

PREPARED STATEMENT
OF
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ACTING UNDER SECRETARY OF DEFENSE FOR PERSONNEL AND READINESS
BEFORE THE
SENATE ARMED SERVICES COMMITTEE
PERSONNEL SUBCOMMITTEE

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INTRODUCTION

Chairman Webb, Senator Graham, and distinguished members of the Subcommittee, I appreciate the opportunity to appear before you to discuss Personnel and Readiness programs in support of the President's budget request for Fiscal Year (FY) 2013. Thank you for your support of our Active, Reserve Component military members, their families, and our government civilians who have done everything we have asked of them and more.

As you have heard from Secretary Panetta, the FY13 budget request was the product of an intensive review of our defense strategy necessitated by the fact that our country is at a critical turning point after a decade of war and substantial growth in our budgets. Today, I will describe how we can sustain the All-Volunteer Force for generations to come—a force that has a proven record of unprecedented success in operations around the world. Accomplishing this will require the Department to make hard choices regarding competing priorities for limited funding. This plan is predicated on the assumption that the Military Services are appropriately resourced, experienced, and flexible enough to rapidly adapt to emerging threats. Resourcing the reset of the force, while maintaining force readiness, will undoubtedly be one of the most challenging issues of our time.

As the Acting Under Secretary of Defense for Personnel and Readiness my priorities focus on: Total Force Readiness, Improving the Military Health System, and Total Force Support.

READINESS

After ten years of intensive operations our forces are among the most capable in our Nation's history. Our Active and Reserve Component members and defense civilians are well prepared to execute current operations and respond to emergent needs, and are experienced and proficient in a wide range of real world operations. We have, by necessity, mastered a host of specialized capabilities that depend heavily on language and culture, governance, rule of law, development, and other specialized skills; not all of which are within the Department's traditional scope of responsibility. However, fully preparing for these missions means that there have been fewer capabilities available for large-scale, major combat operations. As we end today's wars and adjust to new strategic guidance, we find ourselves naturally transitioning back toward a broader range of security missions.

The first sign of this transition is the return of full-spectrum exercises that we have seen over the last year. Specifically, the Marine Corps exercised its first large-scale amphibious assault in ten years just a few weeks ago. Similarly, the Army is shifting to decisive action training exercises at the Combat Training Centers. We will see more of these exercises as forces return and reset from current operations. In addition, the Army has begun to regionally align maneuver and enabler forces to some Combatant Commands to conduct security cooperation and security force assistance activities. These forces will have appropriate language, culture, advisor training and skills to enable expanded engagement with critical partners in the region.

Although this transition is occurring in the midst of unavoidable fiscal pressure, we have committed to maintaining a ready, capable All-Volunteer Force. Program reductions were deliberately managed to preserve operational flexibility and to keep faith with service members and their families who have made significant sacrifices. We realize that sometimes, either due to unforeseen circumstances or a changing world, even the most well conceived plans must be revised. For this reason, my office is maintaining its role of closely monitoring the readiness of our forces for the dual purposes of identifying and remediating critical deficiencies or unmet requirements.

End Strength

We know that multiple deployments to Iraq and Afghanistan, with limited time at home for recovery, have stressed our military members and their families. With the draw down in Iraq and Afghanistan, this stress is fundamentally reduced. We have withdrawn 50,000 troops from Iraq since 2010, and will have reduced Afghanistan troop levels by 30,000 at the end of this year. Barring unforeseen events, the Secretary's goal of two or more years at home for every year deployed will likely be met this coming year. The All-Volunteer Active and Reserve Force is healthy, and our Services are achieving or exceeding their recruiting and retention goals.

Today, our overall military end strength, which includes the base force and overseas contingency operations, is at 2,269,700 in FY12. While the initial changes to force size are muted, a 1.4 percent reduction equating to a 31,300 person reduction in FY12, ultimately the Department will be at 2,145,800 by FY17. This 5.5 percent reduction equates to 123,900 fewer troops and will be spread throughout the components of the force.

- Army Active, Reserve, and Army National Guard (NG) end strength in FY13 is projected to be 1,115,300—0.9 percent less than FY12. In FY17 the end strength will be 1,048,200, a 6.8 percent reduction from FY12.
- Navy Active and Reserve end strength in FY13 is projected to be 385,200—1.7 percent less than FY12. In FY17, the end strength will be 376,600, a 3.9 percent reduction from FY12.
- Marine Corps Active and Reserve end strength in FY13 is projected to be 236,900—2.0 percent less than FY12. In FY17 the end strength will be 221,700, an 8.3 percent reduction from FY12.
- Air Force Active, Reserve, and Air NG end strength in FY13 is projected to be 501,000—1.9 percent less than FY12. In FY17, the end strength will be 499,300, a 2.3 percent reduction from FY12.

A force drawdown of this size has not been experienced since well before 9-11.

Total Force Management & Planning

The Department relies on a Total Force of active and reserve military, government civilians, and contracted support to provide for the Nation’s defense and execute its core missions. We will face force management challenges over the next several years which are far greater than those we have experienced since September 11, 2001 and, therefore, must balance the competing requirements for equipment reset, modernization and support for our service members and their families in a climate of reduced budgets. Responsibly managing the required force reduction, while ensuring we keep faith with those who have sacrificed so much to secure our Nation’s interests, and properly caring for our military families as many service members transition to veteran status is a responsibility taken very seriously and one which my organization is helping to facilitate. The Congress aided this effort immeasurably by recently enacting legislation that expanded voluntary separation programs which provide appropriate recognition for significant military service, such as the temporary early retirement authority (TERA) which gives the Military Departments the flexibility to offer retirement to service members with more than 15 but less than 20 years of service. We will continue to work with the Congress to reinstate additional expired authorities from previous drawdowns that would offer the Department the ability to focus separations and avoid the loss of critical expertise.

The Department’s Total Force of active and reserve military, government civilians and contracted services represents a carefully coordinated approach that balances operational needs, satisfies mission requirements, and recognizes fiscal constraints. Our future plans will seek to

balance the capabilities and cost of all elements of the Total Force. They cannot be managed in isolation if we are to avoid a hollow force and unnecessary expense. Our plans recognize:

- Decreased operational commitments and revised overseas posture;
- A Reserve force that is an operational asset;
- A highly skilled civilian workforce capable of performing mission essential and inherently governmental tasks;
- Contracted support that is cost effective and designed to provide appropriate and complimentary support to our operational needs;
- Civilian decreases that have been carefully targeted to deliver efficiencies initiated by Secretary Gates; and
- Efficient management of our contracted support as part of our Total Force mix and not as just an acquisition management action.

Active Duty Recruiting

Recruiting for the All-Volunteer Force continues at unprecedented levels. The Department closed out FY11 with all active Services meeting or exceeding recruiting objectives, both numerically and by recruit quality. As shown in Table 1, we continue that record pace into FY12, with 44,414 new recruits against an objective of 44,323 through January of this year. Recruit quality remains considerably above Department benchmarks (or standards), with 98 percent of new recruits having a high school diploma (90 percent benchmark) and 80 percent scoring above average in aptitude (60 percent benchmark) on the Armed Forces Qualification Test (AFQT). Of particular note is the fact that very few recruits accessed at or below the 30th percentile on the AFQT through January of this year.

**Table 1
Recruit Quality (FY 2012 Through January)Active Components**

AC Enlisted Recruiting FY12 (End of January)	Quantity			Quality						
	Accessions	Goal	Percent of Goal	Percent High School Graduate; Benchmark = 90%	Percent Scoring at / above 50th Percentile on AFQT; Benchmark = 60%	Percent Scoring at / below 30th Percentile on AFQT; Benchmark = 4%				
Army	17,123	17,050	100	G	95	G	64	G	<1	G
Navy	9,289	9,289	100	G	99	G	93	G	0	G
Marine Corps	7,795	7,777	100	G	100	G	76	G	0	G
Air Force	10,207	10,207	100	G	100	G	99	G	0	G
DoD Total	44,414	44,323	100		98		80		<1	

Quantity Key: 100 percent or above goal; 90-99 percent of goal; below 90 percent of goal
 Quality Key: 100 percent or above benchmark; 90-99 percent of benchmark; below 90 percent of benchmark

Generally, a slow economy makes recruiting less challenging, and operates to the advantage of those who are hiring, including the U.S. military; clearly, the current state of our economy has been one of the drivers of this recruiting success. As we see signs of economic improvement, we will remain vigilant and continue to monitor the impact of that improvement on our recruiting efforts. Despite the positive effect of the economy on recruiting, there remain other factors counterbalancing our ability to attract bright, young Americans into the Armed Forces—the lower likelihood of influencers of youth (e.g., parents and teachers) to recommend service, a large and growing proportion of youth who are ineligible to serve in the military, higher numbers of youth going to college directly from high school, and continuing concerns about the prolonged worldwide, irregular campaign with its concomitant high operations tempo. Therefore, we are in uncharted waters with significant factors directly affecting military recruiting in both positive and negative ways.

Due to these direct effects on recruiting, and as the Nation faces a demographic shift, it is important that the Department align its recruiting assets to tap emerging markets. Leveraging the diverse perspectives, and cultural, language and regional competencies present in our force ensures we encourage innovation and optimize mission success with respect to evolving challenges we will face well into the 21st Century. We are carefully reviewing recruiting programs to align funding and policies with current realities as we recognize the necessity of current and future budget constraints. We will strive to ensure the resources dedicated to recruiting are reasonable and remain at levels that will not compromise success. The Services will decide where best to take those cuts and any realignments undertaken will be done carefully and their effects closely monitored.

Recruit Quality: The Department generally reports recruit quality along two dimensions—aptitude and education. Both are important, but for different reasons.

Aptitude is an indicator of trainability and job performance. All recruits take an enlistment test called the Armed Services Vocational Aptitude Battery (ASVAB). One component of the ASVAB, the Armed Forces Qualification Test (AFQT), measures math and verbal skills. Those who score at or above average on the AFQT are in Categories I-III A, while those who score between the 10th and 49th percentile are placed in Categories III B and IV. Applicants scoring

below the 10th percentile are ineligible to enlist. We value higher-aptitude recruits because their training and job performance are superior to those who score in the lower categories.

The Department's educational enlistment policy groups education credentials into three tiers—Tier 1, consists primarily of traditional high school diploma graduates; Tier 2 consists of alternate credential holders, to include home-school and virtual/correspondence schools; and Tier 3 is non-graduates. Education credential is used not to measure the quality of education or the intelligence of the applicant, but rather the applicant's likelihood of completing his or her enlistment term. Years of research and experience indicate about three-quarters of recruits with a high school diploma complete their first three years of service, whereas only about half of those without a high school credential will complete three years. The attrition rates of those holding an alternative credential (e.g., GED) fall between these extremes. The Department's benchmark is that 90 percent of new recruits are high school diploma graduates.

As a result of the evolving methods of education delivery across the Nation, the National Defense Authorization Act (NDAA) for FY12 required restructuring of the education credential tiers we use to determine enlistment priority. Specifically, the Act expanded Tier 1, "High School Diploma Graduate," to include graduates of alternative educational delivery methods. From past experience, we find these individuals, on average, have significantly higher attrition rates—the current first-term attrition rate for high school diploma holders is 28 percent; alternate credential holders average a 38 percent rate. We remain concerned about the long-term impacts of this policy change as it costs the Services approximately \$55,000 to replace (recruit, train, equip, pay) each individual who fails to complete his or her initial term of service. Nevertheless, the new policy will be in place by July of this year as directed, and we will monitor the attrition behavior of these recruits. Additionally, as encouraged in the legislation, we will continue to develop new methods of identifying those who are qualified for recruitment and enlistment. These methods may include use of a non-cognitive test, adaptive personality assessment, or other operational attrition screening tools to predict performance, behaviors, and attitudes of potential recruits which influence attrition and ability to adaptively perform the required missions.

Active Component Retention:

Similar to our recruitment numbers, the Army, Air Force, Navy, and Marine Corps all exhibit strong retention numbers for the first four months of FY12 continuing a trend from the previous

year (Table 2). The resilience of the All-Volunteer-Force through two wars continues to prove the tremendous dedication and patriotism of the men and women serving our great Nation. I am humbled by their willingness to place themselves in harm's way and do their Nation's bidding.

