

## Compensation Controversies

**T**HE recently approved bipartisan 2014 defense budget deal gives the Air Force a measure of desperately needed predictability and flexibility.

The aspect of this budget deal that got the most attention, however, was a provision to reduce pensions for working-age military retirees. The plan would reduce cost of living adjustments to one percent below inflation for retirees until age 62, when they would see their COLA restored.

Although this is a lousy provision, it may serve a very valuable purpose by bringing DOD's unsustainable pay and benefit trends under a spotlight. Over the past decade, Total Force pay and benefit expenses increased as the force shrunk.

"Although we employ fewer people, compensation costs continue to climb at unsustainable rates," Chief of Staff Gen. Mark A. Welsh III said in November. "Together we must address the issue of compensation, or it will consume our warfighting spending over the next few decades. Our airmen and retirees deserve every dollar they earn, [but] we need to look at slowing pay raises, reforming how housing allowances are determined, and restructuring health care to ensure world-class care at a sustainable cost."

The Air Force Association agrees. It is true that airmen cannot be paid enough for their hardships, dedication, service, and sacrifice. But it also true that the nation cannot afford for pay and benefits to relentlessly trend upward toward infinity. The best compensated force in the world has no value if it cannot defend the nation.

This winter's budget deal addressed this growing problem in entirely the wrong way. The COLA change would save \$6 billion over 10 years but unacceptably cut earned benefits.

The congressionally chartered Military Compensation and Retirement Modernization Commission is studying these programs and is scheduled to deliver pay and benefit recommendations in early 2015.

"We should not break faith" with airmen and their family members, AFA Executive Vice President Richard Y. Newton III told the commission at a November hearing. "AFA urges a whole-of-government approach,"

added Newton, a retired lieutenant general who once served as USAF's personnel chief. "Congress should be just as diligent examining the entire federal employment and benefits system as it is focused on our men and women in uniform."

This requires careful consideration. The MCRMC must be wary of unintended consequences and cascading effects on the force. The troops will be watching to see if the nation keeps its word to its veterans.

### **The nation needs to rein in personnel costs, but it must first keep its promises.**

The all-volunteer force is dependent on fair pay for its troops. In the 1970s and 1990s they were not adequately compensated, and recruiting, retention, and the quality of the force suffered. Since the late 1990s, however, Congress has steadily increased pay and benefits for troops and retirees. What began as a needed correction became an easy way for lawmakers both left and right to demonstrate their support for the troops.

Over the past decade, we have seen large pay raises, survivor benefit improvements, Tricare for Life, reducing concurrent receipt penalties, extraordinarily slow growth in medical coverage costs, and other benefit improvements. Each of these benefits has value, but they now meet the need and are cumulatively breaking the bank.

Even though today's force faces repeated war-zone deployments and an extraordinarily high operating tempo, recruiting and retention are at historically high levels.

Through their actions, airmen are saying that today's compensation is fair. And no wonder—a recent Pentagon study determined enlisted troops are paid better than 90 percent of comparable civilians, while officers are paid at the 83rd percentile of their civilian peers.

A frequent argument is that personnel expenses make up a third of the DOD budget, the same ratio as for decades. This figure, however, does not include government furnished child

care, commissary expenses, DOD schools, and family housing.

It also does not count the cost of some 800,000 civilian employees. Ponder for a moment how Air Force Space Command or Air Force Materiel Command would perform their missions without their civilian workforces.

When these other people-related expenses are factored in, personnel costs reach roughly half of the Air Force's budget.

As Welsh noted in November, "When I entered the Air Force in 1976 we had ... 585,000 [airmen] on Active Duty." Today USAF has 329,000 airmen on Active Duty. As a ratio, personnel costs have held steady, but the size of the force has shrunk more than 40 percent. The cost-per-person has soared.

Airmen join to serve their nation, and "service before self" is an Air Force core value. But an entitlement culture is built slowly, one benefit at a time. Congress must rein in expenses while keeping its promises.

Four things are needed.

First, the cut to retirees' COLAs must be reversed. The \$6 billion needs to come from somewhere else. If COLAs need to be adjusted, the existing force must be grandfathered in, with reductions made for future airmen only.

Second, structural changes are needed, so airmen should be surveyed to determine what compensation they really desire. A new system must offer the same value for less money. For example, the average American lives to 84. Today's retirement system allows many airmen to work for 20 years and be paid for 66 years—but only 17 percent ever qualify for this retirement package. A vested 401(k)-style system may offer greater value to future airmen.

Third, when the military compensation system is changed for the future force, the current force must have the option of sticking with existing programs. Promises must be kept.

Finally, AFA believes that compensation, modernization, and readiness must all be kept in balance. Benefits should not be cut to pay for hardware any more than procurement should be cut to pay for training. A balanced force is vital to keep USAF the world's best. ■