

**SJR**

**16**

<TARGET><BILL>SJR 16</BILL><SUBJECT>SJR  
16</SUBJECT><COMM>SSTA27</COMM></TARGET>

## SENATE COMMITTEE REPORT First Committee of Referral

DATE: 2/3/12

FURTHER:

Date of 5-Day Notice: \_\_\_\_\_  
(in accordance with Uniform Rule 23)

DATE TURNED  
IN TO OFFICE: 2/9/12

State Affairs Committee considered SENATE JOINT RESOLUTION NO. 16

### SJR 16 MILITARY PENSIONS

Urging the United States Congress to approve legislation allowing members of the military to receive promised retirement benefits.

and recommends:

be replaced with CS \_\_\_\_\_ (\_\_\_\_\_)  Same Title  New Title

adopt previous CS \_\_\_\_\_ (\_\_\_\_\_)  Same Title  New Title

attached amendment(s)

adopt \_\_\_\_\_ Letter of Intent

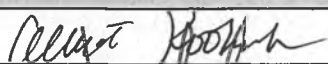
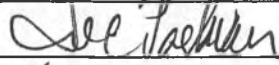
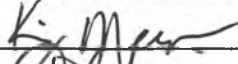
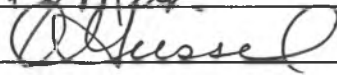
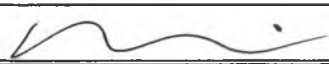
further referral to \_\_\_\_\_ Committee

| Dept Abbr. |     |
|------------|-----|
| ADM        | LEG |
| CED        | LAW |
| COR        | LWF |
| CRT        | MVA |
| EED        | DNR |
| DEC        | DPS |
| DFG        | REV |
| GOV        | DOT |
| DHS        | UA  |

| NEW FISCAL NOTE(S) |        |        |      |      |
|--------------------|--------|--------|------|------|
| Dept.              | Fiscal | Indet. | Zero | FN # |
| S.STA              |        |        | ✓    |      |
|                    |        |        |      |      |
|                    |        |        |      |      |
|                    |        |        |      |      |
|                    |        |        |      |      |
|                    |        |        |      |      |

| PREVIOUS FISCAL NOTE(S) |        |        |      |      |
|-------------------------|--------|--------|------|------|
| Dept.                   | Fiscal | Indet. | Zero | FN # |
|                         |        |        |      |      |
|                         |        |        |      |      |
|                         |        |        |      |      |
|                         |        |        |      |      |
|                         |        |        |      |      |
|                         |        |        |      |      |

APPROPRIATION - no fiscal note

| SIGNATURES AND RECOMMENDATIONS:  | PRINTED LAST NAME | DO PASS | DO NOT PASS | NO REC | AMEND |
|--|-------------------|---------|-------------|--------|-------|
|         | Kooresh           | ✓       |             |        |       |
|         | PASKVAN           | X       |             |        |       |
|         | Meyer             | X       |             |        |       |
|         | Giessel           | X       |             |        |       |
|  |                   |         |             |        |       |
|  |                   |         |             |        |       |
| CHAIR:  | Wielechowski      | X       |             |        |       |

# ALASKA STATE LEGISLATURE

## Session

State Capitol, Rm. 101  
Juneau, AK 99801  
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## Interim

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Senator\_Bill\_Wielechowski@legis.state.ak.us



## Chair

State Affairs Committee

## Co-chair

Joint Armed Services Committee

## Vice Chair

Resources Committee  
Judiciary Committee

## Member

Administrative Regulation Review

## SENATOR BILL WIELECHOWSKI

### SJR 16: Military Pensions Fact Sheet

- The Defense Business Board released a suggested plan to convert military retirement from the current 20-year vesting system to a retirement system similar to a 401k
- The plan presented may not grandfather current service members
- Currently, a military service member who serves for 20 years can retire with their pension immediately
- The plan suggested by the Defense Business Board may not allow members to withdraw their retirement until they reach age 60-65
- Members of our Armed Forces should be allowed to maintain their current retirement plan as promised when signing up to serve
- Senate Joint Resolution 16 would urge the United States Congress to allow any service member who signed up under the current retirement plan the option to choose between staying with the current plan or moving to the new retirement system
- This resolution also urges the US Congress to support HR3520: Keeping Our Promises Act of 2011

