

Stenographic Transcript  
Before the

Subcommittee on Personnel

COMMITTEE ON  
ARMED SERVICES

## **UNITED STATES SENATE**

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

Wednesday, February 11, 2015

Washington, D.C.

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U.S. Senate

8

Subcommittee on Personnel

9

Committee on Armed Services

10

Washington, D.C.

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12 The subcommittee met, pursuant to notice, at 3:03 p.m.  
13 in Room SD-G50, Dirksen Senate Office Building, Hon. Lindsey  
14 Graham, chairman of the subcommittee, presiding.

15 Committee Members Present: Senators Graham  
16 [presiding], Tillis, Gillibrand, and King.

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1           OPENING STATEMENT OF HON. LINDSEY GRAHAM, U.S. SENATOR  
2 FROM SOUTH CAROLINA

3           Senator Graham: Thank you, all. The committee will  
4 come to order.

5           We have our ranking member, and what I thought I would  
6 do is just basically let you introduce yourselves, so I  
7 don't destroy your names, starting with the chairman.

8           Mr. Maldon: Alphonso Maldon, chairman.

9           Mr. Higgins: Sir, Mike Higgins.

10          General Chiarelli: Pete Chiarelli.

11          Admiral Giambastiani: Ed Giambastiani.

12          Mr. Zakheim: Dov Zakheim.

13          Senator Pressler: Larry Pressler.

14          Mr. Buyer: Steve Buyer.

15          Senator Graham: Where is he at? There you are. He is  
16 a House Member, and he's sitting in the audience.

17          [Laughter.]

18          Senator Graham: So the testimony you gave before the  
19 full committee was compelling. I think you have been to the  
20 House. Is that correct?

21          Mr. Maldon: That is correct, Mr. Chairman.

22          Senator Graham: Did y'all survive?

23          Mr. Maldon: We are intact.

24          Senator Graham: I heard it went well.

25          Mr. Maldon: Thank you.

1           Senator Graham: So, rather than doing an opening  
2 statement, I will turn it over now to our ranking member.  
3 And I would like to ask some questions, and I appreciate  
4 your work product. It is an extraordinary amount of time,  
5 talented people coming up with I think pretty innovative  
6 solutions that could probably always be made better.

7           So without further ado, our ranking member, Senator  
8 Gillibrand.

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1           STATEMENT OF HON. KIRSTEN GILLIBRAND, U.S. SENATOR  
2 FROM NEW YORK

3           Senator Gillibrand: Thank you, Senator Graham. I  
4 really appreciate this committee and your chairmanship.

5           I want to note that this committee works very well  
6 together, in the past we have, and I know we will continue  
7 to work well together in a bipartisan fashion.

8           I want to thank all the witnesses for your hard work.  
9 I appreciate the testimony you gave to the full committee.

10          Many members of the subcommittee have expressed  
11 reservations about the department's proposals to control the  
12 growth of personnel costs, which we received while waiting  
13 for the findings of this commission and which were requested  
14 by the administration again this year. We have been  
15 concerned that the efforts were piecemeal rather than  
16 holistic, and that their short-term and long-term effects on  
17 servicemembers and their families were unclear. We were  
18 most concerned about the consequences of those  
19 recommendations on what we consider the most vulnerable  
20 military population, our most junior servicemembers.

21          I am very grateful that you have looked at these issues  
22 in a holistic manner and really look to have some long-term  
23 changes that can make a difference. I am very grateful for  
24 the new ideas that have been put forward, and I am very  
25 eager to talk further about the assumptions that underpin

1 your recommendations.

2 Thank you, Senator Graham, for hosting the hearing.

3 Senator Graham: That was excellent.

4 Mr. Chairman, why don't you lead us off?

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1           STATEMENT OF HON. DOV S. ZAKHEIM, COMMISSIONER,  
2           MILITARY COMPENSATION AND RETIREMENT MODERNIZATION  
3           COMMISSION, ACCOMPANIED BY HON. LARRY L. PRESSLER,  
4           COMMISSIONER, MILITARY COMPENSATION AND RETIREMENT  
5           MODERNIZATION COMMISSION; HON. DOV S. ZAKHEIM, COMMISSIONER,  
6           MILITARY COMPENSATION AND RETIREMENT MODERNIZATION  
7           COMMISSION; MICHAEL R. HIGGINS, COMMISSIONER, MILITARY  
8           COMPENSATION AND RETIREMENT MODERNIZATION COMMISSION;  
9           GENERAL PETER W. CHIARELLI, USA (RET.), COMMISSIONER,  
10          MILITARY COMPENSATION AND RETIREMENT MODERNIZATION  
11          COMMISSION; AND ADMIRAL EDMUND P. GIAMBASTIANI, JR., USN  
12          (RET.), COMMISSIONER, MILITARY COMPENSATION AND RETIREMENT  
13          MODERNIZATION COMMISSION

14           Mr. Maldon: Mr. Chairman, thank you very much, and  
15          Ranking Member Gillibrand, distinguish members of the  
16          subcommittee.

17           My fellow commissioners and I are honored to be back  
18          here in front of you today. As a commission, we stand  
19          unanimous in our beliefs that our recommendations strengthen  
20          the foundation of the all-volunteer force. It ensures our  
21          national security and honors those who serve and the  
22          families who support them, not only today but into the  
23          future.

24           Our recommendations maintain or increase the overall  
25          value of compensation and benefits for servicemembers and

1 their families, and provide needed flexibility for service  
2 personnel managers to design and manage a balanced force.

3 Our blended retirement plan expands benefits from 17  
4 percent to 75 percent of servicemembers while maintaining  
5 the services' current profile. It provides flexibility for  
6 servicemembers and the services while protecting or  
7 improving the assets of servicemembers who retire at 20  
8 years of service.

9 These findings are based on reasonable and conservative  
10 estimates, including TSP investment returns of 7.3 percent  
11 and retired pay cost-of-living adjustments of 2.3 percent.  
12 To maintain current force profiles, TSP, Thrift Savings  
13 Plan, contributions were not recommended beyond 20 years of  
14 service by this commission. However, the consideration of  
15 matching contributions that continues beyond the 20 years of  
16 service may be an interest that the committee wishes to  
17 explore.

18 Our recommendations promote essential high-level focus  
19 on readiness through a new joint readiness command that can  
20 serve as a strong advocate for readiness funding and skilled  
21 maintenance standards. They expand choice, access, quality,  
22 and value of health care by offering family members, Reserve  
23 component members, and retirees a broad choice of insurance  
24 plans that are more flexible and efficient than the current  
25 TRICARE system.



1           They maintain savings on groceries and other essential  
2 goods, while providing the cost-effectiveness of DOD  
3 commissaries and exchanges. Our recommendations also save  
4 more than \$12 billion annually after full implementation  
5 without cutting overall servicemember benefits.

6           Our recommendations align compensations and the  
7 preferences of servicemembers, which were partially measured  
8 through the more than 155,000 survey responses we received.  
9 Our survey methodology, which was new to the military  
10 community, captured preferences for alternative benefit  
11 levels. Its analytical tools then enabled for the first  
12 time direct comparison between the values that  
13 servicemembers place on varying compensation and benefits  
14 packages.

15           The survey validates the many comments we received from  
16 servicemembers and their families at the 55 installations  
17 that we visited.

18           Our recommendation, Mr. Chairman, incorporates a  
19 substantial consideration of potential second and third  
20 order effects, which are reflected in our implementation  
21 timelines. Advancing these implementation timelines due to  
22 budget constraints may lead to unanticipated cost  
23 implementation challenges, or even failed modernization  
24 efforts. An example may be accelerating the multi-year  
25 back-end operational efficiencies of our commissaries and

1 exchange recommendations.

2 In closing, my fellow commissioners and I again thank  
3 you for the opportunity to testify before you today, and we  
4 are pleased to respond to your questions. Thank you.

5 [The prepared joint statement of Mr. Maldon, Senator  
6 Pressler, Mr. Buyer, Mr. Zakheim, Mr. Higgins, General  
7 Chiarelli, Admiral Giambastiani, Mr. Kerrey, and Mr. Carney  
8 follows:]

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1           Senator Graham: Thank you all very much. I will start  
2 off and try to be very brief.

3           When it comes to retirement reforms, is it fair to say  
4 that if you are in the service today and anywhere in the  
5 near future, you are going to be grandfathered? If you like  
6 the system you have today, you can keep it?

7           Mr. Maldon: That is correct, Mr. Chairman.

8           Senator Graham: So no one is being required to give up  
9 the current system?

10          Mr. Maldon: They are not required to give up the  
11 current system. They can in fact opt into the new system,  
12 if in fact those recommendations are adopted, Mr. Chairman.

13          Senator Graham: They have to opt in. If they do  
14 nothing, they stay in the current system. Is that correct?

15          Mr. Maldon: That is correct.

16          Senator Graham: When it comes to percent of Active  
17 Duty servicemembers who prefer the current or proposed  
18 compensation system, if that chart is remotely right, 80  
19 percent prefer the new proposed system when they are told  
20 how to compare the two?

21          Mr. Maldon: That is correct, Mr. Chairman.

22          Senator Graham: How sure of that result are you?

23          Mr. Maldon: Mr. Chairman, we are about as sure as we  
24 can be, based on the data, just looking at the data,  
25 analyzing the data.

1           We actually used the survey results to validate the  
2           comments that we heard from our hearings that we had, town  
3           hall meetings, those sensing sessions. All of those  
4           conversations and discussions that we had with the  
5           servicemembers and their families and the Reserve component  
6           members and retirees, they were validated by the survey  
7           results.

8           Senator Graham: And every retiree, they are going to  
9           keep what they have, right?

10          Mr. Maldon: Let me make sure I understand your  
11          question again, Mr. Chairman?

12          Senator Graham: People who are currently retired, who  
13          have already done their time, they are not affected by this?

14          Mr. Maldon: They are not affected by this.

15          Senator Graham: So if anybody calls you up on the  
16          phone and says you need to get in this fight because they  
17          are going to take your retirement away from you or change  
18          it, that is not accurate?

19          Mr. Maldon: The only thing that is going to change is  
20          the health care piece of it.

21          Senator Graham: That is why I am talking about  
22          retirement.

23          Mr. Maldon: Yes.

24          Senator Graham: We will get to that later.

25          Mr. Maldon: Okay.

1           Senator Graham: Talking about retirement, I want to  
2 make sure that everybody understands what we are doing.

3           Mr. Maldon: That is correct.

4           Senator Graham: If you have earned your retirement, if  
5 you have your retirement, you can keep your retirement.

