STATEMENT OF

THE MILITARY OFFICERS ASSOCIATION OF AMERICA (MOAA)

before the

Senate Armed Services Committee
Personnel Subcommittee

on

The FY 2015 Defense Budget Personnel Proposals

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Presented by

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MADAM CHAIRWOMAN AND RANKING MEMBER GRAHAM. On behalf of over 380,000 members of the Military Officers Association of America (MOAA), we are grateful for this opportunity to express our views and appreciate the subcommittee for hosting this hearing on the FY 2015 defense budget submission and the related personnel program proposals.

MOAA does not receive any grants or contracts from the federal government.

We are truly grateful for your unwavering commitment to men and women who defend our fine nation.

We appreciate that Congress have given personnel issues top priority in the past decade. You have had difficult choices to make while bolstering a weak economy and addressing budget deficits. The past few years have been arduous, with our military winding down operations in Afghanistan and the nation dealing with the effects of sequestration.

Sequestration

Sequestration was thought to be so harmful that it would have never come to pass. But it is a reality with DoD still taking a disproportionate share of the fix.

The Bipartisan Budget Act of 2013 mitigated the sequestration spending cuts for FY 2014 and 2015. However, the original sequestration cuts of FY 2016 thru 2021 remain in effect, continuing to place national security at risk.

This concern for readiness and national security was reinforced during Secretary Hagel's Feb 24, 2014 press conference outlining the FY 2015 budget submission when he stated "…the only way to implement sequestration is to sharply reduce spending on readiness and modernization, which would almost certainly result in a hollow force…the resulting force would be too small to fully execute the President's defense strategy."

The Services have been forced to slash flying hours, cancel the deployment of ships, renegotiate critical procurement contracts, temporarily furlough civilian employees, and are in the process of reducing force structure by some 124,000 personnel.

As a result, sequestration caused the Pentagon to submit proposals in FY 2014 that have started to reverse some of the needed pay and benefits fixes Congress put in place over the past decade - specifically, the military pay raise cap below the Employment Cost Index (ECI) of one percent, the lowest pay raise in 50 years and cutting the housing allowance.

The proposed FY 2015 defense budget assumes some additional monies will be forthcoming to mitigate sequestration impacts. However, the budget proposes additional force reductions of over 78,000 personnel. If sequestration is not ended, additional force reductions will likely go deeper and training and modernization will be further impacted – to include putting our national security strategy at risk.

But what greatly concerns MOAA and should concern the subcommittee are the FY 2015 budget submission proposals to "slow the growth" of personnel costs – a second year of capping the military pay raise below ECI with the possibility of four additional years, increasing out-of-pocket housing expenses for military families, significantly reducing commissary savings, and a consolidation of TRICARE plans which will have all beneficiaries except those in uniform paying more for their health care while eliminating access standards.

While debt reduction is a national priority, such a disproportional share of this burden must not be foisted on the backs of military families who already have sacrificed more for their country than any other segment of Americans.

Congress needs to end the harmful effects of sequestration by supporting a bipartisan debt reduction package that avoids disproportional penalties on the Pentagon and on service members and their families.

Military Personnel and Healthcare Overview

The most important element to a strong national defense is sustaining a top-quality, All-Volunteer Force. This requires a pay and benefits package that is fundamentally different from those of the private sector in order to induce young men and women to wear the uniform for not only one term of enlistment, but also for two decades or more.

But military pay and benefits continue to come under attack. For many years, critics have claimed military personnel costs are "rising out of control" and, if left un-checked would "consume future defense budgets."

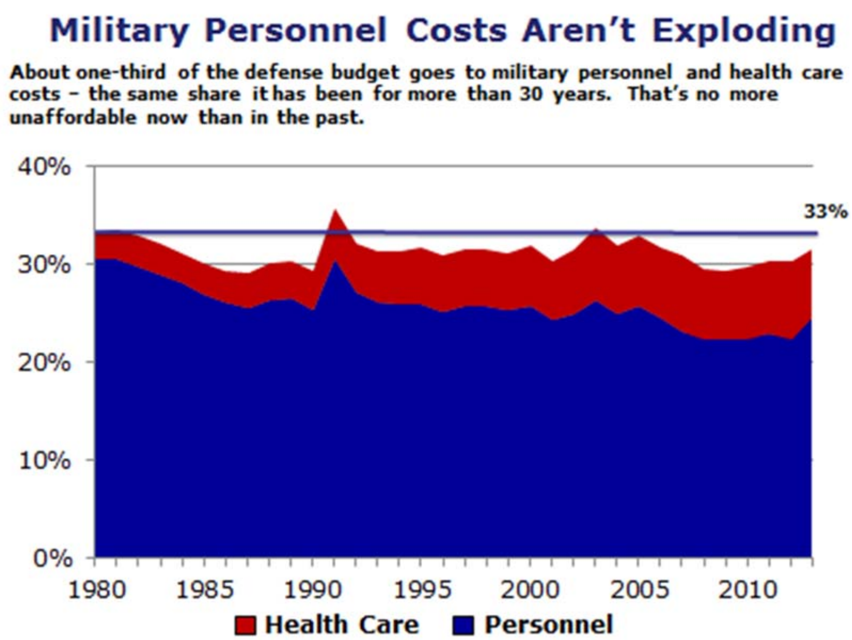
They've attacked pay, retirement, health care, and other military benefits in hopes of diverting funds to hardware or non-defense programs.