# FISCAL NOTE

**STATE OF ALASKA**  
**2012 LEGISLATIVE SESSION**

Bill Version SJR16  
 Fiscal Note Number 1  
 (S) Publish Date 2/8/2012

Identifier (file name) \_\_\_\_\_ Dept. Affected \_\_\_\_\_  
 Title SJR 16 MILITARY PENSIONS Appropriation \_\_\_\_\_  
 Allocation \_\_\_\_\_  
 Sponsor Senator Wielechowski  
 Requester (S) State Affairs OMB Component Number \_\_\_\_\_

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

|                               | FY13<br>Appropriation<br>Requested | Included in<br>Governor's<br>FY13<br>Request | Out-Year Cost Estimates |             |             |             |             |
|-------------------------------|------------------------------------|--|-------------------------|-------------|-------------|-------------|-------------|
|                               |                                    |  | FY14                    | FY15        | FY16        | FY17        | FY18        |
| <b>OPERATING EXPENDITURES</b> | <b>FY13</b>                        | <b>FY13</b>                                  | <b>FY14</b>             | <b>FY15</b> | <b>FY16</b> | <b>FY17</b> | <b>FY18</b> |
| Personal Services             |                                    |  |                         |             |             |             |             |
| Travel                        |                                    |  |                         |             |             |             |             |
| Services                      |                                    |  |                         |             |             |             |             |
| Commodities                   |                                    |  |                         |             |             |             |             |
| Capital Outlay                |                                    |  |                         |             |             |             |             |
| Grants, Benefits              |                                    |  |                         |             |             |             |             |
| Miscellaneous                 |                                    |  |                         |             |             |             |             |
| <b>TOTAL OPERATING</b>        | <b>0.0</b>                         | <b>0.0</b>                                   | <b>0.0</b>              | <b>0.0</b>  | <b>0.0</b>  | <b>0.0</b>  | <b>0.0</b>  |

| <b>FUND SOURCE</b> |                  | (Thousands of Dollars) |            |            |            |            |            |
|--------------------|------------------|------------------------|------------|------------|------------|------------|------------|
| 1002               | Federal Receipts |                        |            |            |            |            |            |
| 1003               | GF Match         |                        |            |            |            |            |            |
| 1004               | GF               |                        |            |            |            |            |            |
| 1005               | GF/Prgm (DGF)    |                        |            |            |            |            |            |
| 1037               | GF/MH (UGF)      |                        |            |            |            |            |            |
| 178                | temp code (UGF)  |                        |            |            |            |            |            |
| <b>TOTAL</b>       |                  | <b>0.0</b>             | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> |

| <b>POSITIONS</b> |  |  |  |  |  |  |  |
|------------------|--|--|--|--|--|--|--|
| Full-time        |  |  |  |  |  |  |  |
| Part-time        |  |  |  |  |  |  |  |
| Temporary        |  |  |  |  |  |  |  |

| <b>CHANGE IN REVENUES</b> |  |  |  |  |  |  |  |
|---------------------------|--|--|--|--|--|--|--|
|                           |  |  |  |  |  |  |  |

**Estimated SUPPLEMENTAL (FY12) operating costs** \_\_\_\_\_ (separate supplemental appropriation required)  
 (discuss reasons and fund source(s) in analysis section)

**Estimated CAPITAL (FY13) costs** \_\_\_\_\_ (separate capital appropriation required)  
 (discuss reasons and fund source(s) in analysis section)

**Why this fiscal note differs from previous version (if initial version, please note as such)**

Prepared by (S) State Affairs  
 Division \_\_\_\_\_  
 Approved by /s/ Senator Wielechowski, Chair  
 \_\_\_\_\_

Phone 465-2435  
 Date/Time 2/8/12 12:00AM  
 Date 2/8/2012

**The New York Times**

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September 18, 2011

# Retiree Benefits for the Military Could Face Cuts

By **JAMES DAO** and **MARY WILLIAMS WALSH**

As Washington looks to squeeze savings from once-sacrosanct entitlements like Social Security and Medicare, another big social welfare system is growing as rapidly, but with far less scrutiny: the health and pension benefits of military retirees.

