

Bitter Pills \$

By Frank Oliveri



USAF photo by A1C Dillon Davis

on both sides of this issue become more heated.

The Budget Control Act of 2011 would reduce planned military spending by about \$500 billion through Fiscal 2021 in addition to the Administration's commitment to reduce Defense Department spending by \$487 billion during the same period. Buffeted by these demands, Pentagon leaders will again press Congress to take unpopular steps to rein in salary growth and ask retirees to pay more toward their medical coverage, while offering reduced benefits to new military members.

Such measures are bitter pills—very bitter pills—for military members, retirees, and many lawmakers, but indications are that Congress has become more amenable to them. Indeed, lawmakers established the nonpartisan Military Compensation and Retirement Modernization Commission (MCRMC), to look at the issue in a way that reflects the lifetime costs associated with military service, much as the Air Force must consider the life cycle costs of the F-35 Lightning II fighter. The commission is tasked to make recommendations to the President and Congress early next year.

The President and Congress already have taken a step toward reform in the Bipartisan Budget Act of 2013, or BBA, negotiated by Senate Budget Committee Chairwoman Sen. Patty Murray (D-Wash.) and House Budget Committee Chairman Rep. Paul Ryan (R-Wis.). The legislation includes a provision that modifies the annual cost-of-living adjustment (COLA) for working-age military retirees until age 62 and was signed into law in December. It will phase in adjustments that will make the COLA for working-age retirees equal to inflation minus one percent.

“Service members would never see a reduction in benefits from one year to the next and it will save approximately \$6 billion over 10 years,” states the summary of the legislation. Unless

More than a decade of war has come at great cost to the US military and its people. Casualties—physical and mental—along with high operational tempos and broken families have taken their toll.

Congress and the past two presidential Administrations tried to offset the

The US can't pay its troops enough for their service, but it also can't afford continually rising compensation.

demands in part by enacting consistent pay and benefit increases. But in recent years, the Obama Administration has attempted to increase Tricare fees for retirees' health care and reduce the rate of growth of military pay raises, as the nation struggled to cope with a congressionally imposed fiscal crisis. Congress has resisted slowing down the rate of pay and benefit increases, and with each passing year the emotions

superseded by a different measure, such as any recommendations that Congress adopts from the MCRMC, this change is scheduled to take effect in December 2015.

Not Sustainable

But already, sticking a toe into the sea of pay and benefits change has proved controversial, as even lawmakers who voted in favor of the BBA came out against the retiree provision and pledged to repeal it.

"This mistake must be corrected," said Sen. Johnny Isakson (R-Ga.).

Sen. Mark Pryor (D-Ark.) commented: "These heroes lay their lives on the line for us, and they deserve us to work to fix this provision so that they can receive the full benefits that they've earned."

As that plays out, Pentagon leaders remain clear on one point: The current path is not sustainable. "We need to get entitlements and benefit reform," Air Force Chief of Staff Gen. Mark A. Welsh III told the Senate Armed Services Committee in November 2013 before passage of the act. "There's no question about that."

The other service Chiefs echoed Welsh's comments at that same hearing, with Marine Corps Commandant Gen. James F. Amos painting a deeply troubling picture of its similar effects on the other services.

"I pay 62 cents on the dollar right now for manpower," said Amos. "That's not because marines are more expensive. It's just my portion of the budget is smaller. That's going to go well over 70 percent by the end of the [next five years] if something is not done. So you're gonna see the Joint Chiefs come to Congress through the President, talking about a package of cuts and reductions, how we can cut that down."

The Pentagon's Strategic Choices and Management Review, completed in 2013, called for changes to compensation and benefits to help the US military balance the funding reductions it faces. In his November testimony, Welsh told lawmakers that force reductions would be necessary, "but if accompanied by efficiency and compensation reforms, they can be made in a way that minimizes the additional risk to our national defense."

Reductions to Air Force manpower, he said, have not stemmed the service's growing personnel costs, which in a constrained environment are choking off modernization and readiness accounts. "Although we employ fewer people, compensation costs continue to climb

at unsustainable rates," Welsh said. "Together, we must address the issue of compensation or it will consume our warfighting spending over the next few decades."

He highlighted three specific areas for reform: "slowing pay raises, reforming how housing allowances are determined, and restructuring health care to ensure world-class care at a sustainable cost."