6           Mr. Maldon: That is correct, Mr. Chairman. It is  
7 grandfathered.

8           Senator Graham: If you are on Active Duty today,  
9 nobody is making you change. But if you want to change, you  
10 can.

11          Mr. Maldon: That is correct.

12          Senator Graham: Now, if those numbers hold, I will  
13 have to ask myself why would I stop a choice that 80 percent  
14 seem to want? If those numbers hold, I will have a  
15 conversation with myself, and I think I know how that will  
16 end.

17          That is an incredible work product, to have 80 percent  
18 willing to accept the new idea. That is just fantastic, if  
19 those numbers are accurate.

20          Health care, the current health care system, TRICARE,  
21 do you agree that it is sort of, in terms of choice and  
22 provider participation, dying on the vine?

23          Mr. Maldon: Mr. Chairman, I would say that the current  
24 system, the current TRICARE system, in my opinion, has  
25 certainly lost its usefulness. It is not as effective as it

1 was at the time that it was established and served a  
2 purpose, in fact, in some good ways for a number of years.  
3 But the time has come that I believe it has, certainly,  
4 outlived its usefulness.

5 Senator Graham: Well, do you agree with me that the  
6 reason there are fewer providers in the TRICARE network is  
7 that we are paying below Medicare reimbursement rates?

8 Mr. Maldon: I absolutely believe that, Mr. Chairman.

9 Senator Graham: I have never run a hospital, and I am  
10 not a doctor. But I would be reluctant to take on a patient  
11 population that is paying less than Medicare. So if that is  
12 true -- is that true? TRICARE actually pays less than  
13 Medicare to the provider?

14 Mr. Maldon: TRICARE pays at the reimbursement rate or  
15 less than that rate.

16 Senator Graham: Okay, the best is Medicare and, many  
17 times, it's less.

18 Mr. Maldon: That is correct.

19 Senator Graham: Well, if that is true, then our  
20 military members and their families and our retirees are  
21 going to have less choice because that is an unsustainable  
22 system. Your goal was to replace that system with something  
23 that would give you more choices in health care. Is that  
24 correct?

25 Mr. Maldon: Yes, Mr. Chairman. It was to get more

1 choices. It was to expand the network. And it was to  
2 actually give better access to health care.

3 Senator Graham: Let's keep it really simple, too.  
4 Under the new plan, doctors and hospitals will get paid  
5 more. They will have a higher reimbursement rate,  
6 potentially.

7 Mr. Maldon: I believe that is correct. That was the  
8 intention, yes.

9 Senator Graham: Okay. The rate of reimbursement for  
10 the Federal employee health care system, is that generally  
11 higher than TRICARE for the providers?

12 Mr. Maldon: That is correct, Mr. Chairman.

13 Senator Graham: So I can see why more doctors and  
14 hospitals would want to participate in TRICARE Choice,  
15 because they have a chance of getting higher reimbursement.  
16 Under TRICARE Choice, the member and their families will  
17 have more choices than they do today under TRICARE. Is that  
18 correct?

19 Mr. Maldon: That is correct, Mr. Chairman.

20 Senator Graham: The belief is that they will have more  
21 options and higher quality. Is that correct?

22 Mr. Maldon: That is correct.

23 Senator Graham: And that eventually the 5 percent cost  
24 share that is currently being appropriated or taken from the  
25 population is insufficient to maintain the system over time.

1 Five percent of the money to pay for TRICARE comes from the  
2 patient population. Is that correct?

3 Mr. Maldon: Yes, Mr. Chairman.

4 Senator Graham: I don't know of any system in the  
5 world that 5 percent is the number, so we are going to have  
6 to adjust that number.

7 The goal for me is, if we are going to adjust that  
8 number, that you get more for your money, that if we are  
9 going to ask you to pay more, you get more. I am not going  
10 to ask you to pay more and get less. Is that the general  
11 idea of health care?

12 Mr. Maldon: That is absolutely the general idea.

13 And, Mr. Chairman, let me add that as we had  
14 conversations with the military service organizations and  
15 the veterans service organizations, certainly from the  
16 military service organizations, that was one of their main  
17 concerns, that if they had to pay more, that they would be  
18 able to get more in return. I believe we have done that.

19 Senator Graham: I promise them that you are not going  
20 to pay more and get less, and to the Guard and Reserve. You  
21 are going to get a better deal.

22 Senator Gillibrand?

23 Senator Gillibrand: Thank you, Mr. Chairman, for those  
24 great questions.

25 So to focus again on retirement, I just wanted to get



1 some detail for Guard and Reserve. Guard and Reserve are  
2 crucial tools for retention for troops, especially as we  
3 drawdown. But your recommendations about government  
4 contributions to TSP and bonuses favor the active component.  
5 Did you assess the role of the Reserve component in  
6 retention when looking at these recommendations?

7 Mr. Maldon: We did, indeed, assess that, Ranking  
8 Member Gillibrand.

9 I would like to have Commissioner Higgins respond to  
10 that first, please.

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

12 Yes, ma'am. Without a doubt, our analysis included the  
13 impacts and implications for the Guard and Reserve of the  
14 retirement system that we proposed. We believe it will  
15 operate very similarly there as it does in the Active Force.

16 Senator Gillibrand: So this chart here, does that show  
17 that, according to your study, the demographic prefers the  
18 hybrid retirement system that you have recommended? Is that  
19 what your chart shows?

20 Mr. Higgins: The survey questions we asked were highly  
21 influenced by some of our early thinking about what reforms  
22 may be possible. And the answer is yes, a lot of what was  
23 in the survey is what you see today as our final proposal.

24 Senator Gillibrand: When you did survey the  
25 servicemembers, what were the things that they said they

1 valued in a retirement plan?

2 Mr. Higgins: Choice, flexibility. And we believe that  
3 we have delivered on that with a plan that is multifaceted  
4 and delivers the force profile, which is what the Joint  
5 Chiefs demanded.

6 Senator Gillibrand: Your recommendation is that  
7 retirees leaving after 20 years of service have the option  
8 to choose a lump sum in place of all pension payments up  
9 through age 67, or to split the difference by getting half  
10 the benefit upfront and the other half spread out in monthly  
11 checks. All the options you recommend would resume monthly  
12 payments to retirees at age 67. How do you recommend that  
13 the DOD calculate the lump sum?

14 Mr. Higgins: We would suggest that they should  
15 consider an actuarial type of assessment and consider the  
16 interests of people, what would draw them to this benefit.

17 Senator Gillibrand: Okay. A different topic, I am  
18 particularly concerned about the well-being of families, so  
19 one of the questions that I wanted to ask was about those  
20 military families who are food insecure, who don't have  
21 enough food. I have been concerned by the small amount of  
22 servicemembers that use the Family Subsistence Supplemental  
23 Allowance. You have recommended eliminating it in favor of  
24 SNAP. What factors informed your recommendation to do away  
25 with the FSSA rather than reform it? And do you think the

1 SNAP program can adequately meet the needs of the  
2 servicemembers who live with chronic food insecurity?

3 Mr. Maldon: Senator, we gave a lot of consideration to  
4 that. We obviously want to make sure that we don't have  
5 anyone who is with the need and that need is not being met,  
6 especially with regard to nutrition or any other kind of  
7 support that the military should be providing for the  
8 servicemembers.

9 I am going to ask Commissioner Dov Zakheim to respond  
10 to the question.

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

12 One of the things is that SNAP tends to be more  
13 anonymous for people, so that you don't have to go through  
14 the chain of command and let the whole world that you have a  
15 problem.

16 Senator Gillibrand: Right.

17 Mr. Zakheim: That is one of the bigger issues. There  
18 are not all that many people on the FSSA program.

19 Senator Gillibrand: Right.

20 Mr. Zakheim: And the benefits are actually a bit  
21 better.

22 Senator Gillibrand: That was the purpose of it, to  
23 give more support.

24 Mr. Zakheim: Exactly.

25 Senator Gillibrand: But it doesn't really work.

1           Mr. Zakheim: So you are doing a bit better. You are  
2 keeping your pride and dignity. It seems, to us, that it is  
3 kind of a no-brainer on this one.

4           Senator Gillibrand: Does the Basic Housing Allowance  
5 or other military benefits prevent servicemembers from  
6 qualifying for SNAP or will they still qualify? Did you do  
7 any analysis of who would qualify?

8           Mr. Maldon: Thank you for that question, Senator.  
9 Commissioner Higgins?

10          Mr. Higgins: Senator, clearly, the Basic Allowance for  
11 Housing would have an impact on SNAP eligibility in some  
12 States. But I think the States have very different  
13 formulas, which was one of the complications that we  
14 encountered.

15          The major concern that we had was nobody really knows  
16 how many people actually participate in SNAP and receive the  
17 benefit. In addition, it appears that for most people, SNAP  
18 is actually a better benefit. So our original concern was  
19 to deliver to the families that have need the best benefit  
20 available. FSSA was not providing that. SNAP does.

21          But following right behind that is the awareness that  
22 we need to understand exactly which servicemembers are on  
23 SNAP. And this is where we come in with our reporting  
24 requirements, to fully get that information.

25          Senator Gillibrand: And to identify which ones are

1 actually food insecure.

2 How would this affect families serving overseas,  
3 because they are not eligible for SNAP.

4 Mr. Higgins: We would retain the FSSA overseas,  
5 because there is a valid, urgent need there for the program.

6 Mr. Zakheim: And there is no alternative.

7 Mr. Higgins: Correct.

8 Senator Gillibrand: Right.

9 Mr. Higgins: SNAP doesn't reach overseas.

10 Senator Gillibrand: Do you plan on any particular  
11 outreach to try to assess which families are food insecure,  
12 so that you can be more supportive?

13 Mr. Higgins: I think one of our recommendations is to  
14 ensure that the States are properly accounting for  
15 servicemembers and their families as they approve people for  
16 SNAP. The commission obviously may not be the ones making  
17 these decisions, but once the Department of Defense has the  
18 information, then you can reassess what changes to the pay  
19 system may be required, once you fully understand who is in  
20 need.

21 Senator Gillibrand: I have a lot of other questions  
22 that I can submit for the record. But specifically, I want  
23 to talk a little bit about commissaries and exchanges, as  
24 well as child care on military installations and education  
25 benefits. So I will submit those for a written response.

1 Thank you, Mr. Chairman.

2 Senator Graham: Thank you. Very good questions.

3 Senator Tillis?

4 Senator Tillis: Thank you, Mr. Chairman.

5 Gentlemen, thank you for your work. I want to go back  
6 and maybe cover some of the points that Chairman Graham  
7 made.

