,
24 your recommendations on health care are driven by the fact
25 that we think we can provide better choice, more efficient

1 for the patient, more efficient for the Department of
2 Defense, and actually get more choice and better coverage.
3 Is that correct?

4 Mr. Maldon: That is correct.

5 Senator Graham: And if we do nothing in terms of
6 health care costs, it is exploding in terms of DOD's overall
7 budget, and somebody needs to deal with it. Is that
8 correct?

9 Mr. Maldon: In terms of fiscal sustainability, that is
10 correct, Senator.

11 Senator Graham: Because you have a situation where you
12 have to deal with retiree health care at the expense of
13 readiness to fight the war of today and tomorrow, and that
14 is a choice we don't want to make.

15 Mr. Maldon: That is correct.

16 Senator Graham: Thank you all for your hard work.

17 Mr. Maldon: Thank you.

18 Senator Reed: Senator Cotton?

19 Senator Cotton: Thank you all for your service, not
20 just on this commission, but many of you have served our
21 country in other ways.

22 I have questions about some of the retirement
23 proposals, and then if we have time at the end, about the
24 commissary proposals.

25 Could we get chart three up maybe, as a way of

1 providing an illustrative point of discussions.

2 Chairman Maldon, I will directly questions to you, if
3 you want to farm them out that to subject matter experts,
4 that is fine.

5 This shows, on the left, the current defined benefit
6 system. Get 20 and get half-pay. On the right, you show
7 your blended plan of a defined benefit along with a TSP
8 contribution and government match, and then the continuation
9 pay at 12 years.

10 Was there any consideration about trying to move to a
11 pure defined contribution system?

12 Mr. Maldon: Senator, we have a defined benefit system
13 now, and to move to a complete defined contribution system,
14 we believe would not give us all of the retention benefits
15 of the traditional military retirement. That is why we
16 wanted to keep both systems blended, because we can take
17 care of both our retention needs as well as the recruiting
18 needs.

19 Senator Cotton: Okay. Does anyone else want to
20 elaborate?

21 So I understand that trying to keep benefits roughly
22 the same, or, in this example, better is one goal. Giving
23 services and personnel flexibility is another goal.
24 Retaining the force and maintaining the force is one goal.
25 So the assessment of the commission is the 20-year defined

1 benefit plan is important to maintain that last goal,
2 retaining personnel for this full 20 years.

3 Mr. Maldon: Yes, Senator, that is correct.

4 Senator Cotton: Any consideration of like a stair step
5 approach to the continuation pay, rather than saying the one
6 at 12 years, another 4 years extension, maybe having two or
7 even three periods within a 20-year time horizon where you
8 are encouraging people to reenlist or officers to remain?

9 Mr. Maldon: Senator, the current program as it is
10 today, the compensation system, we have special pay,
11 incentive pay. We have those bonuses that servicemembers
12 are being paid. So we have those stepping stones that
13 servicemembers have as a benefit through those programs
14 already.

15 This would be that retention piece that would take the
16 servicemember now to a point of having 12 years plus a 4-
17 year obligation that would get him to that 16th year, which
18 means they are close enough to retirement that that is the
19 retention will keep them there.

20 Senator Cotton: So the thinking is that not many
21 people leave after 12, and very, very few leave after 16?

22 Mr. Maldon: That is correct.

23 Senator Cotton: Under this proposal, let's say a
24 hypothetical E-7 who has had 7 or 8 years down range, three
25 or four deployments. He would be leaving with his

1 contributions to his defined contribution plans and the
2 government match, is that right?

3 Mr. Maldon: If he elected to --

4 Senator Cotton: If he didn't reenlist at 7 or 8 years.

5 Mr. Maldon: Yes.

6 Senator Cotton: There is probably data to illustrate
7 this. Do we have any problem retaining this kind of
8 midcareer, senior NCO, company grade officer, field grade
9 officer, in the 6 to 9 year range?

10 General Chiarelli?

11 General Chiarelli: It depends on the military
12 occupational specialty. It is one thing to retain an
13 infantryman who is willing to hump a 60-pound ruck up the
14 mountains of Afghanistan and keep him in as a platoon
15 sergeant to 24 as opposed to someone who is trained with
16 I.T. skills or is an airplane mechanic and can work in other
17 areas.

