"Slow the Growth"

— *That Train Has Left the Station*

Over the past two years, the Pentagon has adopted a new budget-cutting catchphrase: ***"Slow the growth."***

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Uniformed and civilian leaders have created a perfect storm, providing political top cover to slash pay and benefits with repeated, alarming — and noticeably misleading — statements on personnel cost growth.

The Pentagon's ongoing rhetoric about personnel costs "spiraling out of control" has emboldened many in Congress to not only consider but also propose drastic changes to the military benefits, compensation, and the retirement system in the name of fiscal responsibility without fully understanding the unintended consequences of their actions and the impact on morale and retention.

Many of the suggested cost-cutting proposals have gained traction because both critics and the Pentagon continue to cite "personnel cost growth since 2000" as the prime reason to gut pay and benefits.

What concerns MOAA, and should concern members of Congress, is the critics (and the Pentagon) are fixated on the year 2000 as a baseline for forecasting future growth, insisting compensation and health care costs are growing at rates that, as Chairman of the Joint Chiefs Army Gen. Martin Dempsey said, "are unsustainable to the all-volunteer force."

MOAA thinks it is important to put the "growth since 2000" argument in the proper context to understand why military pay has risen faster than that of the average American's from 2000 to 2010.

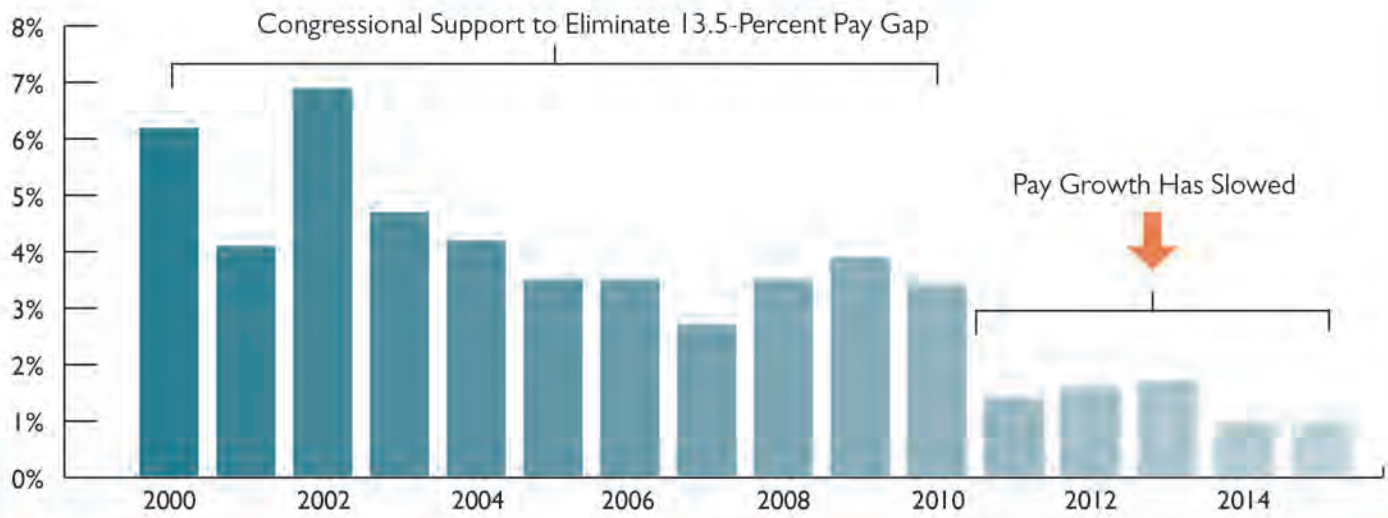
Have costs grown since then? Yes, but using the 2000 baseline without reflecting on the historical context is grossly misleading.

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

Ongoing rhetoric about personnel costs "spiraling out of control" has emboldened many in Congress.

COVER ILLUSTRATION: TIMOTHY COOK

Military Pay Raises Since 2000



Congress worked diligently over the past decade to restore military pay comparability.

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

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 worked diligently over the next decade to restore military pay comparability (see chart above), repeal retirement cuts, and restore promised health care coverage for older retirees. In other words, the cost growth was essential to keep the previous cutbacks from breaking the career force.