8 First, I am assuming that the anticipated adoption rate  
9 of the new plan has a lot to do with, well, let's say  
10 somebody like the chairman, who is a little bit more  
11 advanced in his pension accrument, so he may end up  
12 deciding to stay on the plan, when he asks that question of  
13 himself.

14 But with the pyramid being among some of the younger,  
15 less tenured people, it looks like it is more or less  
16 following the same trends that you have seen with these type  
17 of pension transitions in the private sector. Is that  
18 right? Does it fit pretty much with that adoption rate?

19 Mr. Maldon: I think that is fair, yes.

20 Senator Tillis: And the question that I have in that  
21 is, I know there are some people who may have some concerns  
22 with tying some of the retirement to stock, but it is also  
23 using contemporary models another 401(k) programs to  
24 optimize the return. Is that correct?

25 Mr. Maldon: That is correct.

1           Senator Tillis: And then, in the process of doing  
2 this, one question I have is with respect to the adoption  
3 rate. Over what period of time do you think you would see  
4 the mix where the proposed plan, people would opt in? I am  
5 assuming there is an opt-in when they come into the service,  
6 there is some period of time, but the ones already here can  
7 make that decision. Over what period of time do you see the  
8 plan being implemented?

9           Mr. Maldon: Commissioner Higgins?

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

11          Sir, we have to be clear about the two groups of people  
12 we are talking about here. One is all the new accessions.  
13 They will be in our proposal, if our language is adopted.

14          Senator Tillis: From that point forward.

15          Mr. Higgins: As we recommend. As soon as they enter  
16 Active Duty, new accessions.

17          Those who are currently serving will have the ability  
18 to opt in. And we feel the strength and power of our  
19 proposal would draw many of the currently serving people in,  
20 up to a certain point, up to, say, 10, 12 years of service,  
21 where their investment in the current system is perhaps more  
22 remote in their perspective than what we are offering. I  
23 think you will see very high rates, indeed.

24          Mr. Maldon: Senator, we do have a data point. We know  
25 that 40 percent of folks in the military now are investing

1 in TSP with no government match.

2 Senator Tillis: So they are already in, fundamentally,  
3 the same sort of plan without any leverage.

4 Mr. Maldon: Without any leverage. So that is a pretty  
5 good indication of what my colleagues just said.

6 Mr. Higgins: If I could, sorry, the opting in is  
7 limited. There is a window.

8 Senator Tillis: What is that window?

9 Mr. Higgins: I believe it is 6 months, if memory  
10 serves.

11 Senator Tillis: One of the questions I have, because I  
12 think it is a good idea to add the additional cost for  
13 financial literacy, and there may very well be that some may  
14 not opt in, not because it is not a good idea but because  
15 they don't understand that it is a good idea. So that is  
16 why I was asking about of the enrollment window.

17 To what extent are we really presenting to those who  
18 have the choice, and are probably within a window where it  
19 will most likely make sense for them to go this route, that  
20 they have the right education and materials to make that  
21 decision?

22 Mr. Maldon: Step one is a briefing for every service  
23 member concerning our recommendations, assuming they would  
24 be adopted, throughout the force, to ensure that the force  
25 knows what is available to them.



1           Mr. Zakheim: And it is going to be continuing. That  
2 is another point that is very, very important. I mean, it  
3 is not fire-hosing a 19-year-old for 6 hours or something,  
4 and then he or she has no idea after the 6 hours are over.

5           We studied this in great depth. We even talked to  
6 other militaries about it.

7           Clearly, if you have a regularized approach, people go  
8 through different stages in their lives. They get married.  
9 They have children. They get promotions. At each major  
10 stage, the idea is that you come back and say, well, now you  
11 are at this stage, here are some of the concerns you ought  
12 to bear in mind, here is how you might want to look at the  
13 benefits available to you.

14           So it is a completely different approach to financial  
15 literacy than the military has today.

16           Senator Tillis: A different line of questioning, but  
17 how does this work out for the government in terms of saving  
18 us money or managing our long-term obligations?

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

20           There is savings, but not savings. By that, I mean  
21 there is a \$75 million cost per year to actually support or  
22 sustain this kind of training that we are recommending,  
23 because we are talking about a very robust kind of training.

24           Senator Tillis: Oh, I am sorry. I completely agree  
25 with the value of the financial literacy. I am back to the

1 program as a whole. How do the economics of this look  
2 versus the current state?

3 Mr. Maldon: I'm sorry, Senator. I thought you were  
4 still on the other question. I apologize for that.

5 Commissioner Zakheim?

6 Mr. Zakheim: Sure. You are going to have, initially,  
7 some outlays, because you have to get the TSP program going.  
8 But our numbers show that in budget terms, budget authority  
9 terms, you are already saving up to \$1 billion in 2016, if  
10 you went immediately.

11 Senator Tillis: So that is after you fund the  
12 transition bubble?

13 Mr. Zakheim: The transition bubble is an outlay  
14 number. This is a net budget authority number. By the time  
15 you get out to where this really kicks in, so this is quite  
16 a few years down the pike, say 2053, you are talking about  
17 savings and outlays of nearly \$15 billion a year.

18 Senator Tillis: Great. I had another question. It is  
19 on a different topic, and it is with the unemployment. I  
20 read a little bit on it, but I would like to get your take  
21 recommending eliminating unemployment compensation for those  
22 on the post-9/11 G.I. Bill. What was the thought process  
23 behind that?

24 Mr. Maldon: Senator, we wanted to make sure that when  
25 we looked at each one of these programs, we wanted to take a

1 very hard look at what the intent of those benefits were and  
2 to make sure that they were being delivered in a cost-  
3 effective way. As we did that, in talking to people across  
4 the country that we talked to, we would find out that there  
5 were servicemembers who were getting unemployment benefits.  
6 They were using tuition assistance benefits. They used the  
7 the 9/11 Montgomery G.I. Bill. There were a number of  
8 duplicative benefits that servicemembers were receiving.

9 We did not think that we could not just look at that  
10 and look past it, because it was just not an efficient way  
11 to do that. We wanted to make sure that we could sustain  
12 the educational benefits for a very long time. The way to  
13 do that was really to look at those things that we could do  
14 away with. And the unemployment piece of that, which is  
15 something where if a servicemember was receiving tuition  
16 assistance and using that tuition assistance to go to  
17 school, there was no reason to actually be getting  
18 unemployment and having the BAH paid for as well.

19 Senator Tillis: Thank you all for the work. As  
20 speaker in North Carolina, we were trying to get this done  
21 for our State employees, and I think we will ultimately do  
22 it there. This is great work, and I look forward to hearing  
23 more about it. Thank you.

24 Thank you, Mr. Chair.

25 Senator Graham: Senator King?

1 Senator King: Thank you, Mr. Chair.

2 The premise, as I understand it, was that this was not  
3 a budget-cutting exercise. It was a realignment of  
4 compensation exercise and the sort of underlying assumption  
5 was that people aren't going to be hurt by this. However, I  
6 note that there is a budgetary impact of something like \$4.8  
7 billion in year one and \$30 billion over 10 years.

8 That money isn't coming out of the air. Isn't that  
9 coming from military personnel in one way, shape, or form?

10 Mr. Maldon: Thank you, Senator, for the questions.

11 Those are savings, but those are savings that we  
12 arrived at by achieving efficiency in some the various  
13 programs that were decades-old and just weren't serving a  
14 purpose. The funding for those programs were there. The  
15 benefits to servicemembers, from what the servicemembers  
16 have told us, is that they just were not meeting their  
17 requirements.

18 And I am going to ask Commissioner Higgins to speak  
19 specifically to the cost savings there.

20 Mr. Higgins: Sir, with regard to retirement, where  
21 there were significant savings, as you suggest, we believe,  
22 and our analysis would confirm, that servicemembers who  
23 stayed in 20 years, over the course of their lifetime, their  
24 assets will be as good or better under our proposal.

25 That could vary based on the assumptions that you apply

1 to that formula, but what I would like to maybe clarify for  
2 you, where I think you are going, is do we save this money  
3 on the backs of servicemembers who are loyal, faithful, and  
4 serve through their 20 years?

5 Senator King: Well, you are showing \$30 billion in  
6 savings. Like I said, it is not coming out of the air. It  
7 is coming from somewhere.

8 Mr. Higgins: With regard to retirement, it is a more  
9 effective use of dollars. We are moving dollars from future  
10 benefits to current dollars. Those dollars are far more  
11 effective in producing retention than dollars that are paid  
12 later in a differed plan. We are delivering a Thrift  
13 Savings Plan, the continuation pay, new choices, new  
14 flexibility, a lump sum, for example, on retirement.

15 Those are all things that people want that we delivered  
16 under a modernization, not a cost-cutting objective, but a  
17 modernization objective. We deliver on those, and those are  
18 highly effective in producing retention. That is what our  
19 analysis that we believe in suggests is true.

20 Senator King: Well, you mentioned retention, and it  
21 seems to me that is what this is all about. A fundamental  
22 difference in the military system than in the private sector  
23 is that in the military system, you have to grow your  
24 talent. You don't hire middle managers in midcareer. So  
25 retention is the whole deal.

1 I am concerned, for example, how the new system would  
2 affect somebody who has done their 20 years, because you get  
3 some of the most important service between 20 and 28 or 30  
4 years. My understanding is that the incentive to stay those  
5 additional years really diminishes under the plan that you  
6 are proposing. Can you react to that thought?

7 Admiral Giambastiani: Senator, if I could, I think,  
8 first of all, it is important for you to know that of the  
9 nine commissioners who have unanimously put this report  
10 together that I am guessing we have 130, 140 years of  
11 military service amongst all nine of us. I don't know the  
12 exact number, but it is pretty close.

13 So we looked at this, how we sustain the all-volunteer  
14 force. And having, for example, speaking for myself, I came  
15 in during Vietnam, during the draft era. I had a lot of  
16 fine people serving with me. But the midgrade chief petty  
17 officers, sergeant majors, all of those senior enlisted  
18 frankly didn't exist in big numbers and didn't stick around  
19 very long. So that is part of the retention profile that we  
20 looked at, in addition to officers.

21 Senator King: And they got nothing.

22 Admiral Giambastiani: Correct.

23 Senator King: The current system is it is 20 years or  
24 nothing. Isn't that correct?

25 Admiral Giambastiani: Well, no. It is for 20 years

1 for retirement pay. They get the G.I. Bill. There are  
2 other V.A. benefits. But the retirement plan.

3 So we looked at this, and as you can see from our  
4 surveys, we went out and talked with folks. And we wanted  
5 to make sure that we maintained the best profile.