That said, I also recognize we will face new challenges as the economy improves, conflicts subside, and uncertainty rises over the drawdown of the force. The Department must ensure meaningful missions, support for our military families, and complete transparency regarding our reduction efforts. Despite budget pressures we are committed to careful and deliberate reviews of service member and family programs with an eye on retention. We can ill afford to arrive at the end of the drawdown with a force that does not match the capabilities the Nation requires and without the resources necessary to make adjustments. Towards this end, I am encouraged by the plans offered by the services as they make difficult force reduction decisions. For example, the Services are limiting reductions in accessions to ensure we meet future requirements, and they are offering voluntary separation programs to service members prior to taking involuntary separation actions whenever possible. We also intend to extend to the Congress our commitment of transparency in these efforts. Together I am convinced we can create an environment that avoids the pitfalls experienced throughout history by most post-conflict militaries. While this will undoubtedly prove extraordinarily challenging, I believe you will agree we owe it to our Nation and to the soldiers, sailors, airmen and Marines who will continue to stand watch for the generations to come.

Table 2
Active Duty FY 2012–January Retention Report:

Active Duty Retention by Service by Zones of Eligibility					
	Status	Reenlisted	Mission YTD ¹		FY12 Retention Goals
Army					
- <i>Initial</i>	G	6,165	5,593	110%	32,893
- <i>Mid-Career</i>	G	3,807	3,662	104%	21,974
- <i>Career</i>	G	1,545	1,545	100%	13,133
Navy					
- <i>Initial</i>	G	3,782	1,992	190%	9,180
- <i>Mid-Career</i>	G	2,349	1,261	186%	4,974

- Career	G	1,947	1,404	139%	3,773
Marine Corps					
First	G	5,305	2,100	253%	6,300
Subsequent	G	5,107	2,733	187%	8,200
Air Force					
- Initial	G	5,998	4,812	125%	15,927
- Mid-Career	G	3,561	2,883	124%	9,543
- Career	G	2,812	2,512	112%	8,315

¹Mission YTD represents the cumulative monthly percentage of the Service's FY Goal.

² Retention year traditionally starts on July 1st even though the numbers are not official reported until October 1st. The Marine Corps frontloads the retention year and first termers tend to reenlist early in the FY.

Women in the Service

The Department has recently completed a review of how we assign women in the service. As requested by the Congress, the Department, in coordination with the Military Departments, reviewed laws, policies, and regulations, including our co-location policy, to determine if any changes were needed to ensure female members have an equitable opportunity to compete and excel in the Armed Forces. We took a hard look at the current restrictions on women, and recommend changes within the report to Congress (available to the public online http://www.defense.gov/news/WISR_Report_to_Congress.pdf). Pending expiration of the Congressionally-required notification period, the Department will implement a change to policy that eliminates gender-based assignment restrictions to units and positions that are doctrinally required to physically co-locate and remain with direct ground combat units that are closed to women. These recommendations will open over 14,000 positions to women, including six Army occupational specialties. The Department is not stopping with the policy changes set forth in the report. The Services will continue to evaluate these recommendations to inform future policy revisions in addition to developing gender-neutral standards for physically demanding occupations. Secretary Panetta directed the Secretaries of the Military Departments and Chiefs of Military Services to report their progress on the development of gender-neutral standards, assessment of newly opened positions and recommendations for any further positions that can be opened, six months after implementing these changes. We continue to reiterate our commitment

to removing all barriers that would prevent service members from rising to the highest level of responsibility that their talents and capabilities warrant.

Implementation of the Repeal of “Don’t Ask, Don’t Tell”

Since September 20, 2011, the effective date of repeal, the Services report there have been no significant issues related to the implementation of the repeal of “Don’t Ask, Don’t Tell.” By all accounts, implementation is going smoothly across the force. We attribute this success to our comprehensive pre-repeal training programs, combined with the discipline of our service members and continued close monitoring and enforcement of standards by our military leaders at all levels. Prior to repeal, the Department saw a preponderance of the force, 2.25 million service members, trained regarding the necessary policy and regulation changes that went into effect on “Repeal Day.”

The Department and the Services remain engaged in ongoing implementation efforts. A formal monitoring process ensures continual assessment and reporting to the Secretary of Defense. Elements of this monitoring process include regular Service assessment reports and periodic surveys of service members. Through this feedback mechanism, the most common question we hear from the field is about benefits—specifically, whether or not benefits will be extended to same-sex partners. The Department is engaged in a comprehensive review of the possibility of extending eligibility for additional benefits, when legally permitted, to same-sex partners, and our goal is to complete this review by the end of the fiscal year. With leadership, professionalism, discipline, and respect, the Department and our service members remain fully committed to the implementation effort, consistent with our standards of military readiness, effectiveness, unit cohesion, and recruiting and retention for the Armed Forces.

General, Flag Officer, and Civilian Senior Executive/Equivalent Efficiencies

In 2011, the Secretary of Defense made the decision to eliminate, reduce, or reallocate 140 general or flag officer (GFO) positions and a minimum of 150 Civilian Senior Executive / Equivalent (CSE) positions. The Department designated 102 GFO positions for elimination (complete removal from structure or downgrade of a position to a grade of O-6 or below) and 211 CSE positions for elimination. By the end of the year, we had eliminated 29 GFO positions and reduced 20 positions to a lower grade of GFO. We are moving forward to implement the

remaining efficiencies gradually over the next several years as conditions allow, not adversely affecting missions or forcing readiness. Three years ago, Congress' authorization of the Joint Pool created the foundation for increased flexibility for the Department in the management of positions. This latest efficiency effort will take those policies to the next level and will create flexibility for each of the Military Departments to ensure their readiness to respond to any emerging threat. CSE reductions are being implemented based on a two-year strategy. To date, 93 Senior Executive Service, Senior Level or Senior Technical (SES/SL/ST) positions, and 57 Defense Intelligence Senior Executive and Defense Intelligence Senior Level (DISES/DISL) positions have been reduced. The remaining CSE efficiencies will be completed by March 2013.

Growing Language and Culture Capabilities

The President directed the Department to sustain U.S. global leadership as we transition from a long-term engagement in two wars toward a more global presence focused on the Asia-Pacific and the Middle East. Though Service end strengths will decrease, the demand for language skills, regional expertise, and cultural awareness will increase, as these capabilities are essential not only to our mission readiness but to achieving national security, building partner capacity, and strengthening alliances. Currently, nine percent of military personnel have tested or self-professed foreign language skills at any level of proficiency and five percent have skills that meet the Department's need for limited working language proficiency or above.

Increasing the language capabilities of the Department depends on recruiting policies, training, assignment policies, retention, overall career management, and the U.S. educational system. We have efforts underway to coordinate national and Departmental language capabilities, as well as initiatives for long-term sustainment. The goal is to ensure a spectrum of programs that include pre-accession, and in-service military and civilian training, while establishing new career paths for personnel with language and culture skills. These efforts include increasing the foreign language skills of the Department's military and civilian personnel, as well as outreach to our Nation's schools and universities to promote the teaching of critical languages. All these efforts are essential to achieving a force, a Nation, and a citizenry capable of facing the threats, opportunities, and challenges we will confront in the 21st century.

Drug Demand Reduction

The abuse of illicit and prescription drugs in the U.S. military has substantial implications on force readiness and safety. The goal of the Drug Demand Reduction (DDR) Program is to protect readiness and the well-being of our civilian and military personnel by detecting and deterring drug abuse. Toward that end, the Department and Services have recently expanded the existing panel of tested drugs to include frequently abused prescription medications, such as Vicodin and Valium. The Department's minimum random drug testing goal is 100 percent with a positive rate below two percent. Overall, drug positive rates for active duty military personnel across all Services have continued to decline and the current rate of positive specimens is below one percent, the lowest in the program's history. As with many programs, the DDR Program incurred a reduction in budget which will require additional efficiencies in collection, outreach, and educational programs. This will also require increased targeted random drug testing.

Suicide Prevention

Every person within the Department of Defense is a valuable team member and each loss to suicide is a preventable tragedy. For this reason, we are taking aggressive steps to address suicide by enacting policies, providing supportive services and assistance, implementing training initiatives and publishing education materials, and conducting data surveillance and research to support service members and their families. For example, the Department increased behavioral health providers from 6,590 to 8,898 total providers, a 35 percent increase over the past three years, adding mental health providers in primary care settings and embedding them with front line units. We have also partnered with the Department of Veterans Affairs (VA) to build a continuum of support for transitioning members. This partnership will not only provide more service options for our members, it will allow us to compile more complete data that could lead to better predictive and preventative measures.

We are building and shaping resiliency and coping skills through realistic and interactive training to ensure every Service member can recognize the warning signs of suicide and encompass the skills and knowledge necessary to purposely intervene. We are also committed to further research on understanding and preventing suicide as with the Army Study to Assess Risk and Resilience in Service Members (ARMY STARRS), which is the largest study of mental health risk and resilience factors ever conducted among military personnel. Conceived by

scientists at the National Institute of Health's National Institute of Mental Health (NIMH), ARMY STARRS was formalized through a memorandum of agreement that authorized NIMH to conduct an extensive investigation with Army funding. The ARMY STARRS program is led by an interdisciplinary team of Army, Academic, and NIH investigators.

Though we have been able to arrest the increasing rate of suicides over the past three years, the Department continues to work hard to reduce these tragedies. We have established a Defense Suicide Prevention Office to serve as the focal point for developing and overseeing suicide prevention policy, training, and programs across the Department. This office will also collaborate with Military Departments to implement the recommendations of the Department of Defense Task Force on the Prevention of Suicide, and serve as our lead with the VA and non-government organizations to identify and institute a continuum of suicide prevention efforts for personnel leaving the Department.

Sexual Assault Prevention and Response

As Secretary Panetta has stated, this Department has a zero-tolerance policy against sexual assault and this is a leadership issue first and foremost. We have received the final numbers from the Services and the Department had 3,192 reports of sexual assault in FY11; because of underreporting, estimates are closer to 19,000 (per a FY10 Defense Manpower Data Center survey). This is in stark contrast to the first sample survey in 2006, when the estimate was 34,000. Since 2006, more victims are stepping forward to report assaults and the percentage of alleged sexual assault offenders facing court-martial proceedings has increased.

In this past year alone, we have made significant strides. We recently published a revised Directive expanding our support to assault victims to include military spouses and adult military dependents, the Department's civilians stationed abroad and the Department's U.S. citizen contractors in combat areas. In addition, two new policies address expedited transfers and the retention of law enforcement records for 50 years. To ensure national standards for victim services, we are establishing a sexual assault advocate certification program and, we established the DoD Safe Helpline which provides anonymous and confidential, 24/7 hotline and texting support to victims anywhere in the world. We are collaborating with the VA and Department of Labor (DoL) to establish a continuum of care for victims of sexual assault transitioning from

military to civilian life and will use the DoD Safe Helpline as a vehicle to help these transitioning service members.

To improve the tracking of reports, the Defense Sexual Assault Incident Database will be implemented by March 31st and be fully operational by August 31st. Because sexual assault cases are some of the toughest cases to investigate and to prosecute, the Department has committed funding through FY17 to provide sexual assault specific training for judge advocates and criminal investigators and we are assessing the Sexual Assault Prevention and Response training for commanding officers and senior enlisted leaders. We will continue to hold the perpetrators appropriately accountable and all military service members will live up to the high standards set.

Compensation

Senior leaders in the Department place a high value on the willingness of America's military personnel to serve their country. We understand our compensation system must be competitive, recognize the demands of military service, and always provide sufficient compensation to attract and retain qualified personnel. The 9th Quadrennial Review of Military Compensation shows that service members need to be paid equal to or better than 70 percent of their civilian counterparts.

Through the work of Congress, our service members received generous military pay raises over the past decade and, as a result, military compensation has increased and significantly exceeds that 70th percentile. Additionally, over the past decade, the Department and Congress addressed a host of challenges ensuring military compensation remained competitive, and this has allowed the Department to continue to succeed in recruiting and retaining the high-quality, All-Volunteer Force required by the Nation, despite nearly a decade at war.

