

Will your  
military pay  
and benefits  
“break the  
bank?”

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**Fact vs.  
Fiction**

**Military Officers Association of America (MOAA)**

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**FOR YEARS, DEFENSE LEADERS** have told Congress personnel costs are rising out of control and, if left unchecked, will consume most of future defense budgets. ■ In May 2010, during a speech in Kansas, then-Defense Secretary Robert Gates asserted, “Health care costs are eating the Defense Department alive.”

Earlier that year, then-Undersecretary of Defense for Personnel and Readiness Clifford Stanley testified rising personnel costs could “dramatically affect the readiness of the department” by leaving less money to fund operations.

In 2012, Undersecretary of Defense (Comptroller) Robert Hale said, “The cost of pay and benefits has risen more than 87 percent since 2001, 30 percent more than inflation.”

Accordingly, the Pentagon’s FY 2013 budget proposed substantial force cuts, curtailing future military pay raises, creating a new commission to propose compensation and retirement cuts, and raising retiree health care fees by \$1,000 to \$2,000 a year or more.

Media outlets have repeated the alarmist assertions, and study groups and think tanks have jumped to propose further cutbacks.

In July 2011, the Defense Business Board (DBB) Task Group on Modernizing the Military Retirement System called the current military retirement system “unfair, unaffordable, and inflexible.”

In May 2012, the Center for American Progress published a report titled “Reforming Military Compensation — Addressing Runaway Personnel Costs Is a National Imperative.” In July, the Center for Strategic and Budgetary Assessments (CSBA) pronounced in its report “Rebalancing Military Compensation” that “the all-volunteer force, in its current form, is unsustainable.”

Critics have made the same “the sky is falling” claims since the all-volunteer force began 40 years ago.

But the all-volunteer force has proved to be the cornerstone of national defense through decades of peace and war, despite pundits’ and bean counters’ continual “gloom and doom” predictions.

Curiously, those “down” periods where retention and readiness faltered occurred only after the budget-cutters had their way. The problems were corrected only when the cutbacks were reversed.

How do we separate fact from fiction in this new round of studies and recommended cuts?

Here’s a closer look at the critics’ allegations.

### **“Personnel costs will consume the entire defense budget.”**

Statements that rising personnel costs are “unaffordable,” “out of control,” and “unsustainable” and “will impact readiness” are designed to make headlines, alarm the reader, and (not infrequently) generate support for pursuing additional studies.

“If personnel costs continue growing at that rate and the overall defense budget remains flat with inflation,” the CSBA authors hyperbolized, “military personnel costs will consume the entire defense budget by 2039.”

Elsewhere, they acknowledged “this will never happen.” But the quote was seized and repeated by reporters, pundits, bureaucrats, and

other “analysts” (e.g., James Kitfield in the July 2012 *National Journal*).

Is there any chance personnel costs will consume the entire defense budget by 2039? Of course not.

Over the past 50 years, the defense budget has consumed a progressively smaller share of federal outlays.

In 1962, defense consumed nearly 47 percent of federal outlays. Today, it’s at its smallest share in 50 years and will drop further — below 12.5 percent — by 2017.

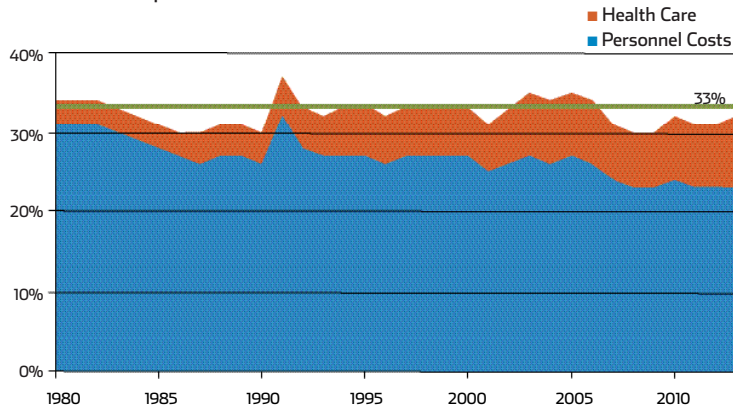
Some argue that’s all the more reason to worry about the rising cost of military people programs.

But let’s look at that data over time. The chart below shows the share of the defense budget spent on military compensation and health care since 1980.