6 The chairman in his opening statement said that the  
7 Joint Chiefs asked us to look very carefully at the profiles  
8 that the services needed over a career path. So we tried to  
9 put together a whole series of packages.

10 We looked at 350 programs, frankly, and we came up with  
11 only 15 recommendations. The reason is that those are the  
12 most important to provide the value, the benefits, the  
13 access, choice, retention, all the rest of it. We think we  
14 have put a pretty complete package together.

15 I would say one thing. Will some of the retirees pay  
16 more? The answer is yes. We have a program in health care  
17 where the non-Medicare, Social Security-eligible retirees  
18 will pay 1 percent more per year, if you will, from the 5  
19 percent they are currently paying over a 15 year period, up  
20 to a total of 20 percent.

21 So, yes. There are a couple of these were somebody's  
22 going to pay a little more like that. But the vast majority  
23 of these are, for example, because we reduced the TRICARE  
24 staff significantly, we have reduced the Defense Health  
25 Agency staff in the Pentagon by transferring many of these

1 to this Federal-type health program, if you will, including  
2 the Military Treatment facilities.

3 That is where we come up with a lot of these, if you  
4 will, efficiencies and savings, so that we can finance these  
5 better programs.

6 Mr. Zakheim: Senator, as you probably know, I used to  
7 be Comptroller of the Pentagon, so I worried a lot about  
8 budgets. There are really two ways to approach what you are  
9 raising. One is to say that I have to find some money. How  
10 do I do it? So I will slice off here, I will slice off  
11 there.

12 The other is to get entirely off the cost curve. That  
13 is what we have done. It is not just retirement that saves  
14 you money. As Admiral Giambastiani just said, the health  
15 care approach that we are taking saves you money. And yet,  
16 it benefits the consumer.

17 When you think about it, in the private sector, that  
18 happens all the time. Computers get cheaper. They get  
19 better at the same time they get cheaper.

20 What we are essentially doing is getting off the  
21 classic cost curve, a cost curve that, by the way, has been  
22 around in some cases for 70 years, give or take, and saying,  
23 if you have an entirely new approach, you not only save some  
24 money, which was not, as the chairman said, our priority,  
25 but you are really bringing your military into 21st-century



1 choice.

2 It is a very different military from when I came into  
3 this business in the mid-1970s, when most of the military  
4 people were young, single, no families. A lot of these  
5 issues never arose. It is different, and, essentially, this  
6 is a 21st-century program.

7 Senator King: Well, I am not taking a position on your  
8 proposal yet. I just want to underline that this retention  
9 issue, it seems to me, is really crucial. And we cannot  
10 make a mistake because it may be 10 years before it  
11 manifests itself. That is why I think we really to be  
12 careful with fully modeling it, thinking about it, having a  
13 representative group that fully understands the survey and  
14 what the options are.

15 So I just throw that out, Mr. Chairman.

16 Mr. Zakheim: Senator, you are absolutely right. One  
17 of the things, if you look at, and this actually points to  
18 the comprehensiveness of what we are doing, why it all hangs  
19 together. So you have, for instance, under our approach,  
20 the G.I. Bill, 10 years you vest. You commit to 2. That  
21 brings you to 12. At 12 years, you get continuation pay.  
22 You commit to 4 more. It brings you to 16. At that point,  
23 you are in for 20.

24 So if you look at the package, it is actually a  
25 phenomenal retention tool, and that is what the analysis

1 that we had showed, to a great degree.

2 Mr. Maldon: Senator King, let me also add, please,  
3 that the Department of Defense sent a white paper to the  
4 commission last March. They concluded that a blended  
5 retirement plan like the one we have proposed would sustain  
6 the recruiting and retention, just to kind of make that  
7 point here, that that was their conclusion with their white  
8 paper, which we took into consideration as we moved forward  
9 with our deliberation.

10 Admiral Giambastiani: I think it is important to  
11 understand that you are creating a problem today as you ask  
12 individuals to leave the service who have gone on two,  
13 three, four deployments and they leave with absolutely  
14 nothing.

15 My biggest concern is that they are going to talk to  
16 other people about how they answered their country's call,  
17 were planning to stay in for 20, and then asked to leave. I  
18 think our recommendation would go a long way in correcting  
19 what I believe is wrong there.

20 Senator Pressler: Senator King, your very original  
21 question, I just want to add one footnote, where does this  
22 money come from? In part, there is a reduction from 2.5  
23 percent a year that one gets in their retirement formula.  
24 Our plan would reduce that to 2 percent. That is probably  
25 where some heavy lifting is going to come. Probably that

1 will be objected to, to some extent.

2 But your very original question was where does the  
3 money come from. Some of it comes from that in the  
4 retirees' formula, the formula will reduce. Now it is 2.5  
5 percent a year. It will be reduced to 2 percent a year, I  
6 believe. Correct me if I am wrong.

7 Senator Graham: Thank you. Very good question, but as  
8 I understand the blended plan, you get a 40 percent  
9 guarantee defined benefit, but you get a matching Thrift  
10 Savings Plan for your entire 20 years. And I think you are  
11 going to get more money at the end of the day.

12 Mr. Zakheim: Senator, we have a chart I think that we  
13 could put up for you.

14 Senator Graham: Well, the chart I am looking at is 80  
15 percent of the people want to transfer into the other  
16 system. I think I know why.

17 But we are going to vote in about 5 minutes, and I will  
18 just start it off.

19 I think he asked a really good question about  
20 retention. The G.I. benefit, the Webb bill, for lack of a  
21 better word. Senator Webb did a great job. Senator McCain  
22 and I had a real concern.

23 I want to be generous after 4 years, but I want to keep  
24 people around. So one thing we did that I think was really  
25 smart, is if you stay in 12 years, after 12 years, you can

1 actually transfer your G.I. benefits to your kids. I'm  
2 working on grandkids.

3 So think about this. If you retire, now the G.I.  
4 benefit that you didn't use in the military, basically pay  
5 for your education, there will be a pretty healthy benefit  
6 left, if you manage your career right. You can actually pay  
7 for your kids' college. I thought that was a real incentive  
8 to stay past 12 years, that if you make it to 20, you can  
9 take the G.I. benefit and actually use it for the benefit of  
10 your children.

11 But the goal is to be generous, sustainable, and keep  
12 people around who we want to keep around. And I hate the  
13 fact that after 12 years of fighting in Iraq and  
14 Afghanistan, you get a blue slip and you get zero. And  
15 under sequestration, that is going to be more likely than  
16 not.

17 Remember what we are doing to the force here. We are  
18 going to reduce personnel down to the lowest level since  
19 1940 in the Army. That means a lot of people are going to  
20 be asked to leave before they get to 20, and get nothing for  
21 it. That is why we have to be smart about sequestration and  
22 about what you are trying to do.

23 So any second rounds?

24 Senator Tillis: I look forward to actually meeting  
25 with some of your representatives to talk more about the

1 plan design. I think Senator King makes a great point. And  
2 if there are documented savings and there are things we can  
3 realize, versus on paper savings, then there is something to  
4 be said for turning those savings back into even more  
5 benefits for the veterans, really use those for strategic  
6 investments that address retention, those sorts of things.

7 A question I had is since this has come out, I see what  
8 the graphic says here in terms of the adoption rates, but  
9 what are you hearing from people? When I have gone through  
10 these types of conversions before, everybody hates it until  
11 you go through the financial literacy and really show what  
12 it means to the large number of people who will probably opt  
13 into it. Are you getting resistance now? Is it generally  
14 positive? Where are you in terms of the stakeholder  
15 community and feedback?

16 Mr. Maldon: Senator Tillis, I think at this point in  
17 time I do still believe that it is kind of early in the  
18 process to really give a definitive answer to that question.  
19 But I think for the most part, the support the  
20 recommendations, the report, is getting, it seems people are  
21 rather supportive of it.

22 I think it is fair to say that a lot of the key  
23 stakeholders who would be impacted in some way by this or  
24 associated in some way with the decisions are thinking that  
25 they still need to know more about the details. So we are

1 in the process of going through that. So I am sure we don't  
2 have the final decisions from them in terms of where they  
3 might be at this point in time. Most are supportive at this  
4 time.

5 Admiral Giambastiani: If I could add, Senator, in  
6 talking with members of the Joint Chiefs, these are the  
7 service chiefs, they would tell you that at the beginning of  
8 this process when this commission stood up, there was a  
9 tremendous amount of doubt with the Active Duty force out  
10 there that you were messing with my retirement system.  
11 Senator Graham made that point many times at the beginning  
12 here.

13 Once the message has gotten out by the senior officers  
14 and senior enlisted across the force, the heat level went  
15 down dramatically. So that is very important for those  
16 stakeholders.

17 Mr. Zakheim: I would just add, Senator, and this is  
18 purely anecdotal, I am getting a lot of emails from people,  
19 some whom I know and some whom I don't. I mean, it is  
20 literally running 99-1 in favor.

21 Senator Tillis: Well, I would think that you benefit  
22 from this working relatively well in a lot of large, complex  
23 organizations out there. I do think, though, that what  
24 Senator Graham opened up his comments with is very  
25 important. If you like your current plan you will have the

1 option to keep it. And we mean it this time. So I think  
2 that that is critically important.

3 When you wind into that the financial literacy, this is  
4 something that is critically important, something I have  
5 seen benefit from policy down in North Carolina, then you  
6 are going to help these folks make some very positive  
7 decisions. I think they will become positive supporters of  
8 this plan.

9 So thank you for your work. I look forward to learning  
10 more about it.

11 Senator Graham: Thank you, all. Anything else? I  
12 think they have just called the vote. Does anybody have any  
13 more questions?

14 If not, we will let you go. Well done.

15 And one final thought, if you are 18 years in, I am  
16 probably sticking with what I got. But if I am just getting  
17 started, I like the blended plan.

18 And we have to fix sequestration, because Senator King  
19 has raised a great point. How do you retain people? Well,  
20 under sequestration, you can't. You are going to have to  
21 let a lot of people go. And we need some kind of system to  
22 at least be fair to these people. If you are going to let  
23 them go, you ought to pay them for their honorable service  
24 rather than just say thank you.

25 So I appreciate the hard work.

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

2 Senator Graham: Why don't we go vote? We will stand  
3 in adjournment, go vote, and come back to the second panel.  
4 How does that sound?

5 Senator Gillibrand: That is perfect.

6 Senator Graham: Okay.

7 [Recess.]

8 Senator Graham: Thank you all.

9 Can we get the second panel up front and ready to go?  
10 I apologize. We had to go vote.

11 So panel two, could you introduce yourself, starting  
12 with the Air Force Sergeants Association.

13 Mr. Frank: I am Rob Frank, retired Chief Master  
14 Sergeant of the United States Air Force, and I am the CEO  
15 for the Air Force Sergeants Association.