But time and some hard experiences have proven such claims wrong in the past – and they are still wrong today.

But with this year's budget rollout, defense leaders were suggesting cuts to pay, the housing allowance, the commissary, and health care stating spending on pay and benefits for service members has "risen about 40 percent more than growth in the private sector" since 2001.

In addition, late last year there have been other alarming statements on the glide path that personnel costs are on, such as: "by 2025 or so 98 cents of every dollar [will be] going for benefits."

The truth is the same one-third of the defense budget has gone to military personnel and health care costs for the last 33 years. That's no more unaffordable now than in the past.



<u>The FY 2015 Budget</u>

The FY 2015 budget submission proposes several significant pay and benefit cuts which are inconsistent with the sacrifices exemplified by the last 12 years of war.

- Capping pay below the Employment Cost Index (ECI) for a second straight year (with more planned)
- Reducing Basic Allowance for Housing (BAH) by 5%, reversing DoD's own initiative to eliminate out-of-pocket housing cost completed in 2005
- Reducing commissary savings for uniformed service families
- Restructuring the TRICARE benefit where active duty families and retiree beneficiaries will pay more for their health care

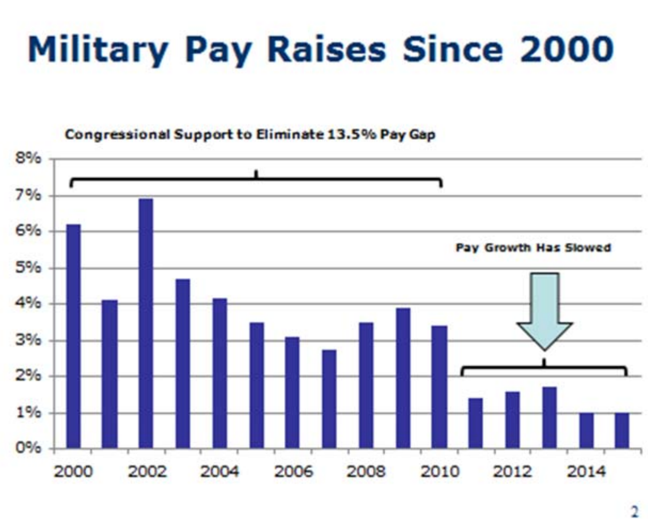
The Pentagon is suggesting these cuts, in order to "slow the growth" of personnel costs stating personnel costs have "risen about 40 percent more than growth in the private sector" since the turn of the century.

But this is statement needs to be put in the proper context. Personnel cost growth has gone up at a rate greater than the private sector since 2000…that's true. Since 2000, personnel and health care costs experience an average rate of growth of nearly 7.6% annually.

But using "2000" as the baseline without reflecting on the historical context is misleading – it implies that 2000 was an appropriate benchmark for estimating what reasonable personnel and healthcare spending should be – it's not.

Years of budget cutbacks led to a 13.5 percent pay gap, a 25 percent reduced retirement value for post-1986 entrants, a point where service members were paying nearly 20% out-of-pocket for their housing costs, and beneficiaries over 65 were completely thrown out of the military health care system.

In the late '90s, retention was on the ropes, and Congress was being asked to correct these problems to prevent a readiness crisis.



Congress did so over the next decade restoring military pay comparability (slide to the left), repealing the retirement cuts, zeroing-out member out-of-pocket housing costs, and restoring promised health coverage for older retirees.

Cost growth since 2000-2001 was essential to keep the previous compensation cutbacks from breaking the career force.

Since 2011, personnel cost growth has **already slowed** to less than 2% per year.

The rate of military personnel and health cost change will only decline further in the out-years due to:

- Significant pharmacy copay increases which started last year (FY 2013)
- Significant savings from requiring mandatory mail-order/military pharmacy refills of maintenance medications for Medicare-eligible beneficiaries starting this year
- Savings associated with shrinking TRICARE Prime service areas
- Significant reductions to end strength
- Recent changes to the retirement system for new entrants
- Savings from sustaining pay with private sector pay growth (ECI) since 2011

However, the proposals in this year's defense budget are a huge step backwards repeating many of the same bad habits during past drawdowns – cutting end strength, capping pay, and attacking benefits – that led to the difficult retention times of the late 90s.

Past experience of capping military raises below private sector pay growth has proven that once pay raise caps begin, they continue until they undermine retention and readiness – and this is the second year of proposed pay caps with a possibility of four more.