As we reset following the end to combat operations in Iraq, the beginnings of force reductions in Afghanistan, and in light of the Nation's economic crisis and our expected manpower reductions, slowing the future growth of military compensation will be important. As mentioned earlier, we expect challenges in recruiting and retention to grow over the next few years as both the economy and labor market continue to improve. The current, competitive military compensation package makes the Department well suited to respond to those challenges, even during this time of war. As a result, we have requested full pay raises for FY13 and FY14, and more limited pay raises beginning in FY15. For FY13, this would provide an increase in

military basic pay for all service members of 1.7 percent, which is in line with earnings increases seen in the private sector as measured by the annual change in the Employment Cost Index.

The Department also understands current fiscal pressures demand change, and that the costs of military compensation are significant. Some cost savings will be achieved through proposing more limited pay raises beginning in FY15. However, in the continuing search for budget cuts and efficiencies, we are evaluating the military compensation system, focusing first on military retirement. As I stated before the subcommittee in October of last year, we have been conducting a vigorous, internal review, and are working diligently to identify and evaluate retirement alternatives. In addition to this ongoing review, the Department recommends Congress establish an independent commission to review military retirement, as requested by the Administration. We fully support formation of such a commission, and if enacted, we will provide significant input. Most importantly, our review is performing critical and rigorous modeling and analysis of various alternatives. While many in the private sector, and elsewhere, have suggested alternatives to the current military retirement system, few have undergone rigorous modeling or analysis. We are committed to ensure any proposal we develop is sound and does not harm the Department's ability to recruit and retain the future force. Secretary Panetta has also made clear that current members will be grandfathered; for those who serve today, there will be no changes in retirement benefits. Following the review of military retirement, we plan to continue our comprehensive, broad-based review of military compensation in search of additional efficiencies and savings.

Reserve Component

The FY13 budget supports the increased utilization of the Reserve Components (RC) as called for in the National Defense Strategy and will enable the RCs to continue to fulfill their vital national security role. The Department's Ready Reserve totaling about 1.1 million members contributes 43 percent of total military end strength at a cost of nine percent of the total base budget. The National Guard (NG) and Reserve provide trained, ready, and cost-effective forces that can be employed on a regular operational basis, while also ensuring strategic depth for large-scale contingencies or other unanticipated national crises.

Prior to 2001, the RCs were primarily a strategic reserve with occasional operational missions as needed to augment active forces. Since 2001, RC units and individuals have been

heavily employed across the full spectrum of military operations and have demonstrated their readiness and criticality. Our current NG and Reserve is, arguably, the most combat seasoned reserve force ever, and we plan to capitalize on this significant investment to provide needed military capacity during current austere economic times.

The FY13 budget anticipates the Department will continue to use the Guard and Reserve as a vital part of the operational force and—where it makes sense—as a force of first choice. Today’s Citizen Warriors have made a conscious decision to serve, with full knowledge that their decisions mean periodic recalls to active duty under arduous and hazardous conditions. In approximate numbers, as of December 31, 2011, the Ready Reserve currently consists of:

- Selected Reserve: 844,400
- Individual Ready Reserve: 220,000
- Inactive NG: 3,700

Reserve Component Utilization

The RC has become an integral part of the Nation’s military force participating in nearly every mission worldwide for the past two decades. As this practice continues, the Department has emphasized prudent and judicious management and use of the RC to help mitigate stress on the Total Force. Total RC usage in support of Contingency Operations since September 11, 2001 is 835,689 (809,913 Selected Reserve and 25,776 Individual Ready Reserve). Of those, 80 percent have deployed in the U.S. Central Command area of responsibility. On December 31, 2011, there were 86,213 RC members activated in support of Operation Noble Eagle (ONE) and Operation Enduring Freedom; of those, 35,361 were deployed in the Central Command theater.

Re-aligning Capabilities

The RC is well suited for use as a source of strategic depth as well as in a wide variety of operational roles, including providing: (1) rotating operational units deployed in response to Combatant Commander needs and Service requirements; (2) units and teams deployed in support of Theater Security Cooperation and Building Partner Capacity activities around the globe; (3) individual augmentees who can be deployed in response to Combatant Commander, Defense agency, or Service needs; (4) units, teams, and individuals to support core Unified Command Plan missions such as Homeland Defense and Defense Support of Civil Authorities, as well as to support Governors in state security; and (5) units, teams, and individuals assigned to support

Department or Service institutional needs. RC forces are well-suited for missions and tasks in support of Theater Security Cooperation and Building Partner Capacity activities and specialty missions requiring unique skills, particularly when the RC units have an enduring relationship with a supported command.

Individual & Medical Readiness

One of the key aspects of maintaining a viable, operational RC is to ensure that our military members and our civilian employees maintain the highest level of individual readiness. We must focus on maintaining the appropriate physical fitness levels for a force that has a higher average age than the Active Component. Similarly, ensuring that our RC members are medically and dentally ready to serve is of the utmost importance.

Employing the RC as operational force requires modifications to training schedules and funding requirements. Before we operationalized the RC, normal minimum training profiles consisted of training two days per month plus 14-15 days of active duty for training annually. During that training time, RC personnel were required to meet the same standards as their Active counterparts. While that training profile remains in-place for some types of units, for those with planned deployments, training days prior to mobilization increases. This training profile, with more training pre-deployment and less post-deployment, minimizes mobilized time away from families and civilian jobs. Increasing individual readiness by modifying training profiles with resources and policies is a major focus area that will allow the Guard and Reserve to capitalize on the gains made during the last decade and enable sustained use of the RC as an operational force.

We continue to monitor Individual Medical Readiness of the NG and Reserve to ensure availability of ready RC members for deployment, as it is a priority for the Department. By the fourth quarter of FY11, the RC had increased its Fully and Partially Medically Ready (FMR/PMR) rate five percent over first quarter FY11 rates, and reduced the Indeterminate population by six percent. Most notably, the Marine Corps Reserves improved their FMR status by 16 percent and reduced the PMR rate by 14 percent—over half of the FY11 first quarter rates. The Coast Guard Reserve also made great improvements increasing their FMR rate by nine percent, and reducing their Indeterminate and Not Medically Ready population by four and six percent respectively. While we continue to face challenges with Dental Readiness, all Services

are over the 75 percent goal except Army Reserve and Army NG which are at 71 and 73 percent respectively. We are working diligently to improve access to medical and dental services for RC members. For example, the Army Reserve now budgets additional medical and dental services into their Readiness Accounts for RC members if needed.

Yellow Ribbon Reintegration Program (YRRP)

The YRRP is a Congressionally-mandated program whereby the Services provide RC service members and their families with critical support, information, services, and referrals throughout the entire deployment cycle focused primarily on local community resources to maximize successful Service member reintegration back into their civilian lives. During the past three years, the YRRP has evolved into a successful, forward-leaning program providing essential readiness and resiliency training and resources to over 800,000 service members and designees. In FY11, Congress appropriated \$16M to the YRRP for enhanced outreach and reintegration employment activities which allowed the Department to support various State-led initiatives. YRRP's FY12 funding is entirely dedicated to supporting its legislatively mandated core activities. To support the use of the Operational Reserve in the future, we will ensure funding for Service YRRPs is moved to their base line budgets.

Transition to Veterans Affairs

Today's Veterans face a number of challenges in making the transition to civilian life, and among these is embarking on a productive post-military career. For every success story of a Veteran who has turned skills developed in the military into success in the civilian workplace, there are, as President Obama has said, stories of Veterans who come home and "struggle to find a job worthy of their experience and worthy of their talent." We see these struggles most clearly in high unemployment rates for Veterans. Making this situation more urgent is that, as we draw down from the wars in Iraq and Afghanistan and we make difficult decisions about our future force structure in light of the fiscal challenges the Nation faces, the number of service members—particularly young service members—departing the military over the next several years will increase.

Making a firm commitment to employ America's Veterans, in August 2011, the President called for the creation of a Task Force led by the DoD and VA with and other agencies including

the DoL, Department of Education (DoE), Department of Commerce, Small Business Administration, and the Office of Personnel Management, to develop proposals to maximize the career readiness of all service members. In coordination with our VA, DoL, and DoE partners, DoD's role involves implementing and sustaining a comprehensive plan to ensure that all transitioning Service Members have the support they need and deserve when they leave the military. This includes working with other agencies in developing a clear path to civilian employment; admission into and success in an academic or technical training program; or successful start-up of an independent business entity or non-profit organization. The effort is fully aligned with the VOW to Hire Heroes Act of 2011 and is consistent with DoD's commitment for keeping faith with all of our military members and their families, providing them a comprehensive set of transition tools and support mechanisms as they complete their service to our Nation.

Civilian Personnel

The Department continues to hold, with limited exceptions, the civilian workforce to authorized FY10 levels. This continues the direction from last year's efficiency initiative and was implemented in conjunction with organizational assessments and mission/function prioritization. This direction reflects the Department's commitment to challenge workload demand; more appropriately size our workforce to meet our most pressing and critical priorities; and focuses on reducing administrative functions associated with headquarters staff while realigning resources to war-fighting capability, recapitalization, and unit readiness. As Secretary Panetta has testified, our spending choices must be based on sound strategy and policy. and reductions in the civilian workforce reflect changes in the Department's strategy, overseas presence, and force structure.

Despite the overall decreases to the Department's civilian workforce, there have been areas where mission workload, requirements, and fiscal considerations warranted growth and exceptions. Growth and increases to the civilian workforce have continued in critical areas such as acquisition, cyber, and intelligence. Targeted exceptions to FY10 levels have also been approved for shipyard and security guard workforces in the Navy; the test & evaluation workforce in the Army and Air Force; joint basing requirements for the Navy and Air Force; and in-sourcing of contracted services at some Combatant Commands and Defense Agencies.

Reductions in the Department's civilian workforce are being executed very deliberately to minimize adverse impacts to our dedicated civilian service workforce and to avoid unintended consequences, such as:

- “borrowing” or “repurposing” military personnel for non-military tasks, which would risk hollowing the force;
- potentially paying more for contracted services or inappropriately realigning work to the private sector; and
- jeopardizing our ability to sustain and develop mission critical skills and competencies.

To support these goals, I reconstituted the Defense Human Resources Board (DHRB) on December 8, 2011. The DHRB is my primary advisory body for Total Force management across the Department. Specifically, the DHRB serves to promote and facilitate improved Department-wide Total Force management, both current and future, through the improved alignment of statutes, policy, business practices, information technology, and resources.

It is imperative we improve the management of our Total Force of active and reserve military, government civilians, and contracted services. To do so, leaders and managers throughout the Department must be provided the information, tools, and flexibility necessary to make sound and well-reasoned decisions. To that end, there are a number of specific areas that we have focused attention on.

In October of 2011, the Office of Federal Procurement Policy (OFPP) issued its policy letter regarding inherently governmental (IG) and other work reserved for government performance. The Department was an active participant in developing that policy letter, and my staff is currently working to ensure its implementation and application across the Department. The identification of IG functions, work that is closely associated with IG, and workload critical to the Department's ability to execute its mission are fundamental processes in our Total Force management strategy.

Ensuring the Department's workforce is sufficiently sized and comprised of the appropriate mix of personnel is critical to maintain readiness and capabilities in our constrained fiscal environment. The Department's “sourcing” of necessary functions and work between military, civilian, and contracted services must be consistent with workload requirements, funding availability, readiness and management needs, and applicable laws. In particular, workforces

must be structured to not use military personnel outside of their primary specialty to perform functions or tasks that would limit their availability to mobilize and perform the operational mission, support and maintain necessary states of readiness, or impede their training and career progression requirements. As planned military end-strength reductions happen, the Department will continue to focus on the proper mix of personnel.