16 Ms. Parke Holleman: Good afternoon. I am Deidre Parke  
17 Holleman. I am the head of the Washington office of The  
18 Retired Enlisted Association.

19 Mr. Jones: My name is Rick Jones. I am the  
20 legislative director for the National Association for  
21 Uniformed Services.

22 Mr. Nicholson: And I am Alexander Nicholson,  
23 legislative director for Iraq and Afghanistan Veterans of  
24 America.

25 Senator Graham: Thank you all for coming. I don't



1 have an opening Statement. Would you all like to go with  
2 ladies first? How would you like to do this? Do you want  
3 to give a quick opening statement, or do you just want to  
4 take questions?

5 Ms. Parke Holleman: Well, I wrote it. I will give it  
6 a shot.

7 Senator Graham: Well, you wrote it, and I will listen  
8 to you, if you read it.

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1           STATEMENT OF DEIRDRE PARKE HOLLEMAN, EXECUTIVE  
2           DIRECTOR THE RETIRED ENLISTED ASSOCIATION

3           Ms. Parke Holleman: Thank you kindly. Chairman Graham  
4           and members of the subcommittee, thank you for the  
5           opportunity to testify on behalf of the men and women of The  
6           Retired Enlisted Association concerning the retirement  
7           recommendations made by the Military Compensation and  
8           Retirement Modernization Commission.

9           May I ask that our full written statement be made part  
10          of the record?

11          Senator Graham: Yes, ma'am. Your entire written  
12          statement, including the first panel, will be made part of  
13          the record. Thank you.

14          Ms. Parke Holleman: Thank you.

15          The Retired Enlisted Association is the largest  
16          veterans organization in the Nation that was created  
17          specifically for enlisted personnel from all the branches of  
18          the armed services. We were founded in 1963 and  
19          congressionally chartered in 1992.

20          The commission has outlined a series of recommendations  
21          that would result in the blended retirement system that  
22          contains elements of a defined contribution retirement plan  
23          while retaining a good bit of the military's current 20-  
24          year, cliff-vesting defined benefit plan.

25          We are very grateful that you wish to hear our views,

1     though a bit breathless as well. We are told the Pentagon,  
2     with all their resources, is working like mad to develop  
3     response to present to the President in 60 days. We have  
4     only had 13 days to prepare comments to present to you.

5             Because of that timetable, we must say that even with  
6     the fine cooperation of the commission's members and staff,  
7     we are far from having the numbers, details, and analysis  
8     that are needed to accurately and thoroughly assess the  
9     recommendations.

10            With that large caveat, we acknowledge that the report  
11     of the commission is a serious analysis that contains  
12     interesting proposals. It is clear that they made an honest  
13     attempt to change and, in their view, improve the system as  
14     it is now.

15            But first, we should note that the present cliff 20-  
16     year retirement system has worked very well for over 40  
17     years for our all-volunteer military. It has worked during  
18     good and bad economic times, and amazingly well during the  
19     last 13 years of war. Therefore, we believe that Congress  
20     should adopt the medical model of first do no harm when  
21     considering overhauling the present system.

22            On the other hand, we agree improvement should be made  
23     whenever possible to a system designed not only to attract  
24     personnel to our Armed Forces who will defend our Nation but  
25     also to care for him who shall have borne the battle and for

1 his widow and his orphan, as President Lincoln said. We  
2 recognize, of course, that this is now the motto of the  
3 Department of Veterans Affairs, but it is equally true when  
4 it comes to those currently serving, not just for those who  
5 have left the services.

6 It is a splendid idea to provide a portable retirement  
7 investment account for those who serve in our uniformed  
8 services but leave, for whatever reason, before serving 20  
9 years. It is also a first-rate idea to provide effective  
10 financial education to all those who serve. But neither  
11 benefit should be paid for by reducing the retirement of  
12 those who served 20 years or more.

13 Does this proposal do that? We are worried that it  
14 may. We have many concerns.

15 First, clearly, there is a 20 percent cut in the  
16 defined benefit plan value from 50 percent to 40 percent.  
17 How is that made up? There is the Thrift Savings Plan  
18 where, except for an initial 1 percent, retirees must  
19 contribute their own money to receive any of the  
20 government's matching contributions.

21 It should be noted, as was noted earlier, that  
22 currently 40 percent of the presently serving force is  
23 contributing to nonmatching TSP to augment their present  
24 defined plan. Thus, this advantage to future members would  
25 be lost.

1 Another issue of concern is that the 12-year bonus  
2 payment, which is listed as part of the retirement  
3 calculation but certainly looks like present taxable income  
4 and not tax-deferred income, it seems to us that in order  
5 for that to be part of the retirement calculation, a change  
6 in the law would have to be made.

7 In addition, the commission says that they are leaving  
8 the method of calculating the lump sum payment proposal to  
9 the Secretary of Defense, as was discussed a bit in the  
10 first panel. We question whether that is appropriate since  
11 a new Secretary could change the method with the stroke of a  
12 pen.

13 Further, is the discount rate used in calculating  
14 present value of future money correct? According to the  
15 senior pension fellow of the American Academy of Actuaries,  
16 who is quoted the Military Times regarding the commission's  
17 use of a 12.7 percent discount rate, it is not. I quote,  
18 "Twelve percent, my gosh. That is an outrageous rate to use  
19 for something like that."

20 The article went on to say private sector companies  
21 would normally use 4 percent to 5 percent, but he said that  
22 he would use an even lower rate, perhaps 2 percent to 3  
23 percent, because the U.S. Government is considered the  
24 safest lender in the world.

25 We believe that the reason for this dramatic disparity

1 is because the commission is not using actual value of an E-  
2 7's present retirement, which DOD pegged at \$1.1 million  
3 last year, but rather the servicemember's perceived value of  
4 the benefit. It appears to us the thought behind this is  
5 that if the servicemember's perception is favorable, even if  
6 it is incorrect, retention will not be harmed.

7 That assumption may be correct, but is it appropriate?  
8 The value of a retirement plan should first be analyzed  
9 objectively, not subjectively. Doesn't Congress have a duty  
10 to protect the objective interests of the men and women who  
11 in the future will continue to serve the Nation in danger,  
12 inconvenience, and loneliness for 20 or more years?

13 The commission has proposed that servicemembers be  
14 given effective financial education, and we agree.  
15 Shouldn't this sophisticated financial analysis be used when  
16 considering the creation of a new retirement system. We  
17 believe that it should even when changes are being  
18 considered in part for the admirable goal of improving the  
19 situation of those who have served 3, 5, or more years in  
20 our same uniformed services.

21 These are just a few of the worries and questions that  
22 we have concerning the commission's retirement proposals. I  
23 will, of course, try my best to answer any questions you may  
24 have for me.

25 Again, thank you for the opportunity to speak before

1 you and thank you for all that you do for our  
2 servicemembers.

3 [The prepared statement of Ms. Parke Holleman follows:]

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1            Senator Gillibrand: [Presiding] Mr. Frank?  
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1           STATEMENT OF ROBERT L. FRANK, CHIEF EXECUTIVE OFFICER,  
2 AIR FORCE SERGEANTS ASSOCIATION

3           Mr. Frank: Ranking Member Gillibrand, members of the  
4 committee, it sure is an honor to be here to speak on this  
5 particular committee's report. We have some early analysis,  
6 of course, with similar concerns that she has outlined, but  
7 I am going to get right to the point. Why is it that we are  
8 talking about reforming the system? To be frank, and the  
9 elephant in the room, is this about saving money? Is it  
10 about the bottom line? \$12 billion is nothing to sneeze at  
11 when it comes to savings of our government taxpayer dollars.

12           But the commission has reported to us that no, that  
13 wasn't the objective of this. Is this change for the sake  
14 of change? We have a perceived antiquated system. It is  
15 decades old and people say it should be modernized to match  
16 the private sector. I will point to the fact that other  
17 than when our retirement system has been tinkered with, and  
18 Congress, certainly, has done a good job of fixing that in  
19 the past, that this is ushered in the all-volunteer force.  
20 It has got us through good economic times and bad. And it,  
21 certainly, has put us through 20 years of high ops tempo and  
22 war.

23           But when we talked to the commission, they said our  
24 objective was to create a better system. So the real  
25 question is, how is this a better system for the services?

1 Does it combat a perceived recruiting and retention issue?  
2 I am ready to tell you that is a phantom menace. We haven't  
3 missed recruiting goals in years. As a matter fact, over  
4 the last couple of years, we have had to tell people that  
5 they need to leave. Notably so, we do give them severance  
6 pay and other things as they leave the service. But again,  
7 our recruiting and retention issues are not a problem in  
8 today's military.

9 We are led to believe that 83 percent get out with  
10 nothing. That is nothing except for that \$80,000 education,  
11 significant home loan guarantees, hundreds of thousands of  
12 dollars in training and experience they will take to get a  
13 great job, numerous veteran benefits, a 401(k) style system  
14 that they can invest in today for their future retirement,  
15 and, of course, the title of veteran. And in recent times,  
16 less than 1 percent carry that title.

17 Retention is the biggest concern I think that we have.  
18 We can look at the past. And back in 1986, of course, we  
19 changed the retirement system. Ten years later, Congress  
20 had us take some time to fix that system. What is it going  
21 to look like 10 years from now if this is enacted?

22 The cumulative effects of everything else that is on  
23 the table, not to consider necessarily what is in this  
24 report but everything else, and then we create a system  
25 where it is easy to off-ramp at early points in their

1 career, could have significant impact on retention,  
2 especially when the economy rebounds.

3 This system has been compared to the private sector,  
4 and let me be very clear about this. This way of life has  
5 no comparison. To add to that, in the private sector, if  
6 you are running a company, you have someone with 10 years'  
7 experience who gets out, what do you do? You go hire  
8 somebody with equivalent experience to take their place, and  
9 you move on with the mission of your company.

10 We cannot do that in the U.S. military. We must grow  
11 our experience. It is different, and we have to take that  
12 into consideration.

13 Senators, we need people to go 20-plus years. In the  
14 Air Force, most significantly, our enlisted corps, we have a  
15 higher rate of folks who go to 20-plus years for a reason.  
16 We need them to do that.

17 We as an association urge the committee to proceed with  
18 caution. Education about this new system has to be up  
19 front. Financial education in my background, I can tell  
20 you, it is not enough for what they need, especially when  
21 they have to start making decisions about their own  
22 retirement.