DoD says military personnel and health care costs comprise one-third of the FY 2013 defense budget.

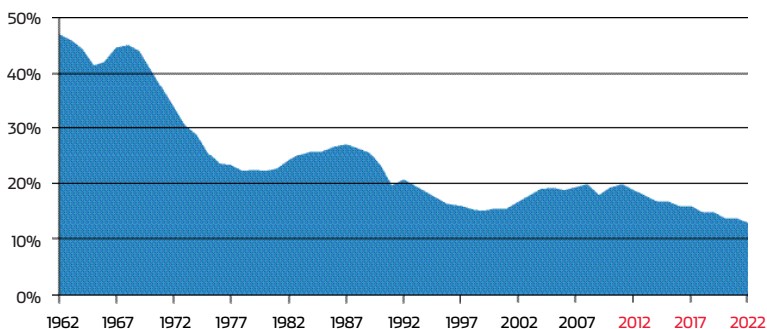
### Personnel Costs Aren’t Exploding

About one-third of the defense budget goes to personnel and health care costs — the same share it has been for more than 30 years. That’s no more unaffordable now than in the past.



### Defense Budget as a Share of All Federal Spending

The share of federal spending devoted to defense has been declining for 50 years (with temporary wartime bump-ups). Allocations for 2012-22 are estimated.



What they don’t tell you is that’s the same share it’s been for 30 years.

Some might ask whether it’s good or bad if personnel costs comprise one-third of a big organization’s annual budget. There’s no civilian counterpart to the military, but let’s consider organizations with big air fleets.

For the United Parcel Service, for example, personnel costs make up 61 percent of the budget. For FedEx, it’s 43 percent. For Southwest Airlines — generally recognized as among the most cost-efficient air carriers — personnel costs comprise 31 percent of operating revenue (which includes profit, so the percentage of expenditures is higher).

### “Cost growth since 2000 is out of control.”

One trick used by Pentagon bean counters is to cite personnel and health care cost growth since 2000 or 2001.

Have costs grown since then? Certainly, but using that baseline without appropriate context is misleading.

First, it implies the turn of the century was an appropriate benchmark for reasonable personnel and health care spending. Nothing could be further from the truth.

At that time, years of budget cutbacks had grossly depressed military pay, cut retirement value by 25 percent for post-1986 entrants, and booted beneficiaries over age 65 out of military health care.

As a result, retention was on the ropes, and the Joint Chiefs of Staff were imploring Congress to fix the problems to prevent a readiness crisis.

Congress has worked over the past decade to restore military pay comparability, repeal the retirement cuts, and restore promised health care coverage for older beneficiaries. In other words, the cost growth was essential to keep the previous cutbacks from breaking the career force.

Most recent military compensation studies ignore that essential context and leap to the erroneous conclusion cost trends of the past decade will continue indefinitely.

Not so.

Now that pay comparability has been restored, there won’t be any further need for extra pay plus-ups above private-sector pay

growth. Similarly, Congress won't have to approve another TRICARE For Life program or pass another retirement restoration initiative. Those were one-time fixes that won't be repeated.

But by using a 2000 or 2001 baseline, budget-cutting advocates make cost trends look worse than they are.

Back then, everyone in the administration and Congress acknowledged the necessity of pay, retirement, and health care fixes.

A decade later, many of those same officials and their successors express shock the fixes cost money. They find it convenient to forget Congress deemed those changes less costly than continued erosion of our defense capability.

### **“Health care costs are eating us alive.”**

For the past year, this has been Pentagon officials' constant mantra.

It's how they've justified pushing health care fee hikes of \$1,000 to \$2,000 a year, including proposals to means test fees by income, add new fees for TRICARE For Life and TRICARE Standard, and double and triple pharmacy copayments.

Defense officials persuaded the service chiefs and senior enlisted advisors to sign a letter to Congress endorsing these changes.

But let's keep the facts in context.

To start with, health care represents about 16 percent of the U.S. gross domestic product.

According to DoD, health care costs “represent about 10 percent of the nonwar defense budget.”

Compared to the national rate, that seems pretty reasonable for a personnel-heavy business that's inherently dangerous.

Claims health care costs are rising out of control are belied by the Pentagon's own July 2012 reprogramming request to Congress, which acknowledged costs will be \$708 million less than budgeted for FY 2012.

“These funds are excess to Defense Health Program requirements,” according to the document, “and can be used for higher priority items with no impact to the program.”