Inventory of Contracts for Services (ICS)

Contracted services remain the largest element of the Total Force. The Department remains committed to meeting its statutory obligations under title 10 to annually review its contracted services. After six months of working with the more than 40 components that comprise the Department, we delivered, on November 22, 2011, a consolidated plan to the Congressional defense committees that identified both short- and long-term actions that will improve the ICS, make it a more reliable and complete data set, and improve visibility and accountability in the area of contracted services. Consistent with changes to the statute, this plan, and subsequent guidance issued on December 29, 2011, specifically addresses how the Department will:

- measure contracted support level of effort using direct labor hours and associated cost data collected from contractors;
- assess the type of work being performed by the private sector and for whom based on standardized taxonomies and portfolio groups;
- strengthen the relationship between the ICS and annual budget justification materials; and
- ensure the ICS supports strategic workforce planning and an appropriately balanced, effective, and efficient workforce.

The actions being taken will improve the long-term utility of the ICS, beginning with the next submission this summer, and will enable us to more accurately and holistically assess contracted workload. Coupled with an improved IG&CA Inventory, the ICS will help us achieve the right balance in our workforce, aligning inherently governmental activities to military and civilian workforces, and commercial activities to the most cost effective service provider.

In-sourcing

The Department greatly values the support provided by private sector firms and recognizes the private sector is a vital source of expertise, innovation, and support to the Department's Total Force. However, in-sourcing continues to be a necessary workforce shaping tool to reduce

excessive or inappropriate reliance on contract support; appropriately align inherently governmental activities; and protect the public's interest while providing the best value for taxpayers. Therefore, we are continuing to in-source contracted services that are closely associated with inherently governmental work; that provide unauthorized personal services; or that may otherwise be exempted from private sector performance (to mitigate risk, ensure continuity of operations, build internal capability, and to meet and maintain readiness requirements). While some contracted services may be identified for in-sourcing, some services may no longer be required, or be of lower priority, and therefore reduced in scope or eliminated. Contracted services that meet the necessary criteria (i.e. consistent with statutes, policies, and regulations) will be in-sourced by:

- absorbing work into existing government positions by refining duties or requirements;
- establishing new positions to perform contracted services by eliminating or shifting equivalent existing manpower resources (personnel) from lower priority activities; and
- as appropriate or necessary, requesting an exception to the civilian levels currently reflected in the budget.

Our in-sourcing efforts are focused on rebalancing the workforce, rebuilding critical internal capabilities (including the acquisition workforce), and reducing operational risks.

OMB Circular A-76

Consistent with statutory changes that restrict the “direct” conversion of work currently performed (or designated for performance) by any number of civilian personnel to private sector (contract) performance, I issued guidance to the Department on December 1, 2011. In it, I urged vigilance to prevent the inappropriate conversion of work to contract performance, as we adapt to declining budgets and operating in a constrained fiscal environment. We are also preparing guidance that reiterates the current statutory moratoriums on public-private competitions.

As noted earlier, contract support is critical to the Department's operations. Last summer, we submitted a report on our public-private competition policy and procedures under OMB Circular A-76, making recommendations to improve the end-to-end competition process. The public-private competition process can be a useful tool for our commanders and managers to validate an organization's manpower and other requirements; drive a more consistent delivery of mission support and services to our service members and families; improve business process; and deliver readiness while minimizing fiscal opportunity costs to meet the compelling needs of the

Department. The Congress, in the FY12 NDAA, accepted many of our recommendations and made changes to the governing statute for public-private competitions. We are committed to making improvements to ensure the process is more equitable, less time consuming, and minimizes disruptions to incumbent workforces. Together with improvements to the ICS that will enable us to more accurately gauge the extent of private sector reliance, we look forward to providing an improved A-76 process to our decision makers in the future. In summary, we must shape an efficient, effective, and viable Total Force aligned to strategy and is supported by robust analysis. The FY13 budget and our associated plans reflect our best judgment today.

Strategic Human Capital Management and Competency Management

The Department is making progress toward developing a more systematic approach and enterprise tools for strategic human capital planning that covers over 750,000 civilian employees in over 600 occupations. In FY12, we developed initiatives to meet statutory civilian strategic workforce planning requirements by FY15. First, the Department expanded its functional community construct to cover all major occupations in the civilian workforce. Previously, only mission critical occupations, which made up less than 40 percent of the workforce, were covered in the DoD Strategic Workforce Plan. Second, the Department updated criteria for designating mission critical occupations following a more structured process defined by the Federal-wide Strategic Human Capital Management High Risk Initiative. Third, an Enterprise Competency Management Framework has been designed that includes phased development of Department-wide occupational competency models and deployment of a tool for competency assessments. An Army system is now being updated for Department-wide use to replace multiple competency tools with a single enterprise system. That system, the Defense Competency Assessment Tool is scheduled for deployment in FY13; and through it, we will be able to assess workforce competencies and develop strategies to reduce critical skill gaps that may impact mission accomplishment by FY15.

The Department continues to focus on life-cycle management of the civilian workforce by integrating strategic workforce planning, competency management, hiring process improvements, and workforce development initiatives to ensure that plans support the recruitment, retention, and development of a ready civilian workforce that is responsive to swiftly changing mission demands and complex challenges. These are multi-year initiatives to

improve the Department's ability to rapidly grow, contract, and shift the work force in response to emerging mission requirements.

Hiring Reform

The Department has made great strides in reforming the hiring process by reducing hiring timelines, streamlining the process, and focusing on efficient practices. Prior to implementing the May 2010 Presidential Memorandum for Improving the Federal Recruitment and Hiring Process, measurement of all hiring practices was inconsistent and lacked input from individual Components and servicing agencies. In 2010, we adopted standard measurement practices that enabled our leadership to analyze and measure hiring timelines across multiple dimensions, and to drive mission-critical changes.

In 2011, we continued to make positive and meaningful progress toward reforming civilian hiring practices. We reduced the number of days it takes to hire an employee by developing a common business process, deployed tools to automate key steps in the hiring process, and provided manager and human resources specialist training and job aids. In addition, our arsenal of hiring-related metrics and measurements has grown, thereby enabling transparency and targeted improvements to the hiring process. In FY11, the Department reduced its external hiring timeline by 31 percent, from the FY10 baseline of 116 days to 91 days. As a result of progress made in the early part of FY11, the Department's external hiring timeline target was adjusted downward to 95 days from the original 101 day target. Our goal for external hiring in FY12 is 80 days, with quarterly goals established to monitor progress. The overall reduction in hiring timeline for external hires contributed to an overall time to fill for all hiring actions, both internal and external, of 75 days for FY11 and 63 days for FY12 year-to-date. Another area of improvement is the automation of our hiring process. We procured an automated staffing tool (USA Staffing) in FY10 and successfully deployed it to over 70 percent of the Department in FY11, and are aggressively working toward completing deployment this year.

The Department continues to partner with the Office of Personnel Management (OPM) on the re-engineering of USAJOBS, the job posting portal used by the Federal government. The USAJOBS 3.0 project is a high visibility project and DoD is the largest consumer of USAJOBS' services. The deployment of USA Staffing and improvements to USAJOBS are critical initiatives; however, without participation and engagement from our Hiring Managers and

Human Resource (HR) Professionals, the benefit of these initiatives cannot be fully realized. As a result, a primary objective is to foster and encourage strong partnerships between these key stakeholders. To assist, the Hiring Reform Website (<http://www.cpms.osd.mil/HiringReform/>) provides a Hiring Managers Toolkit containing 24 guides, and a Webinar series is now available that provides content based on the four phases of the hiring process.

The initiatives outlined represent the Department's continued approach to hiring reform implementation, an approach aligned with the Department's overall mission, and with its Strategic Workforce Planning objectives. A key success criterion is the involvement of senior leadership. We continue to solicit and use our cadre of senior leaders to guide our efforts, communicate and campaign for process improvements, and provide direction throughout each hiring reform effort. We will continue to monitor these efforts closely.

Termination of the National Security Personnel System (NSPS) / New DoD-wide Performance Management System, Redesigned Hiring, and Workforce Incentives

The FY10 NDAA repealed the statutory authority for NSPS, mandating all employees transition from NSPS no not later than January 1, 2012. The Department successfully completed the termination of NSPS and the transition of all employees and positions from NSPS to the appropriate successor statutory pay and personnel system in December 2011. No employees or positions remained under NSPS on the statutory deadline of January 1, 2012.

In September 2010, we launched our "New Beginnings" effort to involve labor representatives in design of a new performance management system and hiring processes. New Beginnings was an evolving effort and included labor and management planning sessions, conferences, and design team working meetings for more than 18 months, which culminated in over 100 pre-decisional proposals developed by labor and management employees for leadership consideration. The pre-decisional process culminated in a comprehensive report from the design teams that captures their research, conclusions, and proposals, and Department leadership has considered the report's recommendations. We will continue to involve employees through their labor representatives as we move forward on particular recommendations and decisions about the new authorities and practices.

Civilian Leadership Development

The Defense Civilian Emerging Leaders Program (DCELP), as authorized by the FY 10 NDAA, fills a critical need by focusing on a corporate scale on developing civilian leaders at the entry and mid-level. We recognize the need for an improved model to attract, retain, and develop civilian leaders to support pipeline readiness and enhance bench strength. We conducted a gap analysis between existing programs and requirements, and designed a framework to create a new program to recruit and develop new civilian leaders, using proven models such as the Presidential Management Fellows program. Recognizing the financial environment and to ensure we have a sound programmatic framework, we implemented a DCELP pilot in September 2011 with 103 participants at the General Schedule (GS) 7 through 11 level from the Acquisition, Financial Management, and Human Resources career fields. A second cohort, which expands our intake to 180 participants, will begin before the end of 2012.

This new DCELP is additive to the Department's current leadership programs, which include the Executive Leadership Development Program (ELDP) and the Department of Defense Senior Leader Development Program (DSLDP). DSLDP was established in 2008 to meet emergent leadership needs and provides a competency-based approach to the deliberate development of senior civilian leaders (GS 14 or 15 and equivalent grades) with the enterprise-wide perspective needed to lead organizations and programs and achieve results in the joint, interagency, and multi-national environments. We are pleased to report that DSLDP is soon graduating its second cohort and just commenced its fourth cohort. DSLDP is a critical feeder pipeline for executive talent. Established in 1985, ELDP provides mid-level civilians (GS-12 through GS-14 and equivalent grades) with an extensive exposure to the roles and mission of the Department and our Interagency partners and, an increased understanding of, and appreciation for, today's warfighters through intensive hands-on field experiences. Both programs are aligned with the 21st century competency framework and designed to ensure application of critical leader competencies and have garnered success for their target senior grade populations. These highly competitive Department-wide programs will serve as building blocks for the new leader development framework.

In addition to the programs just mentioned, another critical building block in this arena is training managers and supervisors. Pursuant to the FY10 NDAA, the Department has established a holistic training curriculum and baseline learning objectives for each training topic. We have

piloted and launched our first course, focusing on new supervisors. Our attention has turned to developing the curriculum for refresher training, which the NDAA requires occur at least every three years. The refresher pilot will take place in May 2012. Following that, we will develop and then launch for Departmental use training for managers—those who supervise other supervisors. All courses will be launched this year. Also, we are partnering with OPM and vendors to design assessment and developmental tools that will help predict interest and success for aspiring and current supervisors. Those assessment tools are planned for use by May 2012.

Senior Mentors / Highly Qualified Experts

In April 2010, in response to media and Congressional concern, the Secretary issued policy guidance regarding how the Department may acquire certain advisory services from retired senior officials—the so-called senior mentor (SM) policy. The guidance prohibits contracting for mentoring services and directs that senior mentors must be employed as Federal officials under the specific Highly qualified Expert (HQE) appointing authority, which subjects them to certain Federal ethics rules and salary limits. The FY11 NDAA formalized the requirement that senior mentors be hired as HQEs, and comply with all applicable Federal laws and regulations on personnel and ethics matters.

In November 2010, the Deputy Secretary of Defense issued a memorandum directing all HQE-SMs position descriptions be revised within 30 days, requiring all HQE-SMs complete the public disclosure forms. In addition, all HQE-SMs were to submit completed public disclosure forms within 30 days of the position description being updated, but no later than January 12, 2011. Accordingly, all HQE-SM either separated or completed the public financial disclosure form as of January 12, 2011. Currently, the Department has 34 HQE-SMs on board, and approximately 164 HQEs total while Congress has authorized 2,500, and the number of HQEs has declined by eight percent since December of last year. As a result of ongoing efficiency initiatives, the total number of HQEs will change as functions are discontinued.