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

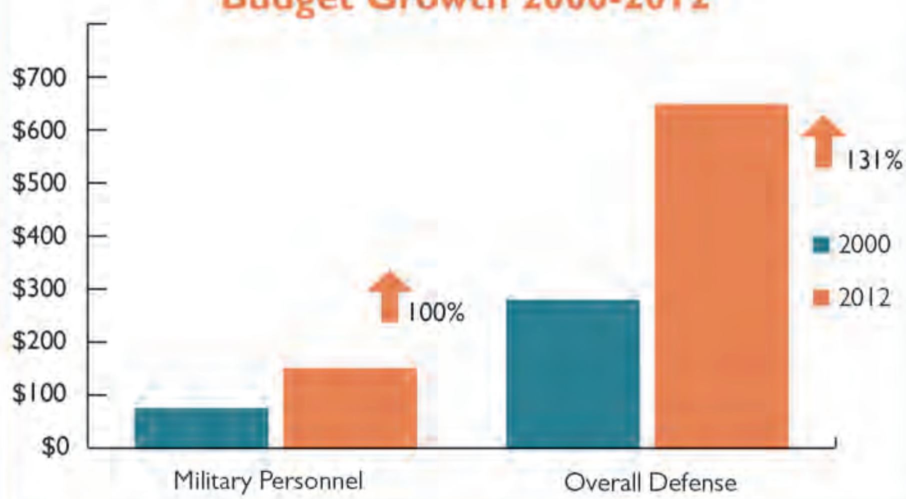
Recent military compensation studies have leaped to the erroneous conclusion the cost trends of the past decade will continue indefinitely.

Not so. Now that pay comparability has been restored, there is no 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 repeal REDUX. Those were one-time fixes.

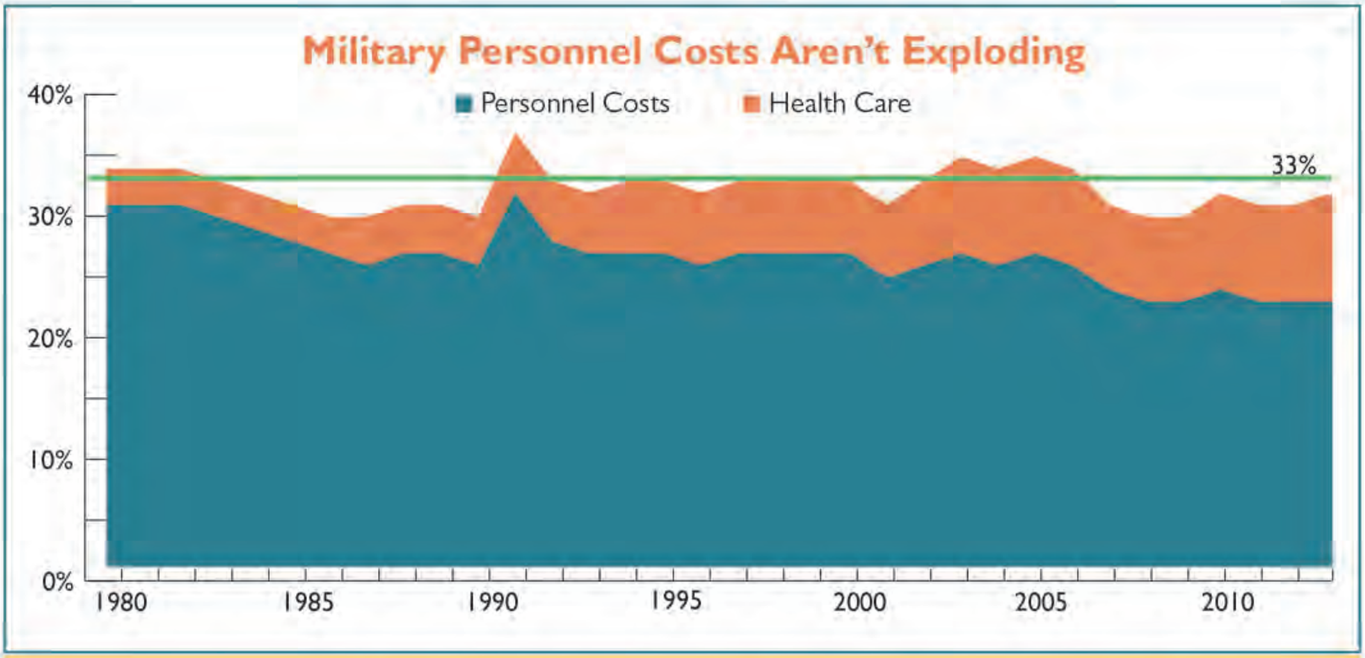
Yet, Pentagon leadership continues to focus on "recent growth trajectory" and has adopted a new budget-cutting catchphrase: "Slow the growth."