23 The chart said 80 percent were in favor of this. I  
24 know the charts are gone now, but it said 80 percent were in  
25 favor of this. Now that everything is in context, and we

1 have run our surveys, I can tell you that there is a stark  
2 difference in what people currently serving in uniform today  
3 say about the choice between this system, what they have  
4 today, and what the future proposal is.

5 We, certainly, don't want the budget to be balanced on  
6 the backs of our servicemembers. We welcome change. Change  
7 is good, but change for the better.

8 To take away from those who have gone the long term,  
9 the ones we need to go long term, to take away from that to  
10 give to those who are one and done will have a significant  
11 effect on the all-volunteer force. Thank you.

12 [The prepared statement of Mr. Frank follows:]

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Senator Gillibrand: Mr. Jones?

1           STATEMENT OF RICHARD A. JONES, LEGISLATIVE DIRECTOR,  
2 NATIONAL ASSOCIATION FOR UNIFORMED SERVICES

3           Mr. Jones: Mr. Chairman, Madam Ranking Member, Senator  
4 King, the National Association for Uniformed Services  
5 appreciates the opportunity to testify and appreciates the  
6 MCRMC commissioners' decision to hold harmless the current  
7 retirement system for those currently retired and for those  
8 currently serving. We also applaud MCRMC's recommendation  
9 for no change in TRICARE for Life.

10           The MCRMC report, however, has some questions in it.  
11 What we question is the pay-for of the TSP innovation. The  
12 MCRMC report makes a simple but questionable change in the  
13 retirement system. It takes the current system as it stands  
14 with 20-year program and voluntary TSP and adds government  
15 participation with a 1 percent automatic TSP contribution  
16 and matching contributions up to 5 percent.

17           There is one more aspect. It drops the retirement  
18 multiplier 20 percent, cutting it two times for the years of  
19 service from 2.5. The result, the retirement check would be  
20 20 percent less under the proposed plan, 20 percent less.

21           Of course, one of the key questions about the  
22 commission's report is why is it necessary to shave the 20-  
23 year program in order to enhance the system for those who  
24 leave early?

25           In recent past testimony, we have heard principal

1 Defense Department officials tell us the current military  
2 retirement system is neither unaffordable nor spiraling out  
3 of control, remaining a relatively constant percentage of  
4 pay over time.

5         Since issuance of the report a little less than 2 weeks  
6 ago, the National Association for Uniformed Services has  
7 already heard a barrage of critical comments. One said, "I  
8 depended on that retirement check when I transitioned to  
9 civilian life." Another member said, "You are better off  
10 being a policeman, a fireman." And, "The blended plan  
11 requires servicemembers to actually pay into the account.  
12 Basically, that's a pay cut of 3 percent."

13         Another questionable element of the package recommends  
14 stopping the government's automatic and matching TSP  
15 contributions at the 20-year mark. The retirement package  
16 is a critical incentive to stay in service beyond 20 years.

17         There are many valid reasons. It generally takes 15 to  
18 20 years to train and prepare the next generation of  
19 infantry battalion commanders, of submarine captains. We  
20 need to create these experienced leaders.

21         The National Association for Uniformed Services agrees  
22 that young men and women who serve three, four, or five  
23 deployments would be better off if offered something after  
24 honorable service other than a pink slip and the door. We  
25 also see, however, that the current 20-year cliff retirement

1 program has proven its mettle.

2 It works, through nearly 70 years. It is not spiraling  
3 out of control. It remains a powerful pull for career  
4 service and keeping experience at hand.

5 It may be prudent to upgrade the TSP account. However,  
6 it should not come as a result of cutbacks in the military  
7 career incentive package.

8 Thank you for the opportunity to testify. I appreciate  
9 it.

10 [The prepared statement of Mr. Jones follows:]

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1           Senator Gillibrand: Thank you, Mr. Jones.  
2           Mr. Nicholson?  
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1           STATEMENT OF ALEXANDER NICHOLSON, LEGISLATIVE  
2 DIRECTOR, IRAQ AND AFGHANISTAN VETERANS OF AMERICA

3           Mr. Nicholson: Thank you, Ranking Member Gillibrand.  
4 Even though he stepped out, I have to say, as a native South  
5 Carolinian and representing an organization headquartered in  
6 New York, it is a particular honor to testify for this  
7 particular combination of chairman and ranking member.

8           On behalf of Iraq and Afghanistan Veterans of America  
9 and our nearly 300,000 members and supporters, we appreciate  
10 the opportunity to share with you our views on the final  
11 report of the Military Compensation and Retirement  
12 Modernization Commission.

13           To give you the bottom line up front on the  
14 commission's recommendations from our perspective, we see  
15 them as somewhat of a mixed bag. Some of the  
16 recommendations align well with the recommendations that we  
17 and other military and veterans organizations have been  
18 advocating for for years while others appear to be bold new  
19 steps in a positive direction that merits serious  
20 consideration. However, a few of the other recommendations  
21 raise questions and concerns for IAVA and our members.

22           But first, let me talk about some of our areas of  
23 agreement. We are in strong alignment with the commission  
24 on the need for increased DOD-V.A. cooperation up to and  
25 including sharing systems and information. The process of

1 transitioning from Active Duty to veteran status is still  
2 disjointed. And OIF/OEF veterans often report gaps in care  
3 and assistance when leaving DOD and entering the V.A.  
4 system.

5 Another area in which we strongly agree with the  
6 commission is on the urgent need for increased financial  
7 literacy and benefits stewardship education for  
8 servicemembers and military families, especially if you are  
9 going to change the dynamic and require troops to take more  
10 personal responsibility for their part of their own benefits  
11 package outcomes. We see the need for this not only in  
12 countless examples of predatory lending targeting  
13 servicemembers but also predatory for-profit educational  
14 institutions going after servicemembers' and veterans'  
15 valuable post-9/11 G.I. Bill benefits.

16 Secondly, IAVA is interested in taking a deeper dive  
17 into the commission's recommendations regarding alternate  
18 retirement plan packages. In our 2014 annual survey of our  
19 members, 36 percent of respondents felt that the military  
20 retirement system should be reformed. Of those respondents,  
21 when allowed to select multiple options, 67 percent favored  
22 a 401(k) style benefit for noncareerists, 33 percent favored  
23 increasing the overall value of the current retirement  
24 benefits, and 59 percent favored a partial early retirement  
25 benefit for 10 or 15 years of service.

1           To many of IAVA members, who are by definition combat  
2 veterans, it seems fundamentally unfair that one can serve  
3 for 10 or 12 years with three, four, or five more  
4 deployments and leave with absolutely no retirement benefit  
5 at all, yet a careerist who never deployed could be entitled  
6 to a full retirement package. Therefore, IAVA is open to  
7 reforms that would amend the current system to allow  
8 noncareer troops the opportunity to receive some retirement  
9 benefits.

10           And lastly, IAVA has some serious concerns and  
11 questions with some of the commission's recommendations  
12 regarding reductions in post-9/11 G.I. Bill benefits. We  
13 will continue to analyze these numerous comprehensive  
14 recommendations the commission has articulated before  
15 developing final views. However, fundamental reductions in  
16 post-9/11 G.I. Bill benefits, even for dependents, raise red  
17 flags for IAVA and our members.

18           We appreciate the opportunity to offer our views on the  
19 commission's recommendations and look forward to working  
20 with each of you and your staff and the committee to improve  
21 the lives of servicemembers, veterans, and their families.  
22 Thank you.

23           [The prepared statement of Mr. Nicholson follows:]

24           [SUBCOMMITTEE INSERT]

25

1 Senator Gillibrand: Thank you.

2 I will reserve my questions for the end. We will go to  
3 Senator King.

4 Senator King: Thank you all for your testimony. It is  
5 very helpful. And also for your service.

6 Ms. Holleman, I had to smile when one of the first  
7 things you said was the proposals are interesting. In  
8 Maine, when somebody says something is "interesting," that  
9 means forget it. I sort of get the drift. "Oh, that is  
10 interesting."

11 As you can tell from my prior line of questioning, I am  
12 very concerned about the issue of retention and particularly  
13 retention beyond 20 years, or retention of those people who  
14 have solid service credentials between, say, 12 and 20  
15 years. Talk to me about the cliff vesting of the current  
16 system and how you think this would either improve retention  
17 or diminish it.

18 Mr. Frank?

19 Mr. Frank: Senator, I came in in 1987. I came in  
20 under the REDUX retirement plan. Ten years later, I am  
21 working a flight line. I am having a hard time finding a  
22 specialist to help me fix my airplane so we can get it in  
23 the air, and it is because we had a system in place that  
24 people said, you know what, I am not making this a career.  
25 We don't have the experience that we need at these

1 particular levels.

2 And so, of course, it was changed. We had the option  
3 to go back to the High-3 system as we moved forward.  
4 TRICARE, of course, was coming online at that time, again,  
5 health care changes.

6 Fast forward to where we are at now. As the economy  
7 gets better and there are less perceived value of a  
8 retirement system based on this new system, especially if  
9 they are not educated on how to properly invest or the way  
10 to go about doing this, you are going to have people -- this  
11 is almost like REDUX on steroids. It is an easier off-ramp.

12 You know what? I have some money now that I have  
13 socked away. It is even easier for me to depart the Air  
14 Force or the services and go out and work for this company  
15 that has offered me a great job. We would salute them  
16 smartly and say thanks for your service. But we could very  
17 well put ourselves in a position to have problems with those  
18 key components.

19 And they talk about, hey, if you go to 12 years, it  
20 will get you to 16, and 16 will get you to 20. But under  
21 this new system, I don't know.

22 Senator King: But all of you said in one way, shape,  
23 or form the current system is working, why change it? My  
24 understanding is it is working great for people to stay for  
25 20 years, and it is not working at all for people who stay

1 12 or 13 or 8. They could have three or four deployments  
2 and end up with zip in terms of retirement benefits.

3 How is that fair or appropriate? Don't we have to do  
4 something about that? And isn't this proposal one of the  
5 only real options for dealing with that problem?

6 You talked about this, from the point of view of your  
7 groups.

8 Mr. Nicholson: Sure, I think that we would absolutely  
9 agree that something has to be done to give some sort of  
10 benefit to those who are noncareerists. I think, however,  
11 we would agree with our VSO and MSO colleagues that we don't  
12 want to also do that at the expense of those who are  
13 careerists.

14 It is not necessarily a zero-sum game, or we don't have  
15 to look at it that way. We don't want to necessarily  
16 support reducing their benefits.