To further ensure SM services are acquired in strict compliance with Department policies, the Defense Federal Acquisition Regulation Supplement (DFARS) incorporated the prohibition on contracting for SM services in DFARS 237.102-72 issued on November 24, 2010. After a Department-wide audit, the Department of Defense's Inspector General reported on October 31, 2011, that the Department complied with these new policies for hiring senior mentors as HQEs.

As a result of these changes, the Department has successfully balanced the critical need for SM services with the public's need for confidence in the integrity of the program. We are committed to ensuring consistency and transparency in the use of SM across the Department. Further, as we greatly value the contributions of our SM to the training and professional development of our current and future Joint and Service commanders, we believe this policy provides the rigorous oversight required for the proper employment of these experts.

Civilian Expeditionary Workforce

The Department is working to better employ the talents of our civilian workforce to meet expeditionary mission challenges, including those not directly related to war fighting. Global security challenges require adequate civilian capacity to conduct complex operations, including those missions that require close military-civilian planning and cooperation in theater. Since 2001, approximately 50,000 Department civilians have been involved in contingency operations around the globe. Currently, approximately 4,800 civilian employees are serving in the USCENTCOM theater.

The Department institutionalized the Civilian Expeditionary Workforce (CEW) to provide deployable civilian experts to support military operations, contingencies, emergency operations, humanitarian missions, disaster relief, and stabilization and reconstruction operations. The CEW is designed to enhance the Department's ability to work alongside and help build the capacity of partner defense ministries and provide surge support where needed. Since June 2010, CEW deployments have increased by 56 percent, from 171 deployed civilians to 388 as of the end of February 2012. Civilians deployed under the CEW receive general and theatre-specific, urban training, and are eligible for the same health care benefits in-theatre as deployed military personnel, including medical evacuation and access to hospital services.

With the support of Congress, we have obtained important incentives and benefits to help compensate for the inherent risks of deployment. The Department continues to identify pertinent issues and propose fully integrated solutions to ensure force health protection, surveillance, deployment benefits, and medical care for civilians who have been injured, wounded, or have contracted diseases while deployed in support of contingency operations. We have worked in partnership with OPM, the Department of State, and the DoL to ensure all similarly-situated Federal civilians receive consistent and equitable benefits commensurate with the risks of

deployment. In this endeavor, working with our partner agencies, we developed proposed legislation to provide a standard benefits package for all Federal employees.

More work is underway to transform the CEW program mission. Consistent with the Department's strategic direction, the goal is to implement an enduring solution which will enable the CEW to achieve a rapid response capability in support of all Combatant Commands. The transformation will include consolidation of four key functions across the Department, including:

- Policy formulation that enables standard, DoD-level instructions for the deployment of civilians that will allow sufficient flexibility to meet future demand and ensure personnel are identified for potential deployment in any event;
- HR Servicing that provides end-to-end lifecycle support, from recruitment to separation;
- Management support for arranging travel; performing audience targeted training; conducting final medical screening and vaccinations; providing passport services and travel voucher training; issuing travel orders, uniforms, and equipment; tracking time and attendance during deployment; and providing redeployment services; and
- Payroll support allowing for a centralized payroll function to ensure standardized policies and administration.

These efforts will help transform the capability of the CEW to efficiently support future contingency staffing needs to unify and improve the efficiencies in support of operations.

Workforce Shaping

The Department has long experience managing a civilian workforce in transition. Beginning with the first installation closures in the mid-1960s, our predecessors formulated a strategy for maintaining a relatively stable workforce despite the instability that is inherent in major downsizing and restructuring. The centerpiece of that strategy was, and continues to be, the Priority Placement Program (PPP). Through this vital program, we have retained the skills of more than 258,000 transitioning civilian employees by matching them with Department job vacancies. During the last 25 years, which have been largely defined by five Base Realignment and Closure rounds and a workforce reduction of 30 percent¹, our overall objective has been to reshape the Department as efficiently and humanely as possible. By maintaining constant focus on this goal, we have been able to develop a broad-based career transition assistance program to

¹ This represents an overall reduction from 1,070,000 in 1987 to 751,000 in 2012.

complement the PPP.

In view of the efficiency initiatives implemented by former Secretary Gates, ongoing efforts by Secretary Panetta to further streamline, and the specter of even deeper spending cuts, it is very unlikely that involuntary separations can be avoided in FYs 12 and 13. Although the scope of involuntary separations is uncertain at this time, we will fully exploit all available tools and resources to minimize the human impact of force restructuring while maintaining mission readiness. Under our current plan, the civilian workforce will decrease in size from about 764,300 full-time equivalents (FTEs) to 756, 800 in FY13. This represents a reduction of about 1 percent, and is approximately 2 percent lower than our FY11 actual execution of 771, 300. Absent additional constraints, the workforce will gradually decrease to 738,000 FTEs by FY17.

Federal agencies are required to use standard reduction-in-force (RIF) procedures when reorganization, lack of work, shortage of funds, or insufficient personnel ceilings necessitate separating or demoting civilian employees. When RIF becomes necessary, employees compete for retention based on several factors established by law and regulation. These factors include tenure, veterans' preference, length of service, and performance ratings. Together, these factors determine each employee's RIF retention standing.

During periods of force reductions, the Department's policy is to use voluntary separation programs to the maximum extent possible prior to imposing any involuntary actions. The most familiar and publicized of these are Voluntary Separation Incentive Pay (VSIP) and the Voluntary Early Retirement Authority (VERA). The Secretary has independent authority to allow up to 25,000 VSIP buyouts annually. This figure, which does not include incentives paid in conjunction with BRAC, has thus far been sufficient to meet our needs. Although there is no limit on the number of VERAs, the use of this authority can be constrained by the VSIP limit, since employees who elect VERA frequently also take VSIP.

The Department also partners with the DoL to provide downsizing and restructuring installations outplacement assistance under the Workforce Investment System (WIS). The WIS is administered through the various State One-Stop Career Centers, and includes assistance such as retraining, career counseling, testing, and job placement assistance. While working constantly to refine and enhance existing force shaping tools, the Department will continue to seek regulatory and legislative changes to further assist affected civilian employees in transitioning to other positions, careers, or to private life.

HEALTH AFFAIRS

The Military Health System provides extraordinary care on the battlefield to our service members—both preventing illness and injury to those in harm’s way, and rapidly treating those who are wounded. The performance of our military medical system in a time of war continues to set new standards for battlefield survival rates, the reintegration of many who are wounded back into their units and for returning those who need additional care back to the United States.

In addition to these successes, the military health system provides access to care for over 9.6 million beneficiaries, no matter where they live. We provide this access through our direct health care system and through our managed care support contracts. This health care benefit is justifiably one of the finest in the country and is an appropriate benefit for those who serve our country. However, the costs of providing this care continue to increase more rapidly than overall inflation. For a number of years, and through several Administrations, there have been continuous, incremental steps taken to reduce the rate of growth in the costs of healthcare.

The Department is pursuing a balanced, four-pronged approach by which all stakeholders share responsibility for improving the health of our population and the financial stability of the system of care. Our four approaches—moving from a system of healthcare to one of health; continuing to improve our internal efficiencies; implementing provider payment reform; and rebalancing cost-sharing—are further described below. In some instances, they reflect efforts already underway, or new initiatives that the Department is implementing within existing legislative and regulatory authorities.

Moving from Healthcare to Health

The Department of Defense’s military medical leaders are leading a strategic effort to move our system to one that promotes and sustains the optimal health of those we serve, while providing world class healthcare when and where it is needed. Central to this effort are the Department’s investments in initiatives that keep our people well; that promote healthy lifestyles; and that reduce inappropriate emergency room visits and unnecessary hospitalizations.

Over the last two years, the Department introduced the Patient-Centered Medical Home and over 2.2 million are currently enrolled. We are beginning to see the benefits of this new model of care with decreases in emergency room visits; increased compliance with provider directions and

drug prescriptions; and increased patient satisfaction for those enrolled. We've also placed behavioral health staff within these medical homes, improving access with reduced stigma, for our patients needing the support of mental health providers. A valued component of the medical home is the introduction of secure patient-provider email communications, allowing our patients to directly communicate with their medical providers without the need for a physical visit to the clinic. In 2013, we will continue to expand this model to all of our primary care clinics in the military health system, and increase the tools available to patients to help manage their own care.

Aligned with that initiative is the introduction of a 24/7 nurse advice line for all stateside beneficiaries based on our effective use of this approach for our military beneficiaries in Europe. This will provide beneficiaries with around-the-clock access to toll-free nurse advice services. When the caller requires follow-up care, this service will provide direct appointing services for beneficiaries enrolled to TRICARE Prime in our military treatment facilities. We will implement this added service this year.

In moving from healthcare to health, we have also engaged the broader DoD community—line leaders, commissaries, dining facilities, schools and child development centers. By changing menus, promoting better food choices and healthy lifestyles we will encourage healthy lifestyle changes. The First Lady, Michelle Obama, recently visited one of our leading installations, Little Rock Air Force Base, to highlight the progress we have made.

Finally, we have taken a number of steps to support preventive services. Our TRICARE beneficiaries—whether enrolled to TRICARE Prime or in TRICARE Standard—have no co-payments for recommended preventive services, such as influenza immunizations.

The “Healthcare to Health” element of our strategy will not produce immediate cost savings. Nonetheless, based on early results from our efforts, as well as experience in the private sector, we are confident that these, and other ongoing enhancements to the TRICARE program, will produce improvements to health that also “bend the cost curve.” In the longer term, it is the strategy most likely to produce the greatest amount of savings to our system.

Internal Efficiencies

Over the last twenty-four months, we have reduced internal costs by decreasing headquarters administrative overhead, reviewing more cost-effective governance models, jointly purchasing medical supplies and equipment, and directing patients to lower cost venues for medications.

Last year, the Secretary of Defense directed specific efficiency targets across the Department. As a result, over the last eleven months we have reduced or eliminated contractor support in the Office of the Assistant Secretary of Defense (Health Affairs) and the TRICARE Management Activity (TMA). Overall savings from internal efficiencies are projected to provide \$259M in savings for FY13.

In June 2011, the Deputy Secretary of Defense established a Task Force on Military Health System (MHS) Governance, with the purpose of evaluating options for the long-term governance of the MHS as a whole; governance in those areas where more than one Service operates medical treatment facilities—referred to as multi-Service markets, and governance for the National Capital Region (NCR). In late September, the Task Force provided their recommendations, after which senior Department leaders including Chairman of the Joint Chiefs of Staff began review of the Task Force recommendations.

Implementation of any organizational efficiencies resulting from this Task Force has been placed on hold at the direction of Congress, subject to a review by the Comptroller General and Congress. We will provide Congressional Committees with the information requested regarding the Task Force work, and will develop more detailed cost and savings estimates for any eventual governance model. The Deputy Secretary of Defense approved and released a “way ahead,” on March 2, and while we are still awaiting the GAO report, we are prepared to answer any additional questions you may have.

The Department has accelerated tri-service processes to standardize and jointly acquire medical supplies and equipment. We project savings that grow from \$31M in FY12 to more than \$69M in FY17. We have also engaged with our beneficiaries who have chronic medical conditions and high utilization of prescription drugs. Through a targeted outreach campaign, we have redirected a significant number of our patients from retail network pharmacies (our most expensive outlet) to home delivery—an option that is more economical for the government and the beneficiary, and has been shown to increase drug compliance.

Provider Payment Reform

We are committed to identifying greater efficiencies and cost savings in all areas of our operations. In addition to internal efficiencies we can achieve through reorganization and consolidation, we are also seeing significant savings through a number of initiatives we have

introduced in the last several years. These include the implementation of the outpatient prospective payment system; further use of federal ceiling prices for acquisition of pharmaceutical products; a redirection of patients to our TRICARE mail order pharmacy—where prescription drugs are less expensive to both the government and patients, and is shown to increase patient adherence to their medication regimen; and the policy changes we made for reimbursement to select hospitals and health plans in the TRICARE network.