Military pensions and health care for active and retired troops now cost the government about \$100 billion a year, representing an expanding portion of both the Pentagon budget — about \$700 billion a year, including war costs — and the national debt, which together finance the programs.

Making even incremental reductions to military benefits is typically a doomed political venture, given the public's broad support for helping troops, the political potency of veterans groups and the fact that significant savings take years to appear.

But the intense push in Congress this year to reduce the debt and the possibility that the Pentagon might have to begin trimming core programs like weapons procurement, research, training and construction have suddenly made retiree benefits vulnerable, military officials and experts say.

And if Congress fails to adopt the deficit-reduction recommendations of a bipartisan joint Congressional committee this fall, the Defense Department will be required under debt ceiling legislation passed in August to find about \$900 billion in savings over the coming decade. Cuts that deep will almost certainly entail reducing personnel benefits for active and retired troops, Pentagon officials and analysts say.

"We've got to put everything on the table," Defense Secretary Leon E. Panetta said recently on PBS, acknowledging that he was looking at proposals to rein in pension costs.

Under the current rules, service members who retire after 20 years are eligible for pensions that pay half their salaries for life, indexed for inflation, even if they leave at age 38. They are also eligible for lifetime health insurance through the military's system, Tricare, at a small

fraction of the cost of private insurance, prompting many working veterans to shun employer health plans in favor of military insurance.

Advocates of revamping the systems argue that they are not just fiscally untenable but also unfair.

The annual fee for Tricare Prime, an H.M.O.-like program for military retirees, is just \$460 for families and has not risen in years, even as health care costs have skyrocketed. Critics of the system say the contribution could be raised substantially and still be far lower than what civilians pay for employer-sponsored health plans, typically about \$4,000.

Those critics also argue that under the current rules, 83 percent of former service members receive no pension payments at all — because only veterans with 20 years of service are eligible. Those with 5 or even 15 years are not, even if they did multiple combat tours. Such a structure would be illegal in the private sector, and a company that tried it could be penalized, experts say.

“It cries out for some rationalization,” said Sylvester J. Schieber, a former chairman of the Social Security Advisory Board. “Why should we ask somebody to sustain a system that’s unfair by any other measure in our society?”

But within military circles, and among many members of Congress, the benefits are considered untouchable. Veterans groups and military leaders argue that the system helps retain capable commissioned and noncommissioned officers.

And having volunteered to put their lives at risk, those people deserve higher-quality benefits, supporters argue. The typical beneficiary, they add, is not a general but a retired noncommissioned officer, with an average pension of about \$26,000 a year.

“The whole reason military people are willing to pursue a career is because after 20, 30 years of extraordinary sacrifice, there is a package commensurate with that sacrifice upon leaving service,” said Steven P. Strobridge, a retired Air Force colonel who is the director of government relations for the Military Officers Association of America, which is lobbying against changes to the benefits.

A wild-card factor in the debate is the withdrawal of American troops from Iraq and Afghanistan, which some experts say could avoid the stigma of cutting benefits while troops are at war.

“The fact that you are getting out of Iraq and Afghanistan does make it easier,” said Lawrence J. Korb, a senior Pentagon official in the Reagan administration who was a co-

author of a recent proposal for reducing the cost of military health care. "When the war in Iraq was in terrible shape, it was hard to get people to join the military, and no one wanted to touch any military benefits."

By far the most contentious proposal circulating in Washington is from a Pentagon advisory panel, the Defense Business Board. It would make the military pension system, a defined benefit plan, more like a 401(k) plan under which the Pentagon would make contributions to a service member's individual account; contributions by the troops themselves would be optional. Mr. Panetta has said that if adopted, the plan would not apply to current military personnel.