And why exactly is that?

“The FY 2012 budget estimate assumed private-sector care cost growth of 12.9 percent

for active duty and 8.5 percent for all other beneficiaries,” the document continued. “Through the first six months of FY 2012 [costs actually] are growing at historically low rates of 0.6 percent for active duty and -2.7 percent for all other beneficiaries.”

So all the time defense leaders were complaining of exploding health care costs, the costs actually were going down.

In response to this revelation, House Armed Services Committee leaders fired a scathing, bipartisan letter to Defense Secretary Leon Panetta.

*“As you are aware, the House of Representatives ... declined to grant DoD the authority to raise TRICARE fees. We subsequently heard from DoD that our refusal ... was endangering the sustainability of TRICARE programs. We have heard that ‘TRICARE is crippling’ the DoD. This does not appear to be the case if DoD has a \$708 million surplus in FY 2012. ... We do not understand how DoD can justify a request to raise fees on a class of people whose costs to the department are actually decreasing.”*

And it's not as if this was a one-time thing. According to the Government Accountability Office, DoD underspent its TRICARE budget for civilian provider care by \$771 million in FY 2010 and by more than \$1.3 billion in FY 2011.

These budget snafus further buttress MOAA's assertion that defense leaders should focus on fulfilling their own responsibilities for efficient program oversight rather than seeking to foist blame and big fee hikes on beneficiaries.

In that regard, more than a dozen studies have urged reforming the current counterproductive bureaucracy under which three “stovepiped” service health care programs and multiple contractors squabble for shares of the health care-budget pie.

To illustrate the problem, care delivered through military hospitals and clinics is 25-percent cheaper than purchasing care in the private sector, but military facilities are 27-percent underutilized. Why? Because nobody's in charge of ensuring care is delivered in the most cost-efficient way. The services that fund and staff military facilities focus on their separate budgets. There's no disincentive for shifting beneficiaries to more costly civilian care that gets billed to DoD.

**There are good reasons only 17 percent are willing to endure those arduous demands and sacrifices for more than 20 years.**

But defense leaders continue to resist repeated study recommendations to consolidate budget and delivery responsibilities under a unified medical command. Instead, they've been implementing only relatively cosmetic changes.

So how credible are DoD claims that beneficiaries must be penalized financially for "defense-eating" health care costs?

Not very, when:

- defense leaders refuse to meet their own obligations for efficient oversight;
- the Pentagon TRICARE budget has been underspent by almost \$3 billion over the past two years; and
- those same defense leaders now admit costs are "growing at historically low rates" (quite a euphemism for a 2.7-percent decline among the population targeted for big fee hikes).

### **"Military retirement is unfair and unaffordable."**

Whenever military budgets get tight, budgeteers, analysts, and chartered task forces also propose military retirement cutbacks. Past defense leaders resisted such efforts as being detrimental to retention and readiness. In contrast, Gates and Panetta have voiced support for significant retirement changes.

Gates criticized the 20-year retirement system as "unfair" to those who leave service before that point, noting vesting options provided to civilian workers. He directed the DBB to identify alternative options.

In his final appearance before the Senate, Gates endorsed an early vesting program, noting, "70 to 80 percent of the force does not stay until retirement but leaves with nothing."

But there is no support for spending more money on military retirement during budget-cutting times.

So vesting options proposed to date — including those of the DBB and the DoD-sponsored 11th Quadrennial Review of Military Compensation (QRMC) — would fund that new benefit by imposing dramatic benefit cuts for the 17 percent who complete decades in uniform.

Both plans would convert the current program to a civilianized 401(k)-style system that

would vest after three to 10 years of service. The QRMC would delay retired pay eligibility until age 57-60, whereas the DBB plan would eliminate traditional retired pay. One DBB option would grandfather retired pay creditable from existing service but convert currently serving members to the new system for any subsequent service.

There are good reasons only 17 percent are willing to endure those arduous demands and sacrifices for more than 20 years. The vast majority of Americans are unwilling to accept those conditions for even one tour of duty.

The DBB and QRMC proposals ignore the hard lessons of previous experiences with retirement cuts.

Budget pressures prompted Congress in 1986 to pass changes reducing the 20-year retired pay value 25 percent for post-1986 entrants.