The Department has undertaken a broad-based, multi-year effort to ensure all aspects of our provider payments for care purchased from the civilian sector are aligned with best practices in Medicare and in private sector health plans. The most notable efforts have included implementation of changes to the outpatient prospective payment system (OPPS) and reform of payment to Sole Community Hospitals.

OPPS is modeled after the payment process that Medicare uses for similar health care services—setting a fixed fee per procedure, inclusive of provider and institutional charges for care. To allow medical facilities to transition to this new method of payment, TRICARE phased in the reimbursement levels over four years, with the full implementation of this policy set to occur in 2013. In FY12, we project \$840M in savings, and \$5.5B over the FYs 12-17.

Our provider payment reform for Sole Community Hospitals was approved by the Congress in the NDAA for FY12. This reform is also phased-in over time, producing a projected \$31M in savings in FY12, but growing to more than \$108M in savings by 2017.

In the area of purchasing prescription drugs, in 2009 we instituted a process for obtaining discounts on drugs distributed through retail network pharmacies. Known as Federal Ceiling Prices (FCP), prescriptions purchased under FCP are at least 24 percent less than non-Federal Average Manufacturer prices. In 2012, the FCP program will save the Department over \$1.6B, and will grow to almost \$2B in savings by 2017.

Beneficiary Cost-Shares

In addition to the focus on internal and external efficiencies, our proposed budget introduces changes to the health care out-of-pocket costs for our beneficiaries.

I want to make three critical points related to these proposals. First, even accounting for these proposed fee changes, the TRICARE benefit will remain one of the finest health benefits available in the country, with among the lowest beneficiary out-of-pocket costs available to

anyone—and certainly lower than costs by other federal government employees. We believe that is appropriate and properly recognizes the special sacrifices of our men and women in uniform, past and present.

Second, these proposals were developed within the Department, and represent the input and consensus of our uniformed leadership. They have endorsed these proposals, and believe that we have appropriately balanced the need for a superb benefit that assists with both recruitment and retention of an all-volunteer force with our need to sustain a cost-effective approach for the long-term.

Third, we recognize that some beneficiary groups should be insulated from increases in out-of-pocket costs. We propose to exempt those service members, and their families, who were medically retired from military service, as well as the families of service members who died on active duty. We also propose to establish cost-sharing tiers, with lower increases for retirees based on their retirement rank. More junior enlisted retirees, for example, will experience the lowest dollar increases in out-of-pocket costs. Finally, we have also avoided any changes in cost-sharing for active duty families with the exception of prescription drug co-payments obtained outside of our medical treatment facilities (MTFs). Prescription drugs distributed within MTFs will continue to be free of charge for all beneficiaries.

For over fifteen years, patient out-of-pocket costs were either frozen or decreased. This was true for all beneficiary categories—active duty families; retirees under age 65 and their families; and retirees and their families who are Medicare-eligible. Last year, we introduced very modest changes in one segment of our population—increasing TRICARE Prime enrollment fees for retiree families by \$5/month. We further recommended that these enrollment fees be indexed so that future increases continue to be modest and beneficiaries can plan for them. We greatly appreciate the Congress' support for these proposals in the FY12 budget, and have implemented those fee changes in the current year.

For FY13, we propose additional changes to fees across a broader set of programs. Although last year's changes were a necessary step, the federal budget crisis and the need to balance cost reduction efforts throughout the Department necessitate these actions begin in 2013, with most changes phased in over time. The following sections provide a high-level overview of the proposed changes in beneficiary out-of-pocket costs, and Table 3 summarizes the proposed

phased-in fees through 2017, followed by the estimated indexing of the proposed fees through 2022.

**Table 3
New TRICARE Proposals**

TRICARE Prime for Working Age Retirees (under Age 65)

As part of the FY 2013 President's Budget, the Department will seek additional increases in the **TRICARE Prime** (Health Maintenance Organization (HMO) type plan) enrollment fees in order to bring the beneficiary cost share closer to the original levels mandated by Congress when the program was established. These increases will be phased-in over a 4-year period and will be tiered based on the amount of the beneficiary's military retirement pay.

Below displayed are the proposed fees by fiscal year for the three tiers of retired pay. After FY 2016, the enrollment fees will be indexed to increases in National Health Expenditures (NHE). The retired pay tiers will also be indexed to ensure beneficiaries are not pushed into a higher tier as a result of annual cost-of-living (COLA) increases. The construct and tiering are generally based on recommendations of the 2007 *Task Force on the Future of Military Health Care*.

TRICARE Prime Annual Family Enrollment Fees (Individual Fees = 50%)

Retired Pay	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016*	FY 2017
Tier 1: \$0 – \$22,589	\$460/\$520	\$600	\$680	\$760	\$850	\$893
Tier 2: \$22,590 – \$45,178	\$460/\$520	\$720	\$920	\$1,185	\$1,450	\$1,523
Tier 3: \$45,179 & above	\$460/\$520	\$820	\$1,120	\$1,535	\$1,950	\$2,048

* Indexed to medical inflation (National Health Expenditures) after FY 2016

TRICARE Standard and Extra for Working Age Retirees (under Age 65)

The **TRICARE Standard and Extra** (fee-for-service type) benefit programs currently have no enrollment fees and modest annual deductibles of \$150 per individual and \$300 per family. For FY 2013, the Department proposal will seek to implement an annual enrollment fee and increase deductibles. These increases displayed in below will be phased-in over a 5 year period and will then be indexed to increases in NHE.

TRICARE Standard/Extra Fees/Deductibles

Annual Enrollment Fees	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017*
Individual	\$0	\$70	\$85	\$100	\$115	\$130
Family	\$0	\$140	\$170	\$200	\$230	\$250
Annual Deductibles						
Individual	\$150	\$160	\$200	\$230	\$260	\$290
Family	\$300	\$320	\$400	\$460	\$520	\$580

* Indexed to medical inflation (National Health Expenditures) after FY 2017

TRICARE-for-Life Benefit (TFL) Benefit Program for Retirees age 65 and Older

Like almost all Americans, upon reaching age 65, TRICARE beneficiaries must enroll in Medicare and begin paying Medicare Part B (outpatient care coverage) premiums. With Part B coverage, Medicare typically covers only 80 percent of eligible health care services and some people choose to be covered by "Medigap" or other private insurance policies to lower cost-sharing and receive additional coverage. Enacted in 2001, the TFL program acts as a second payer plan for TRICARE beneficiaries covering the costs not paid by Medicare. While the average "Medigap" plan with comparable coverage carried premiums \$2,100 per individual in 2009, there are currently no annual fees for TFL coverage. As part of the FY 2013, President's Budget, the Department is proposing to implement modest annual fees for TFL coverage. These fees will be phased in over a 4-year period and use the same tiering based on the beneficiary's retired pay along with the same indexing and exemptions as the proposed TRICARE Prime fees. The table below displays the proposed TFL fees by fiscal year for the three tiers of retired pay.

TRICARE-for-Life Annual Enrollment Fees – Per Individual

Retired Pay	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016*	FY 2017
Tier 1: \$0 – \$22,589	\$0	\$35	\$75	\$115	\$150	\$158
Tier 2: \$22,590 – \$45,178	\$0	\$75	\$150	\$225	\$300	\$317
Tier 3: \$45,179 & above	\$0	\$115	\$225	\$335	\$450	\$475

* Indexed to medical inflation (National Health Expenditures) after FY 2016

Pharmacy Co-Pays

This proposal will adjust pharmacy co-pay structure for retirees and active duty family members to incentivize the use of mail order and generic drugs. Prescriptions will continue to be filled at no cost to beneficiaries at Military Treatment Facilities (MTFs). No fees would continue to apply to prescriptions for active duty service members. Proposed co-pays for prescriptions filled through the TRICARE retail and mail order pharmacy programs follow.

Pharmacy Co-Pays

Retail – 1 month fill	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Generic	\$5	\$5	\$6	\$7	\$8	\$9
Brand	\$12	\$26	\$28	\$30	\$32	\$34
Non-Formulary*	\$25	N/A	N/A	N/A	N/A	N/A
Mail-Order – 3 month fill						
Generic	\$0	\$0	\$0	\$0	\$0	\$9
Brand	\$9	\$26	\$28	\$30	\$32	\$34
Non-Formulary*	\$25	\$51	\$54	\$58	\$62	\$66
Military Treatment Facilities	No Change – Still \$0 Co-Pay					

* Non-Formulary pharmaceuticals will have limited availability in retail pharmacies

Catastrophic Cap

In order to maintain the adjusted beneficiary cost share, the annual catastrophic cap \$3,000 per family will also be indexed to NHE and exclude enrollment fees. Finally, to protect the most vulnerable, these proposals exempt survivors of members who die on active duty and medically retired and their family members from these increases. However, it should be noted that even once the proposal is fully implemented, the TRICARE Prime program remains a very generous benefit with the average beneficiary cost share well below the original 27 percent of health care costs when the program was fully implemented in 1996.

Fee increases for TRICARE programs. The following proposed changes represent increases from existing patient out-of-pocket costs:

- TRICARE Prime Enrollment Fees. We propose to raise the enrollment fees in 2013 for retired service members and their families between \$80–\$300 per year, based on the retirement pay of the service member, and continue to provide similar increases through 2017.
- TRICARE Deductibles. We propose to increase deductibles for the TRICARE Standard program for retired service members and their families beginning in FY13. TRICARE deductibles have not been changed since before the TRICARE program was introduced, having last been adjusted over 20 years ago.
- TRICARE Pharmacy Co-Pays. We propose to increase pharmacy copayments for generic, brand name and non-formulary prescriptions in both the retail and mail order settings, although we will continue to offer significant incentives for beneficiaries to elect mail order over retail pharmacy networks. This change is proposed for all non-active duty beneficiaries, to include active duty family members. Prescription drugs obtained in military hospitals and clinics will continue to be provided without co-pay for any beneficiaries.

New fees for TRICARE programs. Our proposed budget also calls for the introduction of new fees not previously part of the TRICARE program.

- TRICARE Standard/Extra Enrollment Fee. We propose to introduce an annual enrollment fee in TRICARE Standard/Extra for retired service members and their families. This enrollment action will require beneficiaries to elect their preferred primary

benefit coverage—TRICARE Prime, TRICARE Standard, or other health insurance offered through an employer. The proposed fee for 2013 will be \$40/year for an individual retired beneficiary, or \$140 per retired family.

- TRICARE For Life (TFL) Enrollment Fee. When TFL was introduced in 2002, there was no enrollment fee in the program, only a requirement that beneficiaries be enrolled in Medicare Part B to enjoy their TFL benefit. Medicare Part B was always a step that we recommended our retirees elect, and prior to 2002, over 95 percent of eligible military retirees were enrolled in Medicare Part B. The TFL benefit has reduced beneficiary out-of-pocket costs by thousands of dollars per year in co-payments or Medicare supplemental health insurance plan payments. The proposed TFL enrollment fees, similar to the TRICARE Prime enrollment fees, are tiered, based on an individual's retirement pay—and range from \$35 to \$115 per beneficiary per year.
- Exclusion of Enrollment Fees from the Catastrophic Cap. We propose that enrollment fees, which had previously accumulated toward a retiree's catastrophic cap limit, will not be counted toward the cap beginning in 2013.
- Indexing all fees beginning in 2014. In addition to the indexing of the TRICARE Prime enrollment fee, which is already indexed, we propose to index other beneficiary out-of-pocket costs identified in this set of proposals, to include the TRICARE Standard deductible, TRICARE Standard enrollment fee, TFL enrollment fees, pharmacy co-payments, and catastrophic caps.

These proposed changes continue to be modest by historic standards of cost-sharing in the TRICARE program. In 1994, when TRICARE was originally created, a working age retiree's family of three contributed approximately 27 percent towards the total cost of their care; today that percentage has dropped to ten percent. Even with these proposed changes, the percentage would still remain below the percentage originally set by Congress, averaging approximately 14 percent of range of overall health care costs in 2017—and stabilizing at that level for the out-years.