While health care costs for active and retired troops are growing faster, military pension costs are larger. Last year, for every dollar the Pentagon paid service members, it spent an additional \$1.36 for its military retirees, a much smaller group. Even in the troubled world of state and municipal pension funds, pensions almost never cost more than payrolls.

Citing the fiscal hazards and inequities of the system, the Defense Business Board proposal would allow soldiers with less than 20 years of service to leave with a small nest egg, provided they served a minimum length of time, three to five years. But it would prevent all retirees from receiving benefits until they were 60.

The business board says that its proposal would reduce the plan's total liabilities to \$1.8 trillion by 2034, from the \$2.7 trillion now projected — all without cutting benefits for current service members.

Steve Griffin of Tallahassee, Fla., is the type of soldier the defense board is trying to appeal to: a former captain who did two tours in Iraq, he left the Army in 2010 after five years of service and thus receives no pension.

Yet in a sign of the deep support for the existing system, Mr. Griffin says it should be left alone because it provides incentives for recruitment and rewards retirees who have endured great hardship.

"Yes, it would be nice for people like me," Mr. Griffin, 28, said of the proposal. "But I think the retirement system now is fair. We shouldn't take anything from it. If anything, we should add to it."

Much like in the debate over Social Security, questions about the sustainability of the military pension system abound.

Each year the Defense and Treasury Departments set aside more than \$75 billion to pay not only current and future benefits but also pensions for service many years in the past. But the retirement fund has not accumulated nearly enough money to cover its total costs, with assets of \$278 billion at the end of 2009 and obligations of about \$1.4 trillion.

The government tries to close the shortfall by simply issuing more Treasury securities each year, thereby adding to the nation's debt.

Given the political potency of veterans groups, it is unclear whether anyone in Congress will lead an effort to revamp the pension or retiree health systems.

But the debt ceiling agreement approved this summer by Congress, under which the Pentagon must find \$400 billion in reductions over the next 12 years, may force cuts once considered unthinkable. And if Congress does not adopt the recommendations of the bipartisan committee studying deficit reduction, the mandated reductions in Pentagon spending would more than double, to about \$900 billion, and fall on just about every category of defense spending.

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But those trims are considered marginal compared with the deeper reductions many experts say are necessary to contain Pentagon spending.

"If the trend continues, it will call into question the military's ability to do other things, like buy equipment, do maintenance, train troops and equip them," said Nora Bensahel, a senior fellow at the Center for a New American Security, a nonprofit organization with ties to the Obama administration.—

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Colin Hackley for The New York Times

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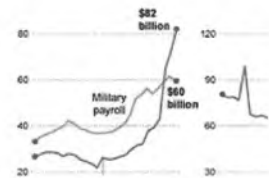
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## Multimedia



The Cost of Military Pensions

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A version of this article appeared in print on September 19, 2011, on page A1 of the New York edition with the headline: Retiree Plans For Military Face Scrutiny.

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December 26, 2011

# Don't Go After Military Pensions

By DARRELL DRIVER, JIN PAK and KYLE JETTE

Washington

AS the nation's budget pressures prompt officials to scour the Defense Department for cuts, one tantalizing target is the military retirement system. The Pentagon has reportedly been considering replacing the guaranteed pension that, for more than a century, has been a fundamental compact between the United States and its soldiers, in favor of a market-based 401(k) approach. But this would be a grave mistake, a disincentive to future volunteers and a threat to national security.

Needless to say, there are critical differences between the civilian and military work forces. Soldiers who have risked their lives for our nation should not also have to risk their retirement savings in stocks. But there are many more mundane sacrifices required of career service members that also make it hard for them to build up the kind of wealth — whether in their houses, their careers or the careers of their spouses — that cushions civilian retirees from the whims of the market.

Service members are often required to move, for example, which hinders their ability to build home equity. Many have to put off purchasing homes, and those who do buy do not have the option of choosing not to move if their mortgages become underwater. For this reason, the housing crash of recent years has hit service families especially hard.

Frequent moves also make it hard for service members' spouses to find work and progress in their own careers. This is most likely a primary reason that median household incomes for military families are lower than those of their civilian counterparts.