18 That is why it is absolutely essential the continuation
19 pay be flexible and the services have the ability, based on
20 the military occupational specialty, to apply differing
21 amounts depending on the military occupational specialty.

22 I will tell you, rather than stair step, I believe that
23 our RAND modeling showed this was the critical period.

24 The critical period, my guys used to tell me, is 8
25 years and 27 days. The model that was in place before was,

1 if I could keep someone in under a defined contribution of
2 50 percent past that magical mark, I had a better than
3 average opportunity to maintain them longer.

4 But our modeling for this particular plan told us that
5 that the 10- to 12-year mark is absolutely critical.

6 Senator Cotton: My time is almost expired, so my
7 commissary question will wait for another day.

8 Senator Reed: Do you want to ask another question?

9 Senator Cotton: Sure. I'd be happy to.

10 So I have been stationed at bases, Fort Campbell stands
11 out in my mind, that had a nice commissary. But it had an
12 even better Wal-Mart Supercenter right outside the gates.
13 There are obviously bases in America, especially bases
14 around the world, where we need an on-base commissary to
15 provide the choices that our servicemembers have become
16 accustomed to. Was there any consideration of assessing
17 local sites around bases and forts, about whether or not a
18 commissary is needed on that location?

19 Mr. Maldon: Senator Cotton, we spent quite a bit of
20 time talking to servicemembers, family members, installation
21 commanders across the country on that. Polling told us the
22 same thing. We had people that were in different places on
23 how they perceived the value of the commissaries.

24 Overwhelming, though, people believed it was very
25 important to retention to have the commissaries there.

1 There are people that would tell us that they have these
2 other shops. We talked to some of the big shop warehouses,
3 if you will. The stores, the Wal-Mart's, the others, about
4 the benefits they would offer if they were to offer a
5 benefit.

6 Quite honestly, at the end of the day, no one was
7 willing to stand behind their comments that they made or had
8 about providing savings to the servicemember.

9 Our intention here was to make sure we could protect
10 the benefit of the servicemembers, and servicemembers
11 believe that this is a big savings to them and that they
12 also believe it was a retention tool.

13 That is the way we went about moving forward with our
14 recommendation on the commissaries.

15 Mr. Zakheim: Could I just add to that, Mr. Chairman,
16 Senator, several of the big chains talked about issuing a
17 card, and you probably heard that too, that they will issue
18 some cards to the military. When we ask their
19 representatives point-blank, would you do it? Never got a
20 straight answer.

21 At the same time, we did hear -- now, look, there are
22 some people who will order their food online. We know that.
23 But by and large, people want that. They want it because it
24 is convenient, for a start. It is near them. It is
25 military. They understand it. It is responsive to their

1 needs.

2 So we looked at that and made our recommendations based
3 on the feedback. Again, different folks will have different
4 requirements. But pretty much overwhelmingly, this is not
5 something they wanted to go away

6 General Chiarelli: Proclivity to use the commissary is
7 based on a whole bunch of things, and one of them is the
8 size of family. We had the FSSA and SNAP issue before.
9 There are arguments about how much it saves. But if you
10 even cut the high number, the 31 percent, in half, it is
11 still a great savings to that E-7 with four kids and a wife
12 who made a decision to stay home and take care of the kids,
13 and to be an at-home mom. It is an unbelievable place for
14 them to save the kind of money they need as part of the
15 benefit we provided them.

16 Senator Cotton: Thank you all again for your service
17 and this important report. We look forward to working on
18 it.

19 Having dealt with junior enlisted men who are new to
20 the Army, I can say the financial literacy proposals are
21 very critical as well. Having been a Member of Congress and
22 now a Senator, I say maybe we should add that to our
23 orientation as well.

24 Senator Reed: Thank you very much, Senator.

25 On behalf of Chairman McCain, I would like to request

1 unanimous consent to include written comments in the record
2 from outside groups for up to 30 days after the conclusion
3 of the hearing. Any objection?

4 Hearing none, so ordered.

5 [The information referred to follows:]

6 [COMMITTEE INSERT]

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

1 Senator Reed: Also on behalf of the chairman, I would
2 like to thank the witnesses for their excellent testimony,
3 for their extraordinary contribution to this critically
4 important issue. Thank you all very much.

5 The hearing is adjourned.

6 [Whereupon, at 11:56 a.m., the hearing was adjourned.]

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25