These adjustments are an important step to setting the TRICARE benefit on a more sustainable path that maintains the quality of the medical benefit for future generations. Moreover, the overwhelming majority of these adjustments will be phased in over a four to ten year period and will be appropriately indexed to ensure future sustainability and guarantee transparency. These proposals—one element of a four-pronged effort at cost control—will help shift us toward more effective and cost-efficient processes that will allow us to provide better care while meeting our obligations to help reduce our budgets.

Wounded Warriors

The 2007 revelations regarding Walter Reed were a stark wakeup call for us all. In the nearly five years since, the Department has worked in tandem with VA to improve policies, procedures, and legislation that impacts the care of our wounded warriors. As a result of efforts in both Departments and in Congress, we have reached important milestones in improving care for our wounded warriors. These milestones include a new disability evaluation system and improved case management that are the result of a programmatic cohesion with the VA that is better than ever before. More so than at any time in our Nation's history, separating service members are greeted by more comprehensive mental and physical care; by greater opportunity for education, and by a deeper societal commitment to ensuring their welfare.

Disability Evaluation System/Integrated Disability Evaluation System

The genesis of the Disability Evaluation System (DES) was the Career Compensation Act of 1949. The DES remained relatively unchanged until November of 2007 when, as a result of public concern and congressional interest, the joint DoD and VA Senior Oversight Committee (SOC) chartered a DES Pilot designed to create a "Service Member-centric" seamless and transparent DES, administered jointly by the DoD and VA.

The Pilot launched at the three major military treatment facilities (Walter Reed, Bethesda, Naval Medical Center, and Malcolm Grow) in the NCR on November 21, 2007 and successfully created a seamless process that delivers DoD benefits to wounded, ill and injured service members and VA benefits to service members as soon as possible following release from duty. We found the DES Pilot to be a faster, fairer, more efficient system; and, as a result, in July 2010, the SOC co-chairs (Deputy Secretary of Defense and Deputy Secretary of Veterans Affairs) directed worldwide implementation to start in October 2010 and to complete in September 2011. On December 31, 2010, the first Integrated Disability Evaluation System (IDES) site became operational, which marked the end of the pilot, and the name was formally changed to the IDES.

The IDES, similar to the pilot, streamlines the DES process so that the member receives a single set of physical disability examinations conducted according to VA examination protocols, proposed disability ratings prepared by VA that both DoD and VA can use, and processing by both Departments to ensure the earliest possible delivery of disability benefits. Both Departments

use the VA protocols for disability examination and the proposed VA disability rating to make their respective determinations. DoD determines fitness for duty and compensates for unfitting conditions incurred in the line of duty (title 10), while VA compensates for all disabilities incurred or aggravated in line of duty during active military, naval, or air service for which a disability rating of ten percent or higher is awarded, and also determines eligibility for other VA benefits and services (title 38). The IDES permits both Departments to provide disability benefits at the earliest point allowed under both titles. Service members who separate or retire (non-disability) may still apply to the VA for service-connected disability compensation.

In summary, the IDES features a service member-centric design, a simplified process, more consistent evaluations and compensation, a single medical exam and disability rating, seamless transition to Veteran status, case management advocacy, and establishment of a Service member relationship with the VA prior to separation. It also provides increased transparency through better information flow to service members and their families and a reduced gap between separation/retirement from Service to receipt of VA benefits. As of January, IDES enrollment is 23,602 service members (66 percent Army, 14 percent Marines, 10 percent Navy, 10 percent Air Force). Since November 2007, cumulative enrollment has been 40,911, with 12,640 completing the queue and receiving benefits. Including return to duty cases in the process, active component member IDES completion time averages 380 days as of January 2012, RC members average 441 days, and the Guard averages 371 days. These averages are above our targeted goals but still are significantly lower than the 1940-era legacy system it replaced which averaged an estimated 540 days by combining DoD and VA systems.

This past year, the Department partnered closely with the VA to implement the IDES at all 139 sites worldwide; however, we recognize the need to do better in the areas of timeliness to complete the process. This year our focus will be on such timeliness improvements. We have made significant policy adjustment to remove efficiency impediments, made procedural improvements, enhanced oversight and assistance to the Military Departments, and added resources that should improve Military Department performance in this area. We will enhance our emphasis on leadership, execution, and resourcing the IDES to handle increased volume while decreasing the time spent in the process.

In addition, the Departments are looking closely at the stages of the system that are outside of timeliness tolerances and are developing other options to bring these stages within goal. We are

committed to working closely with Congress to explore new initiatives to further advance the efficiency and effectiveness of the disability evaluation process.

Recovery Coordination Program

The Recovery Coordination Program (RCP) was established by the FY08 NDAA, and was further defined by the Department of Defense Instruction (DoDI) 1300.24, entitled “Recovery Coordination Program.” Together these provide a comprehensive policy on the care and management of recovering service members, including the assignment of a Recovery Care Coordinator (RCC) to help wounded, ill and injured service members and families through the phases of recovery, rehabilitation and reintegration. The policy also provides for standardized training, and a caseload ratio of not more than 40 recovering service members per RCC.

Currently, there are 171 RCCs in 84 locations worldwide, placed within the Army, Navy, Marines, Air Force, United States Special Operations Command and Army Reserves. More than 3,800 service members and families have the assistance of an RCC, whose responsibilities include ensuring the service member’s non-medical needs are met, and assisting in the development and implementation of the Comprehensive Recovery Plan (CRP). Each RCC receives more than 40 hours of Department-sponsored standardized training, including information on roles and responsibilities and concepts for developing the CRP. Additionally, we are now beginning to train Army “Advocates” in order to bring their program into compliance with the legislative mandate that every recovering service member be provided a DoD-trained RCC. RCC training is continually enhanced based on feedback from participants. After the October 2011 training, 90 percent of students rated the instruction and course materials as “excellent.”

Over the past five years, we have added \$26.953M, resulting in increased numbers of RCCs available to provide care coordination to our recovering service members. Looking ahead, each Military Service will continue to identify and resource their requirements for additional RCCs. In addition to standardized training for RCCs, the CRP has expanded to include several other portfolios, many of them identified as key priorities for the non-medical care management of recovering service members during a Wounded Warrior Care Coordination Summit held in March 2011.

The Wounded Warrior Education and Employment Initiative (E2I) operates on a regional basis and engages recovering service members early in the recovery process to identify skills they have, career opportunities that match those skills, and any additional skills they might need to be successful. The process is overseen by Regional Managers currently located in five regions across the United States. The E2I process also relies on collaboration with the VA, which is governed by a Memorandum of Understanding to provide VA's vocational rehabilitation services earlier in the recovery process than ever before.

The Operation Warfighter program (OWF) also supports this White House priority by placing wounded, ill and injured service members in Federal internship opportunities that positively impact their rehabilitation and augment career readiness by building resumes, exploring employment interests, obtaining formal on-the-job training, and gaining valuable Federal government work experience. There are currently more than 500 OWF interns working in approximately 75 Federal agencies and sub-components around the country, with a total of more than 2,500 placements in 105 agencies and sub-components since the inception of the program. The program is also supported by five Regional Coordinators placed across the country. Going forward, the Regional Coordinators will continue to focus on local and regional outreach to strengthen relationships with Federal agencies to improve and enhance internship and employment opportunities for wounded, ill and injured service members.

The Warrior Athletic Reconditioning Program (WARP) engages wounded, ill and injured service members early in individualized physical activities outside of traditional therapy settings, inspiring recovery and encouraging new opportunities for growth and achievement. This new initiative will be implemented throughout the Department. WARP partners include the Service chiefs from each branch of the Military, as well as the United States Olympic Committee. WARP goals include increasing awareness and participation in adaptive sports at the Service-level, as well as preparing athletes for participation in competitive events such as the Warrior Games.

These measures when taken together, substantially and materially affect the life experience of our men and women in uniform and the families who support them. Our work to improve the care of wounded warriors, especially as they transition from DoD to VA, is the core of our efforts to provide those who have sacrificed so much with the care and benefits they deserve. Despite the significant achievements, we should not underestimate what remains to be done as

we care for a new generation of veterans who have served under very difficult circumstances for sustained periods. We will continue to work with our colleagues at VA and throughout the government to provide our service members with the highest quality care and treatment. Taking care of our wounded, ill and injured service members is one of the highest priorities for the Department, the Service Secretaries, and the Service Chiefs.

TOTAL FORCE SUPPORT

Military Family Policy

One of the four over-arching principles of the Defense strategy is to preserve the quality of the All-Volunteer Force and not break faith with our men and women in uniform or their families. Despite difficult economic circumstances necessitating budget reductions across all levels of government, the Department remains committed to providing military families with support programs and resources that empower them to address the unique challenges of military life. To this end, the Secretary of Defense has directed that Family Programs and Mental Health Care be maintained as a priority for the Department.

The Department conducted a Front End Assessment of family programs and non-medical mental health care. The purpose of the review was to ensure that mission critical needs would be met for family programs or mental health care during the next five years. To ensure efficiency of programs, without redundancy, programs were reviewed with the intent of identifying, comparing and contrasting methods of program delivery.

These efficiencies did not cut programs for Service members or their families but resulted in a more cost-effective approach to program delivery. The review identified the following efficiencies.

- Maximized use of military family life consultants (MFLC) and Military OneSource counselors;
- Limited number of full-time rotational personal MFLC financial counselors due to identified overlaps with Services' programs, while allowing the capability for surge support through the MFLC program; and,
- Right-sized MyCAA program based on new eligibility criteria, which reduced the number of eligible spouses.

Some key programs and initiatives are:

- ***Spouse Education and Career Opportunities:*** The DoD Spouse Education and Career Opportunities (SECO) program is a holistic, spouse-centric initiative designed to meet the needs of all military spouses as they explore portable career interests and strive to overcome common barriers to their education and career goals. One of the components of SECO is the My Career Advancement Account (MyCAA) that provides eligible military spouses with tuition assistance as they pursue requirements for a portable career. The Department has also expanded upon the Army's Spouse Employment Partnership program model. A significant number of "Fortune 500 Plus" employers now participate in the Military Spouse Employment Partnership (MSEP), with over 150,000 jobs posted on the www.MSEPJobs.com web portal and 15,000 spouses hired by MSEP employers. We are expanding the portal to include a new function which automatically matches posted spouse resumes to posted employer job openings. We are also instituting an electronic MSEP partner application and streamlining the vetting and approval process. These enhancements will allow companies to become partner employers more quickly. Webinars and online training resources are helping new schools and employers to improve their understanding and support for military spouse employees who seek employment continuity and upward career growth as they relocate to new duty stations.
- ***Voluntary Education Opportunities:*** During FY11, our Voluntary Education program helped fund 866,788 enrollments by over 300,000 service members, which resulted in 44,692 diplomas and 528 certifications/licensures. Service members are "blending" their course work, taking both traditional and on-line courses, with approximately 73 percent of service members taking some courses on-line. Due to this, we now require all postsecondary institutions participating in the DoD Tuition Assistance program to follow certain standards of conduct; we are tracking compliance and monitoring to ensure there is continuous quality improvement.
- ***Family Readiness Programs:*** With budget and personnel reductions we can expect an increase in stress-related demand for support from our military families and we are prepared to meet that demand using the wide range of family support programs and partnerships. This includes developing virtual applications for the delivery of what has traditionally been in-person support, and providing surge capability. The Department is working closely with the Services to reduce redundancy and increase efficiency. For instance, we are in the process of developing a new community capacity-building toolkit and online professional development modules to streamline the training and development of our family support staff, and improve capacity. The last Military Family Readiness Council meeting was held in December 2011. We are identifying new members and working in coordination with the military Services to select spouses and/or parents to represent their Services. The next MFRC is projected to be during the 3rd quarter of FY12.
- ***Non-Medical Counseling:*** Demand for non-medical counseling continues to increase, and access to non-medical counseling is a Department focus area. We continue to enhance confidential non-medical counseling via two delivery systems, the Military Family Life Consultants (MFLC) and the Military One Source (MOS) Program. Non-Medical Counseling augments the military support programs currently in place, and is designed to help service members and families cope with normal reactions to the stressful situations created by deployments, family separations, war, and reintegration.. MOS non-medical counseling is offered by licensed clinicians who have private practices in the

local community. The MFLC program began as a pilot in 2004, and today, more than 1,100 MFLCs provide confidential non-medical counseling support on 229 installations throughout the world. In FY 2011, the program provided face-to-face counseling sessions to approximately 6.6 million people. At a commander's request, additional MFLCs may also be mobilized and deployed to provide "surge" counseling support. Non-medical counseling is provided by licensed clinicians who are deployed to installations and are assigned to work at the family centers, child development centers, youth centers, schools, and are embedded into brigades.