17 Senator King: But I think this is important. The way  
18 I read the math, you are not reducing their benefits. They  
19 are getting 40 percent instead of 50 percent, but the other  
20 10 percent, if there is any kind of decent compounding with  
21 the contribution and the match.

22 And by the way, somebody characterized it as a 3  
23 percent pay cut. Well, you can look at it that way, but it  
24 is voluntary, and then government is going to match it on  
25 the other side. That is 3 percent. I mean, it works out

1 both ways.

2 But you are going to end up with the same or more  
3 money, aren't you? I mean, it is not accurate to say that  
4 you're cutting people's retirement benefits. If you stay 20  
5 years and get the 40 percent and the 401(k), what it looks  
6 like, don't you end up in the same place or better?

7 Mr. Jones: At what age does one retire? Is it 40, 42?

8 At what age does one receive the TSP? So for that period  
9 of time, between your age of retirement and the acceptance  
10 of the TSP 401(k) program, you have benefits that are  
11 reduced 20 percent through that period. That is practically  
12 where a lot of the money comes from that it is being saved  
13 in this program. Do you follow?

14 I retire at age 42, and I get 40 percent instead of 50  
15 percent under the current program in my retirement check. I  
16 wait until I am 65 or 60 to receive TSP. That is where you  
17 begin to make an equivalence.

18 Senator King: So that is the difference that you see  
19 as the disadvantage of this program to somebody who stays  
20 longer than 20 years.

21 Mr. Jones: Well, the other thing that you mentioned  
22 earlier, that a lot of the senior officials who are in the  
23 military stay beyond 20, 20 to 28. Between 20 and 28, there  
24 is no TSP match. There is no contribution of 1 percent for  
25 those folks.



1           So when you speak about retention, Congress decided in  
2 2007 that they needed that experience. So what they did was  
3 to allow retirement benefits to continue beyond 30 years. I  
4 think two members of the panel stayed with the military for  
5 that period of time beyond 30 years.

6           And that experience counted. It saved not only money  
7 that might have been required for training, but it saved  
8 lives through that experience. So that was a very important  
9 thing that Congress did in 2007.

10          Senator King: What is your reaction to the problem of  
11 the 12-year veteran who has served three or four deployments  
12 and ends up with no retirement benefits whatsoever?

13          Mr. Jones: Well, I thought I made it clear in my  
14 statement and I will do it again, the deal is that we like  
15 that part. We think there should be some TSP agreement, if  
16 they can make a contribution. Forty percent of folks  
17 voluntarily get into that program.

18          Evidently, there are 17 percent of people who go on for  
19 retirement. If every retired person, 17 percent of the  
20 force, was part of that voluntary 40 percent, that still  
21 would leave 23 percent of the folks in service who are not  
22 making a career in TSP.

23          So that is an acceptable program. And if you can  
24 enhance it, it will be like magic. People would love to  
25 come in.

1           Senator King: So you would do the TSP but not the cut  
2 from 50 to 40.

3           Mr. Jones: Absolutely. I am not at a negotiation  
4 table here, but there could be some program like that, and  
5 it would enhance that benefit for particularly those in this  
6 drawdown. I mean, we are pulling people out of the combat  
7 zones and giving them the pink slips.

8           Senator King: That is going to be a real problem in  
9 the next several years.

10          I hope you all can help us get rid of the sequester,  
11 please. Can we all agree that that is something we need to  
12 work on together?

13          Mr. Jones: The final page of testimony is that that is  
14 the real problem, the sequester. That is what we would love  
15 to see, the end of that sequester for Defense.

16          As was mentioned earlier by the chairman, there is a  
17 substantial reduction in Navy ships, in the force for the  
18 Air Force, right down the line. This is a very dangerous  
19 time, and there are problems all around the world, hotspots  
20 from Iraq to the Japanese sea.

21          Senator King: Well, I hope, as part of your  
22 communications mission, you will not only be reacting to  
23 this issue, but also communicate to your Representatives and  
24 your Members the importance of dealing with sequester,  
25 because that is a huge problem. And it is going to cost

1 American lives.

2 Thank you.

3 Ms. Parke Holleman: May I say, quickly, we are. We  
4 are all talking about sequester. But when you are analyzing  
5 the proposed package, I would ask that you analyze it at 1  
6 percent, just the 1 percent, all the way up to the 5 percent  
7 matching. I would ask that you do both, because, as Senator  
8 Gillibrand said, there are many, particularly enlisted young  
9 ranks, who cannot afford or at least, certainly, don't feel  
10 they can afford a 3 percent cut in their pay. There are  
11 people with real financial problems in our young enlisted  
12 ranks. And the 3 percent or the 5 percent matching could be  
13 could really feel like a bridge too far for them.

14 So when you are looking at that, I would be grateful if  
15 you looked at various, not just the 5 plus 1, but the 3 and  
16 the 1 by itself.

17 Senator King: Thank you.

18 Ms. Parke Holleman: Thank you.

19 Senator King: Mr. Chairman?

20 Senator Graham: [Presiding] Senator Tillis?

21 Senator Tillis: Thank you all for being here. I thank  
22 you for your service and your continued service.

23 A couple questions. I mean, first, would you all agree  
24 that giving more servicemembers more retirement benefits is  
25 a good thing?

1 Mr. Jones: It is good thing.

2 Senator Tillis: And that we do have a problem with  
3 those men and women who are serving who are not going the  
4 full 20 years, that we owe it to them to provide them with  
5 something more than they are getting today?

6 Mr. Jones: We could improve that.

7 Senator Tillis: The next question I had, is this  
8 report is fairly fresh. And I see Mr. Frank, I know you  
9 have a copy of the report before you, I believe. It looks  
10 like it is tabbed in the first 15 or 20 pages. My guess is,  
11 like us, you haven't been able to thoroughly exhaust going  
12 through it, modeling it, and reviewing all the  
13 recommendations.

14 Mr. Frank: That is correct.

15 Senator Tillis: So you have to spend some time doing  
16 that, coming up with use cases and really understanding how  
17 this affects your members and the stakeholders who are  
18 referred to. I am going through that same process.

19 Ms. Holleman, you made a comment that reminded me of a  
20 discussion I literally just had yesterday with one of my  
21 legislative staff who was talking about the TSP and the  
22 matching. This person, college educated, I think he  
23 actually even did some finance studies in school, was  
24 questioning the wisdom of taking advantage of the math. I  
25 had to sit down with him like I did with my daughter and my

1 son, when they first had to do that.

2 I would say that it may look to a younger person that  
3 that is insurmountable. But I think if we really educate  
4 them through financial literacy, they will realize it will  
5 be a great long-term benefit to them.

6 That is one of the reasons I am excited one of the  
7 recommendations is increased investment in financial  
8 literacy, so that they can make informed decisions. And in  
9 some cases perhaps the 1 percent or 3 percent or 3 percent  
10 or 5 percent isn't achievable. But I hope for many it will  
11 be, because it benefits them long term.

12 I guess my question goes back to the feedback that you  
13 are getting. Is the feedback that you are getting from your  
14 members now more based on a fear of the unknown or  
15 documented examples of where this would be less preferable  
16 than the status quo?

17 Mr. Frank: I would tell you, Senator, from our  
18 association that the feedback that we have is significantly  
19 different than what they put on a chart. So 80 percent of  
20 anybody in favor of anything is suspect sometimes. So I  
21 don't know that I ever found that in the Air Force, that  
22 anybody was ever in favor 80 percent.

23 So again, this is early returns, but it is  
24 statistically significant that now that they see the whole  
25 picture, and I know how the question kind of led out with

1 the survey was. Would you like this, would you like this,  
2 and then they put it together with people who are good with  
3 those kind of things. But the reality is, now that people  
4 see it in context, it is, "Oh, wait a minute, I am not  
5 sure."

6 I think, to Chairman Graham's point earlier, they have  
7 been in the service a while. "I am not sure that this  
8 necessarily what I like to do."

9 But they are also looking at other suggestions in  
10 there, in the particular report. But to that one, at least  
11 this is a known safe factor for me.

12 Senator Tillis: Mr. Frank, I think you touched on an  
13 important point. And as I said earlier about Chairman  
14 Graham, he is in a much more advanced state, shall we say,  
15 in terms of his career progression, so it probably isn't  
16 going to make sense for him, which has proven to be the case  
17 in a number of other cases. We are talking about people  
18 being an opt-in into the other plan. Silence is consent  
19 with the current plan.

20 So just understanding we have that has a level set.  
21 This is not changing the deal for those who came in with  
22 this option.

23 We need to go through a process here of education. But  
24 I would really encourage you, as you are going through and  
25 forming an opinion about this, this is reminiscent of a few

1 of the cycles that I have done before I entered public  
2 service and private sector work.

3 I agree with your opening comment. There is no job  
4 like the job of serving in the U.S. Armed Forces. But I do  
5 believe that this program is something that could  
6 potentially provide some balance. But what we need to do is  
7 provide the resources so that the people who ultimately give  
8 you feedback, they cannot possibly know the use cases that  
9 apply to that, in the same way that they may not completely  
10 understand the compounding opportunity that they could have  
11 if they hopped into the plan.

12 So I think that we have to do a lot of work so that we  
13 can get feedback and identify any outliers where maybe there  
14 are some things that would have to be changed, if we were  
15 to move forward with this plan.

16 So I hope we can get your commitment and make sure that  
17 we provide assistance. I know that my staff will be pouring  
18 through this plan, and that we'll give you the information  
19 so you can model it, because I do believe the adoption rate  
20 is probably not too far off from what was ultimately seen in  
21 large programs done in, say, a 300,000-person organization  
22 that I have had some exposure with.

23 So just keep your mind open. I think you should always  
24 be vigilant and do exactly what you are doing here and  
25 advocate, but keep your mind open and figure out what we can

1 do to provide you with information to do that modeling.

2 I do have some things that are probably -- you made  
3 positive comments on I think the recommendation on financial  
4 literacy. You would generally agree that is a good thing,  
5 not only in terms of making a decision about this retirement  
6 plan but for long-term financial planning.

7 Ms. Parke Holleman: Absolutely.

8 Mr. Frank: Senator, and to add to that, I think you  
9 have to get to them early, before basic training.

10 Senator Tillis: Absolutely. In fact, we are doing  
11 that in high school down in North Carolina now as a part of  
12 financial literacy curriculum requirements. I agree with  
13 you.

14 Do you all agree that on other areas, outside of the  
15 retirement plan, that SNAP provides more robust benefits  
16 than FSSA?

17 Ms. Parke Holleman: I do, yes, Your Honor.

18 [Laughter.]