One pay cap is a data point, two is a line, and three is a trend. Six years of planned caps is definitely a bad trend and does not bode well for the currently serving.

And this proposal is not limited to pay. This "quadruple whammy" of capping pay, increasing out-of-pocket expenses for housing, slashing commissary savings, and having military families pay more for their health care, would be major steps backward on the road towards repeating the insidious measures which led to retention and readiness problems in the past.

Each may seem small by themselves…a pay cap of .8 percent. A five percent out-of-pocket housing cost. Copays for family off-post doctor visits. Reduced savings at the commissary.

However, the elimination of the $1 billion dollar subsidy for the commissary benefit itself will reduce the purchasing power of a military family of four by nearly $3,000 annually.

And when you add up the FY14 and FY15 pay caps, the proposed BAH reductions, the reductions in commissary savings, and the new TRICARE fee structure, an E-5's family of four would experience a loss of nearly $5,000 in purchasing power annually; and an O-3's family of four would experience a loss of nearly $6,000.

And these are very conservative projections seeing that it only includes two years of pay caps and the new TRICARE consolidation/fees will be very dependent on a military family's access to an MTF and special needs.

TRICARE Consolidation

DoD again is proposing similar disproportionate pharmacy fee increases and a means-tested TFL enrollment fee as they did last year and in the past that thankfully Congress has rejected.

But it also includes a plan to consolidate the three major elements of TRICARE – Prime, standard, and extra – into what is being characterized as "streamlining" or "modernizing".

In this proposal currently serving families and retirees will pay more and get less. It retains the TRICARE prime enrollment fee by re-labeling it as a "participation" fee yet eliminates the one element that the enrollment fee assured…guaranteed access standards.

But even more disconcerting is that the proposed change includes fees where fees never existed before and provides no discernable value. For the first time, this proposal would have working-age retirees paying to be seen in the military treatment facilities.

The Pentagon proposal will have military families paying more for their health care when they have limited or no access to military facilities.

MOAA wants to make one thing clear. The military TRICARE benefit is by and large an excellent one.

But it has to be, in order to induce large numbers of top-quality people to accept the extraordinary demands and sacrifices inherent in a multi-decade military career.

Military people already pay much steeper premiums for health coverage than any civilian ever has or ever will.

Defense leaders say they'll keep faith with the currently serving on retirement reform, and would apply changes only to new entrants.

But if it's breaking faith to change the rules for someone with 10 years – or 1 year – of service, it's doubly so to impose new fees on military families who don't have access to the MTFs as well as imposing fees for use of the MTF on those who already completed 20 or 30, whether they'll retire next year or are already retired.

We believe DoD must look at making the system much more efficient instead of simply shifting costs. For example, there's still no single point of responsibility for budgeting or delivery of DoD health care.

DHA is a small step in the right direction and the jury is still out on projected savings; however, this FY 2015 proposal does nothing to improve the benefit…it simply shifts DoD's costs onto the families and retirees, because it's easier.

We've worked with this subcommittee and the House counterpart for the past several years to put what we think are reasonable fee standards in law…including annual adjustments tied to the retired pay COLA percentage.

We've accepted mail-order requirements in lieu of higher pharmacy copays.

All of these changes we accepted will save DoD billions in the coming years and has slowed the growth of health care costs.

Now we think it's time to develop management efficiencies that won't impact beneficiary fees, access to care, or delivery of quality care and simply shift more of DoD's costs onto them.

Summary

In closing, Secretary Hagel stated before the FY 15 budget release that, "Continuous piecemeal changes will only magnify uncertainty and doubts among our service members about whether promised benefits will be there in the future."

We couldn't agree more. Any changes to pay, compensation, and benefits, to include health care, should be looked at comprehensively – not in a piecemeal manner.

Since the congressionally-directed Military Compensation and Retirement Reform Commission has been tasked to take a holistic and comprehensive look at the entire compensation package, and propose broader reform proposals next year, these piecemeal, budget-driven changes are even more inappropriate.

What's needed is to sustain pay and benefits for the men and women in uniform and their families as well as those that have faithfully served two decades or more.

MOAA remains concerned that the Pentagon is heading down a previously taken path, repeating some of the very same mistakes that led to significant retention problems the nation experienced by the late 90s and undoing the needed compensation improvements Congress has made since 2000 to match the extraordinary demands and sacrifices of military service and a military career.

History shows comparability can't work unless it's sustained through both good and bad budget times. We are still a nation at war – capping pay and forcing troops and their families to pay more for their housing, health care, and groceries sends the wrong message.

The most important element of a strong national security is the sustainment of a dedicated, top-quality mid-level NCO and office force. These changes will significantly devalue the compensation and benefits needed to sustain those seasoned, trained, and talented troops and ultimately have a negative impact on recruiting, retention, and overall readiness.