Most important, the unique skills people learn on the battlefield do not easily translate into private sector employment, and many military retirees struggle to find new work. While the officer who managed a military transportation hub might anticipate an equivalent job from a civilian firm, and while a young private who served one deployment could relatively easily return to school or an entry-level job, an infantry sergeant first class who has spent a decade

or more on multiple deployments to the world's most dangerous places would not find the same ready options.

For these individuals, there can be a significant financial cost to agreeing to remain in military service beyond the years when it would be easiest to make the transition to more marketable civilian jobs. But these are the people the military needs, and needs to retain.

The military pension helps compensate for their sacrifices. Soldiers and their families are more willing to put off other careers, and to accept frequent displacement, lower earnings and even the risk of being ordered back to active duty after beginning new careers, because of the promise of future compensation. The guaranteed pension is one of the biggest incentives keeping talented people in the military.

No one knows for sure how a shift to a 401(k) model would affect these families and their decisions to remain in military service. But we do know that there is a spike in retirements once soldiers complete the 20-year minimum to qualify for full pensions, and we can only assume that these people would retire far sooner without them. And it's likely that many would not join up at all.

As policy makers continue their deliberations on military spending cuts — which are scheduled to begin again next month — they must keep the unique nature of military service in mind when they look to the costs and benefits of the retirement plan. And they should remember that no one imagined, back in the 1970s, that our all-volunteer force would last this long. Most believed that conscription would again be needed if the nation ever engaged in a significant conflict. The United States military has proved them wrong so far, but we should not underestimate the role the guaranteed pension has played in its resilience.

*Darrell Driver, Jin Pak and Kyle Jette are lieutenant colonels in the United States Army.*



PERSONNEL AND  
READINESS

OFFICE OF THE UNDER SECRETARY OF DEFENSE  
4000 DEFENSE PENTAGON  
WASHINGTON, D.C. 20301-4000

DEC 14

The Honorable Bill Wielechowski  
United States Senator  
716 West 4<sup>th</sup> Avenue  
Suite 540  
Anchorage, AK 99501

Dear Senator Wielechowski:

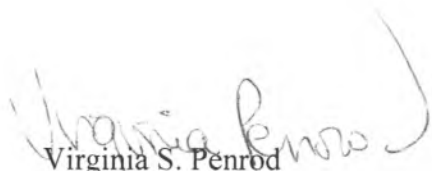
Thank you for your letter dated November 23, 2011, to Secretary Panetta regarding proposed changes to the military retirement system. Since this matter falls under my purview, this office has been asked to respond.

Various media outlets and military service organizations have been reporting on a variety of proposals to change the military retirement system. The most recent proposal by a task group of the Defense Business Board recommends replacing the current defined benefit retirement with a defined contribution retirement, much like the 401(k) plans used by many businesses for their employees. This proposal, among others, is useful to the Department of Defense (DoD) in evaluating current business operations. Its presentation does not mean it will be adopted or supported by the DoD. Any recommendation to fundamentally change the military retirement system must be approached with great caution and thoughtful analysis. The impact on military accessions, retention and force structure must be carefully assessed, as well as the effect on the overall retirement package of our individual retiring Service members. In making these evaluations, we are acutely aware of the unusual and demanding requirements placed on our military members and their families. We are also mindful of our responsibility to be good stewards of the taxpayer's money.

The military retirement system, as with all other military compensation and benefits, is a fair subject of review for effectiveness and efficiency. However, no changes to the current retirement system have been approved, and no changes will be made precipitously or without careful consideration of potential consequences for both the current and future force. The DoD will not break faith with our current career force and will include grandfathering in any proposal it might support.

We hope you find this response helpful and ask that you share this response with the other Alaska state senators who signed the letter to Secretary Panetta. Thank you for your interest in the men and women who proudly serve in our Nation's Armed Forces.