"We will need Congress' support for the tough decisions that will be necessary to align our future force to the needs of the strategy," Welsh said.

Airmen likely would more readily accept these changes if the Air Force were able to plow the savings back into readiness and modernization, he said.

Chaired by Alphonso Maldon Jr., a former assistant defense secretary for force management and policy, the nine-member MCRMC's goal is to provide recommendations that will protect the long-term health of the all-volunteer force. It also aims to find ways to provide a high quality-of-life for US military personnel and their families with financially sustainable compensation and retirement programs.

President Obama instructed the commission not to change the current retirement system for those already serving, retired, or in the process of retiring. Further, the President asked that the commission look at the interrelationship between the military's compensation, retirement, and promotion systems as well as associated force-shaping tools.

MCRMC member Stephen E. Buyer, a former nine-term Republican representative from Indiana, said the panel needs to look at the fully burdened costs of military personnel. "We are looking at tooth-to-tail," he said in a November interview. "We know that force structure, if you want immediate savings, you can draw down. But we understand what life cycle costs are and we are looking at that. We also have this: We are trying to take the long view here."

As the military shifted from a draftee force to an all-volunteer force, lawmakers "cobbled" together pay, benefits, and allowances "based on the trends and the ebb and flow, not only economically, but also the shaping requirements of the force," said Buyer. "Typical of Congress, you create programs and never take them down," he said.

Budget Dust

Retired Marine Corps Maj. Gen. Arnold L. Punaro, who has been working

on personnel issues since the mid-1970s, recalled traveling as a Senate Armed Services Committee staff member to parts of the nation where airmen, marines, sailors, and soldiers were forced to take on two or three jobs because they were based in high-cost areas. That prompted then-Sen. Sam Nunn (D-Ga.) to develop a variable housing allowance for service members living in high-cost areas, which became law.

"Eventually, DOD decided they were going to give it to everybody," Punaro said in a November interview. This was a mistake—among many—made because the Pentagon didn't know "and doesn't want to know," the fully burdened cost of a uniformed person, which goes beyond base pay and includes military members' "tax advantage," he said.

"Government loses \$15 billion a year from the non-tax portions of military compensation. [Military members'] purchasing power is substantially higher than their civilian counterparts because portions of their pay are not taxed. You can't deal with these things in isolation," Punaro said.

Limiting base pay increases to one percent, rather than 1.5 percent, or increasing some fees on retiree health care, would only affect a small portion of the defense budget, perhaps a few billion dollars annually. Punaro called this level "budget dust."

"We're talking about trillions of dollars," he said. "To be pro military, you need to have a military. If we don't rein in the costs of personnel—pay, benefits, deferred compensation, health care, and subsidies to the commissary, the cost of the DOD dependent schools, the cost of child care, the cost of family housing—we won't have a military. So, you can be pro military for something that doesn't exist, or you can be pro military for an affordable military."

For years, the Pentagon wasn't comfortable knowing the fully burdened costs of the all-volunteer force because of the sticker shock it might cause, said Punaro. It can no longer avoid that, he argued. "Within two years, the cost of retired pay and health care for retirees," if we stay on the path we are now on, "will be larger ... than the entire appropriation for Active Duty, [National] Guard, and Reserve in the military personnel account"—which runs about \$140 billion a year, he said.

"We've learned in other parts of our economy, in the business world, it is deferred compensation that is eating these companies alive," Punaro said.

“They like to say an Army soldier costs ‘x’ and then they look at basic pay and some of the allowances. But that is not the fully burdened cost that a contractor carries or defense civilian carries. They look at the life cycle costs.”

The military pays some retirees for 60 years for 20 years of actual military service, said Punaro. “DOD has to educate and inform and come clean on the real cost,” he said. “You can’t solve a problem for people before they know they have one. Same thing is happening on the military entitlements as is happening on civilian entitlements. Nobody wants to admit it.”

Conceivably, the MCRMC will address many of these questions. The House Armed Services Committee typically marks up its version of the next fiscal year’s defense authorization bill in May of each year. The Senate panel usually takes it up in June. It is likely these panels will incorporate some of the findings from the commission during their deliberations on the Fiscal 2015 bill. It is unclear, however, how willing lawmakers will be to incorporate what may be perceived as politically tough changes, even though military leaders are expected to continue pressing for them.

The Pentagon simply must put its readiness first as it contemplates significant budget-driven changes, said Defense Secretary Chuck Hagel in November at a defense forum in Simi Valley, Calif.