For example, according to the Office of Management and Budget's Historical Table 3.2, the military personnel account has doubled be-

Budget Growth 2000-2012



Personnel costs are consuming an even smaller share of the defense budget.



Military personnel and health care costs comprise the same percentage of the defense budget (a little less than one-third) they have for the past 30-plus years.

tween 2000 and 2012, from $76 billion to $152 billion.

What the Pentagon clearly doesn't publicize is the overall defense budget grew over the same period, from $281 billion to $651 billion — a 131-percent increase (see chart below left). This alone shows personnel costs are consuming an even smaller share of the budget. If any defense costs are "spiraling out of control," they're not personnel costs.

Additionally, hardware cost overruns have been left unchecked. A Government Accountability Office report issued in October 2013 highlighted that the Pentagon's 85 major acquisition programs were collectively some $411 billion over their initial cost estimates in 2012 — a sum that alone could wipe out the remaining years of the DoD sequestration budget cuts.

Some members of Congress, think tanks, and many in the press simply have accepted the Pentagon's rhetoric without subjecting it to critical thought or scrutiny.

MOAA thinks all these stakeholders should be critical of the rhetoric and ask the Pentagon to show how it is forecasting future personnel growth.

The Pentagon's math simply does not add up.

Military personnel costs have continued to consume the same share of the Pentagon's budget for the past 30 years: about one-third (hardly spiraling out of control).

Fortunately, MOAA is not the only one asking the Pentagon why and how. A November 2013 MilitaryTimes.com article, "Top brass claims personnel costs are swamping DoD, but budget figures say otherwise," directly addresses the grossly exaggerated public statements senior Pentagon leadership has made regarding military pay and benefits.

However, this article has not precluded the Pentagon nor the administration from asking for deeper cuts to personnel compensation and benefits to secure more funding for weapon programs, which they have asked for in the FY 2015 budget.

Earlier this year in an NPR interview, Dempsey reemphasized this point by saying, "I have one sacred obligation to the young men and women who serve, and only one. If I ask them on behalf of the president to go to places like Afghanistan or some other conflict, they must be the best-trained, best-equipped, and best-led force on the planet. I don't want to win 5-4, I want to win 50-nothing. To do that, we've got to make the appropriate investments in training, readiness, leader development, modernization, and manpower. But I can't have the manpower account so out of proportion that it precludes me from making sure that if they go into harm's way they're ready to go."

The Pentagon's math simply does not add up.

This overall budget submission is not limited to pay. This "quadruple whammy" would be four giant steps toward repeating past insidious measures.

Leveraging people programs against readiness is simply a false choice. The key to a ready force is sustaining the top-notch, 10-year, mid-level NCO and officer for another 10 years. Without existing military career incentives, the sustainability of the all-volunteer force would have been placed at serious risk during the past 12 years of protracted wartime conditions.

Bending the cost curve

What's also lost is pay and benefit dominoes already have begun to fall, significantly bending the curve on personnel costs — in other words, that train has left the station.

Domino 1: TRICARE Prime — Beneficiaries already have seen increases to TRICARE enrollment fees over the past several years, and fees will continue to rise at the rate of a retiree's COLA, but that is only the beginning. TRICARE service center closures and the new Defense Health Agency also will contribute to large projected savings.

Domino 2: TRICARE Pharmacy — Major changes have been enacted to double and triple pharmacy copayments for military beneficiaries, and these will continue to increase in future years at the rate of inflation. TRICARE For Life beneficiaries are being required to use the far less expensive mail-order system for refills of maintenance medications, which dramatically will reduce pharmacy costs.

Domino 3: end strength — Cuts of 124,000 servicemembers over five years are planned for the active and reserve forces, and now the FY 2015 budget calls for an additional 78,000-plus cuts. These reductions will bend the personnel cost-growth curve.

Domino 4: pay — This year, servicemembers will see the lowest pay raise in more than 50 years with their pay capped below private-sector pay growth — and this is not a one-time cap. In the FY 2015 budget submission, the administration and Pentagon rolled out a plan to cap pay again at 1 percent (versus 1.8 percent in law) and undo the hard work Congress accomplished over the past decade to eliminate the pay gap by extending caps through FY 2019.