Then-Defense Secretary Caspar Weinberger adamantly opposed the so-called "REDUX" change, warning Congress it inevitably would undermine retention and readiness. That prediction proved true a decade later, and Congress repealed REDUX in 1999.

Stunningly, the cuts proposed by both the DBB and the QRMC are vastly more severe than the retention-killing REDUX cuts.

MOAA asserts the powerful pull of the 20-year retirement system is the main reason retention hasn't imploded over the past 10-plus years of unprecedented wartime strains on troops and families.

If one tried to build a plan to slash career retention, it's hard to conceive a better way than the DBB or QRMC proposals.

A 10-year soldier facing a fourth or fifth combat deployment would have to choose between (a) taking the vested military retirement and leaving to pursue a civilian career or (b) having to serve decades longer (if

up-or-out limits are waived) before being eligible for military retired pay at age 57-60. It's not difficult to predict the retention outcome of such a scenario.

Advocates for these initiatives sugarcoat them by saying they wouldn't affect anyone now serving but would apply only to new entrants. That

**America will remain the world's greatest superpower only as long as it continues to fulfill its reciprocal obligation to ... the all-volunteer career force.**

was true of the REDUX system, and we know how that turned out.

Grandfathering the current force only lets retirement-cutting leaders evade responsibility for their ill-advised actions — by deferring the inevitable retention disaster for a decade and dumping it on their successors.

Military retirement critics have claimed for decades this unique plan is unaffordable and unsustainable.

Almost 35 years ago, the 1978 report of the President's Commission on Military Compensation included this extract from the minority report of commissioner Lt. Gen. Benjamin O. Davis Jr., USAF-Ret.:

*“Unfortunately, the commission has embraced the myth that retirement costs will soon rise so high — from \$10 billion this year to \$30 billion in the year 2000 — as to become an unacceptable and unfair burden on the American taxpayer.*

*“Such assertions fail to point out that by using the same assumptions, today's average family income of \$10,000 will be \$36,000 in the year 2000. The average cost of a home will be \$171,000; a compact automobile will cost \$17,000; and the overall U.S. budget will have increased from \$500 billion to some amount in the trillions.”*

Such numbers seem quaint today, but they make two telling points.

First, long-term projections that appear dire today often prove far less so as years pass.

Second, after budget-driven retirement cuts in 1986 undermined retention, Congress deemed restoring the current system more affordable than continued retention and readiness shortfalls.

DBB leaders acknowledged they didn't consider the potential retention effects of their plan.

During 2012 testimony before Congress, defense witnesses acknowledged the DBB proposal would hurt retention — and went a step further.

Dr. Jo Ann Rooney, principal deputy under-secretary of defense for Personnel and Readiness, testified the current military retirement system is “neither unaffordable, nor spiraling out of control,” noting retirement costs as a percentage of pay have remained reasonably constant.

## **Keeping faith with the all-volunteer force**

The past decade of war has proved no federal obligation is more important than protecting national security.

And the most important element of national security is sustainment of a dedicated, top-quality career military force. That reality is underscored by consistent surveys showing our armed forces are America's most-respected public institution.

The unprecedented demands and sacrifices only further highlight how radically different military service conditions are from civilian work life.

Budget critics persist in asserting military pay, retirement, and health care benefits are

## **What About the Draft?**

Some urge returning to the draft to cut personnel costs. But that has zero support in Congress. And a draft only compels initial service, not career service. The latter choice always has been a voluntary one. History shows retention drops when career incentives get whacked.

unsustainable and should be slashed to more closely resemble civilian benefit packages.

But decades of such dire predictions proved consistently wrong. On the contrary, these crucial career incentives have sustained a strong national defense through more severe and protracted wartime conditions than even the strongest proponents of the all-volunteer force thought it could survive.

In fact, the only times the survival of the all-volunteer force has been jeopardized in the past were when budget concerns imposed significant cutbacks in the military compensation package.

Congress' consistent corrective actions in those cases recognized the cost of sustaining the current military career incentive package is far more acceptable and affordable than the alternative.

America will remain the world's greatest superpower only as long as it continues to fulfill its reciprocal obligation to the only weapon system that has never let our country down — our extraordinarily dedicated, top-quality all-volunteer career force.

And you can take that to the bank. **MO**

*Col. Phil Odom, USAF-Ret.; Capt. Kathy Beasley, USN-Ret.; and Col. Steve Strobridge, USAF-Ret., also contributed to this article.*

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