19 Senator Tillis: You can call me Thom.

20 Ms. Parke Holleman: Thank you kindly.

21 Mr. Frank: Senator, in my experience as a first  
22 sergeant, the FSSA was actually to get away from the stigma  
23 of food stamps. It just was a pain in the rump, I will say,  
24 to work through that. So SNAP probably would be a better  
25 option.



1 Ms. Parke Holleman: There are only a few hundred  
2 people in that program, because of the problems. Since the  
3 commission recommended that it continue overseas, then we  
4 are very much for that recommendation.

5 Senator Tillis: Thank you. Any other comments?

6 Mr. Jones: It is a rational proposal.

7 Senator Tillis: Okay.

8 Do you all also believe that the G.I. Bill is a good  
9 incentive for retention?

10 Mr. Frank: Certainly.

11 Mr. Jones: It is for recruitment, the G.I. Bill is a  
12 tremendous recruitment incentive. Retention was modified  
13 and well done by the current chairman and also the current  
14 chairman of the full committee. We supported that when it  
15 was presented.

16 Mr. Frank: Its transferability is a retention tool. I  
17 am concerned about the proposed change a little bit, but  
18 definitely a tool.

19 Senator Tillis: And, Senator Graham, did I hear you  
20 were working on grandchildren?

21 Senator Graham: Not mine, but others'.

22 If I did the Strom thing, it's possible, but I better  
23 get started.

24 [Laughter.]

25 Senator Tillis: If I could just ask a couple more

1 questions, I know my time has expired. These are things  
2 that I didn't get to the other panel, and that was if you  
3 had all dug in long enough to form any opinions about the  
4 recommendations on the national student identifier, benefits  
5 or concerns?

6 Mr. Nicholson: That has been on the lower end of our  
7 priority list.

8 Senator Tillis: How about space available travel?

9 Mr. Nicholson: That seems like a good one.

10 Mr. Jones: Excellent idea.

11 Senator Tillis: And do you think it is going to have  
12 any effect on availability for retirees? I didn't get a  
13 chance to ask that of the panel members.

14 Mr. Frank: Well, Senator, as a matter of fact, I had a  
15 conversation with a couple folks the other day on this very  
16 topic, and that is exactly what they brought up, for  
17 retirees, it may take some space there. I think we have to  
18 look at this a lot further. Off-the-cuff, it looks like a  
19 great thing. If space is available, allow them to do that.  
20 But it might have an impact.

21 Senator Tillis: I was going to submit that as a  
22 follow-up question to the first panel. But I want to let  
23 you all know that this is something that is very important  
24 to me. I come from North Carolina. We have a couple people  
25 in uniform down there, and this is a very, very important

1 matter to me. I welcome you to come to my office and  
2 discuss your concerns with my staff and with me. Thank you.

3 Mr. Nicholson: Senator Tillis, could add one more  
4 thing to your earlier question? On the issue of member  
5 feedback, the numbers I cited earlier, the 36 percent of  
6 respondents who were in favor of reforming the retirement  
7 system, we do one of the largest annual service surveys of  
8 Iraq and Afghanistan veterans in the country. At the time  
9 we did our 2014 survey, we of course didn't know what the  
10 proposals were going to be. We tried to formulate questions  
11 to get at this issue in advance, having, of course, talked  
12 to the commissioners about where they were going with this.

13 We intend to survey more specifically in our 2015  
14 survey, which we will deploy in a couple weeks, on the  
15 specific recommendations.

16 But I would just think that one of the biggest things  
17 we have been seeing, because in addition to our quantitative  
18 surveys, I mean, a lot of our feedback is qualitative. It  
19 is through social media. The biggest thing I have been  
20 seeing is what you mentioned earlier, the fear of the  
21 unknown. A lot of people are under the mistaken impression,  
22 still, no matter how many times we say, you all say, and the  
23 commissioners say that this not going to be impact those who  
24 are currently in or currently retired, the biggest fear that  
25 we see seems to be that it is. They don't believe it or

1 they're not hearing that, for some reason.

2       So if the methodology of the commission in arriving at  
3 their 80 percent figure is to have explained what the system  
4 would be and then gauge a reaction, I don't find it beyond  
5 the scope the reality that the 80 percent number could be  
6 accurate. But the biggest issue I think not only in  
7 gathering accurate data, but in terms of P.R. for the  
8 commission itself moving forward, and any changes that might  
9 be pursued and proposed, is clarifying and amplifying that  
10 data point that this isn't going to impact those who are  
11 currently in the system.

12       Senator Tillis: Mr. Nicholson, that is a great point.

13       And just to reinforce it, when I say, if you like your  
14 plan, you can keep it, when I hear the commission say, at  
15 repeated requests from me and Senator Graham that that is  
16 the case, that will be an area that we'll be working on to  
17 confirm, because I think it is critically important. You  
18 don't break a promise that you made to the people who  
19 entered with that expectation. I think that is critically  
20 important.

21       The other thing that I will send as a follow-up to the  
22 commission is so that you can provide the kind of tools -- I  
23 don't know what the implementation strategy would be here,  
24 and the stakeholder engagement strategy would be. But it  
25 almost, certainly, needs to use the kind of tools that are

1 used in the private sector to say, if you are a soldier at  
2 this point in time and you model out the financial choices  
3 that will be a part of financial literacy, I would presume  
4 to give them that informed decision about what this exactly  
5 means to them, that this decision makes, so that we can  
6 really begin to identify the people to become a part of that  
7 potentially 80 percent or 60 percent, whatever that number  
8 is, and the ones who may have legitimate concern in the plan  
9 design that we need to address. We will be pursuing that as  
10 a part of our due diligence.

11 Thank you, all.

12 Mr. Jones: Senator, one thing on the plan, that you  
13 can keep it. There is a provision in the recommendations  
14 that allows the Secretary to change the 20-year period for  
15 career either to more years or to fewer years. So if you  
16 can keep your plan, the Secretary may change it.

17 Senator Graham: Thank you. Well, we will fix that, if  
18 that is true.

19 So the bottom line is you have to look at it this way.  
20 The chairman of this committee is a military retiree. I am  
21 not going to go to John McCain and say we are going to take  
22 your retirement away. I'll let someone else do that. We're  
23 not. That wouldn't be fair. So just chill out. Nobody's  
24 going to mess with something you've already earned.

25 If I don't get court-martialed, I'm retiring in August

1 after 33 years. I'm not going to screw with my own  
2 retirement. If nothing else, you can believe that.

3 I'm not going to put people in the position who have  
4 served, ready to retire, that they are going to lose  
5 anything. It is not fair. If you are on Active Duty today  
6 and this is your first day of Active Duty, you can keep the  
7 current system until we pass a bill, if we ever do, because  
8 to do otherwise is not fair.

9 It is not fair to kick somebody out at 12 at no fault  
10 of their own, because we are reducing the force and Congress  
11 is stupid to do sequestration. That is your guys, the Iraq  
12 and Afghan vets. We want to do right by them, and that  
13 means a new benefit that doesn't exist today. We want a  
14 sustainable, generous benefit.

15 Here is my belief, that if you are going to enlist in  
16 the military the day after we reform the system, you are  
17 going to know on day one that the defined benefit plan is 40  
18 percent. If that is not a good deal for you, don't join.  
19 Go somewhere else. If you are halfway decent managing your  
20 money, you'll make up the 10 percent.

21 But, Ms. Holleman, we are going to make sure that the 1  
22 percent is modeled out because a lot of people live paycheck  
23 to paycheck. So I want to take the most conservative  
24 estimate of 1 percent and see how much of the 10 percent  
25 that makes up.

1           From 20 to 30, I am not worried about that group  
2 because at 20, you are basically working for half pay  
3 anyway. You just obviously like your job, because you could  
4 quit and get half your salary and go do something else. So  
5 the reason people stay past 20 is they just like what they  
6 do, and they want to get promoted and maybe increase their  
7 retirement. So I am not really worried about that so much,  
8 Mr. Jones.

9           But what I am worried about is, does the math add up?  
10 It sounds like a good deal, but let's test it. And if you  
11 need more time to run the numbers, you are going to get it,  
12 because this is a transformational change. And we want to  
13 do it thoughtfully.

14           If I were a young person coming into the military,  
15 let's say I had been in 4 years, I would take the blended  
16 plan in a heartbeat. You are just going to have more. But  
17 if I am 16, 17 years in, I'm sticking with what I have. It  
18 makes no sense.

19           So I bet you that 19 percent reflects people who are  
20 close to 20, and that 80 percent, whether it is accurate or  
21 not, probably reflects people under 10.

22           When you look at the G.I. Bill, it rewards people to  
23 stay past 12 by transferring their benefits to their kids.  
24 That is a big deal. That is one less expense in retirement,  
25 paying for your kids' college. Under the current plan that

1 they are proposing, you get a bonus to stay in, an incentive  
2 to stay in, so that helps retention. I think those two  
3 things make sense.

4 The idea that you are paying for this on the back of  
5 the people past 20, I don't really buy that. But I want to  
6 know more about it, because you can't create a new benefit  
7 helping the 12-year guy, the 8-year guy, without something  
8 giving. And I don't want to punish somebody because you are  
9 helping somebody else.

10 But I think this modernization effort of a blended plan  
11 will serve the country well. A 40 percent defined-benefit  
12 is a pretty good deal. There are not many deals like that  
13 in society today.

14 But what we are asking people to do is an incredible  
15 thing, and that is to get shot or get killed. So I am going  
16 to make sure that you get a good deal. If it is below 20  
17 percent cost share, it will be because I think you have  
18 earned a discount when it comes to health care.

19 So please be mindful that this committee wants to  
20 embrace modernization, but it won't be punitive. But if it  
21 does save money to make the system more sustainable, that is  
22 a good thing, because we are \$17 trillion, \$18 trillion in  
23 debt and we ought to be looking for savings where we can.

24 So I will shut up now and take any final comments.

25 Mr. Frank: Chairman Graham, it was a great opportunity



1 to come talk, and we do appreciate the opportunity the  
2 extended time to look at this.

3 To your point, there are only a few marks in here. It  
4 is a little beat up, but it is going to get worse. And we  
5 would love to spend some time, obviously, discussing it with  
6 all of you in the future and help find the way forward.

7 Senator Graham: We will try to be reasonable and make  
8 sure you have a reasonable amount of time. I will be very  
9 sensitive to that.

10 Mr. Frank: Thank you.

11 Senator Graham: Thank you all so much for  
12 participating and representing your interests very well.  
13 Thank you.

14 [The information referred to follows:]

15 [SUBCOMMITTEE INSERT]

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Senator Graham: The hearing is adjourned.

[Whereupon, at 4:53 p.m., the hearing was adjourned.]