“In prioritizing readiness, we will have to pursue savings in every area across the department, not only by paring back overhead and infrastructure, but by reforming personnel and compensation policy, a very difficult issue,” Hagel said. “This may be our most difficult challenge, but without serious attempts to achieve significant savings in this area, which consumes roughly half of the DOD budget and is increasing every year, we risk becoming an unbalanced force, one that is well-compensated, but poorly trained and equipped, with limited readiness and capability.”

While some budget pressures may not be evident right now, they will grow more apparent over time, he said. “They are very, very real, and they will become more visible as they further jeopardize the security of our country, as our readiness capability and capacity continue to deteriorate.” No matter how well-paid service members are, and how good their benefits are, they will begin to leave the military in large

numbers if the quality of their training and equipment continues to decline.

Historically Consistent Share

Speaking at Grand Forks AFB, N.D., in late November, Welsh echoed Hagel’s concerns, saying pay, benefits, and medical costs constitute about half the Air Force’s budget and will continue to increase as a share of its budget. He argued for slowing the growth, not necessarily cutting existing pay and benefits. “Our people will understand that,” he said.

However, there are powerful forces pushing back against the idea that military pay and compensation are unsustainable. The Military Officers Association of America, for example, maintains that pay and compensation represents a historically consistent share of the military budget. MOAA has pushed hard against the idea of capping military pay.

“Congress has closed the gap between private sector and military pay over the last 13 years,” the association stated in a Sept. 6, 2013, release. “It put military pay raises into law in 2003 and tied those raises to private sector pay growth, while keeping military personnel costs to one-third of the DOD budget, the same as it’s been for the past 30 years.”

When other personnel-related expenses such as DOD schools, family housing, and 800,000 civilian employees are factored in, costs rise to roughly half the defense budget. While both these figures have held steady as a portion of DOD’s budget, the size of the force has declined 40 percent over the past 25 years.

As one of the top advocacy organizations on Capitol Hill, MOAA has the ear of influential lawmakers such as Rep. Joe Wilson (R-S.C.), chairman of the House Armed Services Committee’s military personnel panel. In August, when Obama urged Congress to limit the military pay raise in Fiscal 2014 to one percent, Wilson opposed the idea, calling for an increase of 1.8 percent—above the cost of living increase of about 1.5 percent.

Wilson said in November he would again push for at least a cost of living adjustment for military personnel.

“To me, the law provides for a formula of compensation and we need to follow that,” said Wilson in an interview in November. “I really think people need

to look at the numbers. Compensation has not really eaten the budget alive. Percentage-wise, it is really in line. It is very important to me that people who risk their lives for our country domestically or overseas be properly compensated.”

The Pentagon is merely doing the bidding of the Obama Administration, which is seeking to slow the growth in pay and benefits, he asserted. “The responsibility and accountability should be that of the Administration,” he said.

While Wilson blames the President and Democrats for the pressures on pay and compensation, commissioner Buyer, also a Republican, blames the inflation in pay and benefits since 2005 on congressional Democrats trying to strike a balance between being for the troops but against the wars.

“What was unfortunate [was that pay and benefits] became an instrument of politics, and during the extended war, the percolation of this began to boil in ’05, ’06, ’07, when Democrats took control of Congress, [and] they needed to temper themselves,” Buyer said. “They were so anti-war, they were having difficulty saying, ‘I’m for the troops, but I’m against the war,’ and they sought to prove it by passing so many benefits, lumping one after the other saying, ‘See, I love them, I love them, I love them.’ It’s gotten to the point where we have to sort it out.”

Looking at the issue without a partisan focus shows that both Republicans and Democrats were complicit in the growth; pay and benefit increases were passed by bipartisan margins, and members of both parties have similar views about the growth in compensation and benefits.

Bucking the trend of many GOP colleagues, Sen. John McCain (R-Ariz.) in November called for consideration of gradually increasing the number of years before retirement, increasing Tricare fees, and adjusting housing allowances.

McCain said he agreed with former Defense Secretary Robert M. Gates that “these entitlements” are “eating us alive.” He later reiterated this in his defense of the retiree cut in the Bipartisan Budget Act, saying, “The dramatic increase in personnel and benefit costs [is] such that we really aren’t going to have money left over for the mission, the equipment, and the capabilities” unless something is done. ■

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