- ***Military OneSource (MOS)***: MOS provides call center and web-based information, referral, counseling, and educational materials. Services are available worldwide, 24 hours a day, at no cost to the user. In FY11, MOS responded to almost a million telephone calls, received 3.6 million on-line visits and assisted service members and families with over 200,000 Federal and State tax filings. Other MOS services include relocation assistance, document translation, child care and education resources, special needs consultation, elder care consultation, on-line library resources, and health and wellness coaching. Accessed via MOS, the Wounded Warrior Resource Center (WWRC) provides immediate assistance to wounded, ill and injured service members, their families, and caregivers. In 2011, WWRC resolved 3,056 cases for wounded warriors, an increase from 2010.
- ***Family Advocacy Programs (FAP)***: The FAP addresses physical, sexual, and emotional abuse and neglect involving active component military personnel and family members either as victims or abusers. We evaluate the effectiveness of FAP through rates of child abuse and neglect and spouse/intimate partner abuse and outcome measures for prevention and treatment. Through 10 years of high stresses on our families due to wartime deployments, our rates of such family maltreatment have remained relatively stable; however, we continue to monitor this carefully. For two consecutive years, 85 percent of those who participated in our New Parent Support Program for at least six months had no substantiated child abuse or neglect the following year, and 90 percent of substantiated spouse abusers who completed FAP treatment had no substantiated spouse abuse the following year.
- ***Child Care***: The Department continues to expand child care capacity that supports RC families while the Service member is deployed, geographically-dispersed active duty military families, and service members living in areas in the continental United States where on-installation military child care is unavailable. Ongoing efforts are focused on ensuring the availability of child care options that meet quality standards, including health and safety standards and standards for developmentally-appropriate practices.
- ***Youth Programs***: Faced with their own unique challenges, military youth aged 6-18 can turn to a number of quality programs serving more than 600,000 military youth around the world designed to prepare young people to meet the challenges of military life, adolescence, and adulthood. We have developed relationships with other federal agencies and nationally-recognized organizations such as the Boys & Girls Clubs of America and the USDA's 4-H Youth Development Program. Through these relationships, we offer more than 300 camp opportunities each year for military youth, and are a vital component of our support to geographically-dispersed youth of the NG and RCs.

Special Needs

The Department and the Military Services continue to provide support to military families with special needs. During the last two years, 120 additional family support personnel have been hired and deployed to installations worldwide; we now have a total of over 400 providers who provide information, referral and education to families with special needs. The Exceptional Family Member Program (EFMP) family support component also provides non-clinical case management to those families who need additional assistance with accessing services on the installation and in their local communities. The Office of Community Support for Military Families with Special Needs developed a mobile website, accessible from smart phones; that website provides military families with information on the EFMP and contact information for enrollment and family support providers. The mobile website also provides podcasts and links to other materials available to military families with special needs.

The Department engages with military families with special needs by participating in the Congressional Military Family Caucus sessions and reviewing input from families during focus groups and on-line. We also established an EFMP family panel composed of ten families who represent all military Services, active duty, and RCs, and ranks. Family members with special needs are of all ages (children through adults) and with a wide variety of disabilities. Their issues range from access to medical care, availability of comparable services in the public schools, and lengthy waiting lists for Federal and State programs.

To address the needs of this population, the Office of Special Needs has partnered with the DoD children and youth programs to provide training through Kids Included Together® on the inclusion of children with special needs into children and youth programs. They have also partnered with the TRICARE Management Activity to communicate better with families about their benefits and accessing care, and to support them with portability of care during moves.

DoD-State Initiatives

The Department continues to work with state governments to educate policy makers on the life-challenges faced by service members and their families, and to ensure that state-level policies do not disadvantage military families due to their transient life style. States have addressed several key quality of life issues, to include the impact of frequent school transitions experienced by military children, the loss of income by spouses as a result of military moves, and

enforcement of the Congressionally-mandated DoD predatory lending regulation. The state responses have affirmed their commitment to the well-being of the Nation's fighting force. For example, 39 states have approved the Interstate Compact on Educational Opportunity for Military Children, 39 states (plus DC) now provide eligibility for unemployment compensation to military spouses, and 34 states (plus DC) enforce the DoD predatory lending regulation. The Department is continuing this effort in the 2012 state legislative sessions with strong emphasis on support of military families through the issues listed above. We are also promoting expedited occupational licensure processes to allow military spouses to resume their work faster in a new state, and provisions for separating service members to receive credit for their military education, training and experience toward a state occupational license or an academic degree. The Department is continuing to partner with the Uniform Law Commission to inform state legislators of the Uniform Military and Overseas Voters Act which simplifies the absentee voting process by making it more uniform, convenient and efficient. This year we are advocating for states to consider establishing Veterans Treatment Courts for service members and Veterans in the criminal justice system who are suffering substance abuse and mental health issues.

MWR Support to Troops in Combat:

Support is critical to allow service members to communicate with family and friends, stay physically and mentally fit, and reduce stress. The Department now funds over 514 free MWR Internet Cafes in Iraq and Afghanistan and 135 portable satellite units (known as Cheetahs) to support remote locations. The DoD MWR Online Library offers free downloads of audio and e-books, and access to up-to-date recreation, education and career transition support databases.

The ability of injured service members to engage in recreation and sports is a very important component of rehabilitation and reintegration. Under a contract with Penn State University, MWR specialists are trained to work with medical personnel, wounded warrior units, and community and non-profit organizations to ensure inclusive and adaptive sports and recreation are included in recreation programs. The DoD Paralympics Program continues to provide rehabilitation support and mentoring to injured service members and veterans who have sustained various types of injuries.

We remain fully committed to supporting the All-Volunteer Force and their families, particularly in light of the unprecedented demands that have been placed on them in recent years.

The Department continues to pursue innovations, initiatives and efficiencies that improve the quality of life of its military members and their families. With your continued support, our military force will remain ready, willing and able to serve this Nation with distinction.

Military Voting

The Department is well positioned for the 2012 election, building on its considerable success in the 2010 election efforts. Through direct-to-the-voter outreach programs, easy and quick online voting assistance tools, and aggressive communications and marketing programs, we experienced a 21 percent increase in military voter participation rates between 2006 and 2010. The Department is refining and expanding those programs for the 2012 election, as well as providing direct support to State and local election jurisdiction which deploy online ballot delivery systems, reducing ballot delivery time from 20 to 30 days to 20 to 30 milliseconds.

Department of Defense Education Activity

Ensuring excellence in the education of military children is a top priority for Secretary Panetta and the entire Department. A quality education is both a stabilizing influence in the lives of our children and their families and an overall recruitment, retention and morale element in the readiness of our Force. There are 1.2 million school-aged children with a parent serving in the military. Nearly 86,000 of these children attend one of the schools operated by the Department of Defense Education Activity (DoDEA). Not unlike other parents, military families frequently say that the quality of their children's education is one of the most important criteria when selecting a place to live. The demands of extended conflict and frequent relocations add to the challenges faced by military families. While they are often described as a resilient group, the cumulative effects of multiple moves and significant parental absences can erode this resilience and, as the research suggests, diminish academic performance in school.

The DoDEA schools offer a 21st century, student-centered learning environment that is tailored to meet the needs of military families. To this end, DoDEA is leaning forward and providing military-connected children an educational experience that challenges each student to maximize his or her potential and prepares them to be successful, productive and contributing citizens in today's global economy. DoDEA also is mobilizing its knowledge, expertise and resources to support military-connected children in the U.S. public schools.

The Department has made a number of sweeping commitments to improving the educational experience for military children. Some of these far-reaching commitments are highlighted below:

- DoDEA has joined 46 states in the adoption of the Common Core State Standards. Today, the differences between State educational standards, including variances in graduation requirements, can and have negatively impacted achievement for military children. The Common Core State Standards will help mitigate this academic disruption and provide greater continuity in the educational experiences of our highly mobile children.
- DoDEA has launched a vibrant Virtual Learning program which includes the use of tele-presence equipment in classrooms, to expand course offerings for students. No longer will small enrollments and limited course offerings at one DoDEA school significantly drive the educational experience of students. Student interests and needs now have considerable influence. Through virtual learning, students have access to courses such as Advanced Placement, foreign language, and STEM-related courses that simply would not be possible in some locations.
- DoDEA is adopting a 21st century teaching and learning framework, where technology is leveraged to improve the educational experience of children. Ten middle and high schools will be using a digital instruction platform on a pilot basis. , As we leverage technology in our learning environments, we will need to make a significant investment in the professional development of our teachers and leaders.
- DoDEA is modernizing and replacing school facilities to ensure that military children have school facilities that are safe, secure, in good repair and provide an optimal learning environment that supports current and future educational requirements. In FY13, DoDEA requested \$657M for 11 school Military Construction projects.
- DoDEA has ramped up its outreach to U.S. public schools to improve the educational experience for students in non-DoDEA schools. Since 2008, DoDEA has provided 146 grants totaling \$167M to school districts, in over nine hundred schools. All grants focus on enhancing student learning opportunities, social-emotional support, and educator professional development.

As we move forward with Force structure changes, DoDEA will continue to work with the Military Services to right-size schools in the affected communities, will keep students in the forefront, and will stay focused on delivering an excellent education and supporting our families. DoDEA will ensure a “warm-hand off” to the U.S. public schools who may be receiving an influx of military-connected students. Further, we will leverage our civilian workforce shaping tools to provide continuity of employment for all those who wish to continue with their Federal careers.

The Department is charged with the responsibility and privilege of educating the children of our Nation’s military. We know full-well the toll that war, conflict and frequent movements have exacted from our service members and their families. The Department is committed to ensuring

that the education of the children of service members will not be among the many sacrifices our families must make to defend our great Nation.

Defense Commissaries

The commissary continues to be one of the most popular benefits with military members and families and is an efficient provider of non-pay compensation to our military personnel. Operated by the Defense Commissary Agency (DeCA), this integral element of the total compensation package significantly contributes to the financial readiness of our military families. An average family of four that consistently shops at the commissary will save nearly \$4,500 per year by taking advantage of the 32 percent savings on their overall purchases. The commissary further enhances financial readiness as a major employer of military spouses and family members. Last fiscal year, 39 percent of DeCA employees in the United States were military spouses or other family members; and the total rises to 63 percent when including military retirees, other veterans, and members of the Guard and Reserve. While enhancing military families' quality of life, the commissary also provides an excellent return on investment. Last fiscal year, the commissary provided direct savings to commissary customers of \$2.8B for a taxpayer cost of \$1.4B, a 2-for-1 return. DeCA implemented efficiency reductions in FY12 and there are no plans for additional budget reductions at this time.

CONCLUSION

Putting together this year's budget request in a balanced package was a difficult undertaking, but I believe we have the right mix of programs and policies in place to shape the force we need in support of the strategic guidance. We will reduce the rate of growth of manpower costs, to include reductions in the growth of compensation and health care costs. But as we take those steps, we will continue to keep faith with those who serve.

During the past decade, the men and women who comprise the All-Volunteer Force have shown versatility, adaptability, and commitment, enduring the constant stress and strain of fighting two overlapping conflicts. They have also endured prolonged and repeated deployments. Some—more than 46,000 men and women—have been wounded, and still others—more than 6,200 members of the Armed Forces—have lost their lives. As the Department reduces the size of the force, we will do so in a way that respects and honors these sacrifices.