Domino 5: retirement — The recent 1-percent COLA legislation provided relief to working-age retirees and most currently serving members, however, the cut remains in force for those who entered service after Jan. 1, 2014.

The FY 2015 budget

The FY 2015 budget submission proposes several significant pay and benefit cuts inconsistent with the sacrifices exemplified by the past 13 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 percent, reversing DoD's own initiative to eliminate out-of-pocket housing costs, completed in 2006;
- reducing commissary savings for uniformed service families; and
- restructuring the TRICARE benefit so that active duty families and retiree beneficiaries will pay more for their health care.

The Pentagon is suggesting these cuts, saying spending on pay and benefits for servicemembers has "risen about 40 percent more than growth in the private sector" since 2001.

Extraordinary Military Career Sacrifices

A military career entails unique and arduous service conditions few Americans are willing to endure for 20 to 30 years, including:

- hazardous duty;
- service in foreign, often hostile environments;
- frequent/extended forced family separations;
- long duty hours without extra pay;
- frequent forced relocations;
- disruption of spousal career/earnings;
- disruption of children's schooling;
- inadequate expense reimbursement;
- "up or out" promotion system;
- forced mid-life career change; and
- forfeiture of personal freedoms other Americans take for granted.

Annual Loss of Purchasing Power
from FY 2015 budget proposal
(active duty family of four with 10 years of service)

	E-5	O-3
Loss of Basic Pay*	$593	$1,130
Basic Allowance for Housing	$1,224	$1,584
Commissary	$2,970	$2,970
TRICARE	$206	$206
Total annual loss	$4,993	$5,890

*FY 2014 and FY 2015 aggregate loss

Capping pay and reducing benefits will undermine retention and readiness.

Congress worked over the past decade to fix the 13.5-percent pay gap, eliminate the 18-percent out-of-pocket housing costs military members faced, and reverse the resulting retention problems caused by repeatedly capping military raises below private-sector pay growth in the 1980s and '90s.

Since 2001, personnel and health care costs experienced an average 7.6-percent rate of growth, but that cost growth was essential to keep the previous compensation cutbacks from breaking the career force. Since 2010, personnel cost growth has slowed to less than 2 percent a year.

Sustaining pay raises comparable to the average American's is a fundamental tenet of the all-volunteer force.

In the late 1970s, Congress enacted two double-digit pay raises to correct retention in the wake of multiple pay-raise caps. In 2003, Congress explicitly linked annual military raises to private-sector pay growth via the ECI.

Now, the FY 2015 budget proposes a 1-percent pay-raise cap (versus the 1.8 percent indicated by the ECI) for the second straight year — a bad trend.

In the late 1990s, DoD persuaded Congress to make military housing allowances meaningful by setting BAH at 100 percent of median local housing costs. This standard was codified after years of budget cuts reduced BAH rates below actual housing costs.

What's the bottom line? Between the FY 2014 and FY 2015 pay caps, the proposed BAH reductions, and the planned reductions in commissary savings, an E-5 would experience a loss of nearly $5,000 in purchasing power annually and an O-3 would experience a loss of nearly $6,000 in purchasing power annually (see chart above).

MOAA's position

MOAA understands the predicament defense leaders face, and we agree balancing the force and ending the harmful effects of sequestration must be accomplished. Not doing so presents risks to national security.

But past experience capping military raises below private-sector pay growth has proven that once pay-raise caps begin, they continue until they undermine retention and readiness.

The troops' past three raises averaged less than 1.4 percent, with the FY 2014 pay raise being the lowest in 50 years — only to be matched by the FY 2015 proposal. Yet this overall budget submission is not limited to pay. This "quadruple whammy" of capping pay, increasing out-of-pocket expenses for housing, consolidating TRICARE, and slashing commissary benefits would be four giant steps toward repeating past insidious measures that led to retention and readiness problems.

This piecemeal reduction to pay and benefits is doubly inappropriate because the Military Compensation and Retirement Modernization Commission will be offering even broader reform proposals next year.

MOAA's recommendation to Congress is not to allow budget cuts to undo needed compensation improvements since 2000 to match the extraordinary demands and sacrifices of a military career. What's needed is to sustain pay and benefits for the men and women in uniform and their families.

The most important element of a strong national security is sustaining a dedicated, top-quality mid-level NCO and officer force. These changes will force them to second-guess a career in the military.

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