Sincerely,

  
Virginia S. Penrod  
Deputy Assistant Secretary

# United States Senate

WASHINGTON, DC 20510

September 23, 2011

The Honorable Leon E. Panetta, Secretary  
U.S. Department of Defense  
1400 Defense Pentagon  
Washington, DC 20301-1400

Dear Mr. Secretary:

We are gravely concerned about recommendations proffered by the Defense Business Board with regard to America's military retirement, primarily those recommendations altering and/or cutting the military retirement benefits which our career military members who are currently serving our great nation have been promised and are relying upon to assist with their retirement needs.

While deficit reduction is essential, balancing the budget and curbing costs in the U.S. Department of Defense by cutting retirement benefits to those now serving is patently unfair to our military members and their families and puts in jeopardy the recruitment and retention of our nation's future all-volunteer force. We have heard from countless veterans and constituents asking that Congress do the right thing by ensuring that these important benefits are not pulled out from under those who are working hard for what they have been promised.

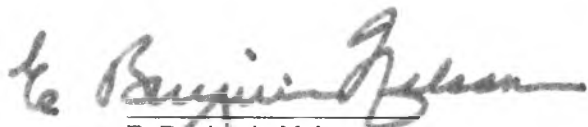
The current retirement system is a considerable enticement in preserving a career voluntary military force, and any proposed changes must be calculated in that light. Many of our constituents have stated that the current retirement system was a major factor in their decision to choose to serve, or to continue serving in uniform. Contrary to the belief of some, military service is not comparable to the private sector; and a retirement system that works for a civilian career may not necessarily be appropriate for the military.

On this subject, you have said, "People who have come into the service, who have put their lives on the line, who have been deployed to the war zones, who fought for this country, who have been promised certain benefits for that – I'm not going to break faith with what's been promised to them." We believe, as do our constituents, that we must follow your lead and ensure that our government upholds the promises we have made to our military.

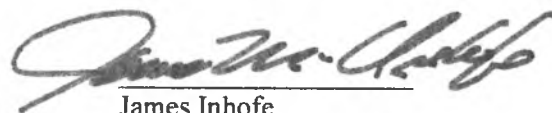
Certainly, Congress will be looking to you regarding cuts in defense spending; yet it is our worry that some members will also look to these recommendations by the Defense Business Board. We encourage you then to ensure the security of America's military by relaying to Congress your deep commitment that our nation not undertake any detrimental changes or reductions in military retirement for those who are serving. While our nation must cut spending and balance the budget, we simply cannot do it on the backs of America's military and their families.

Thank you for your consideration in this matter. Please be assured we will assist you in this effort in any way that we can.

Sincerely,



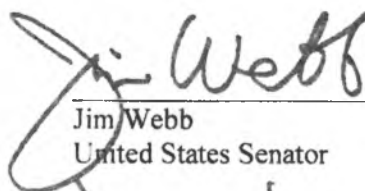
E. Benjamin Nelson  
United States Senator



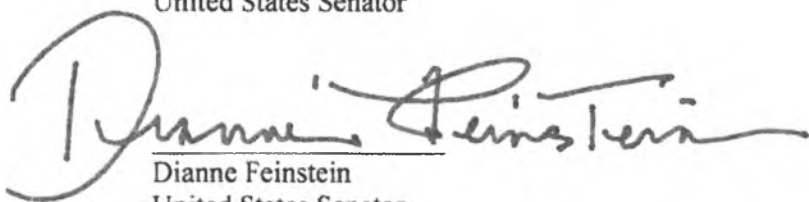
James Inhofe  
United States Senator



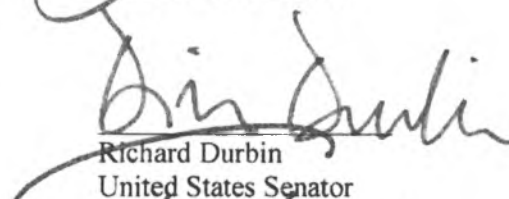
Sherrod Brown  
United States Senator



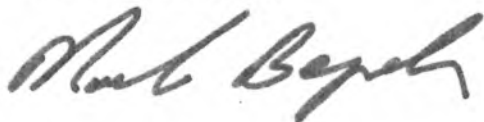
Jim Webb  
United States Senator



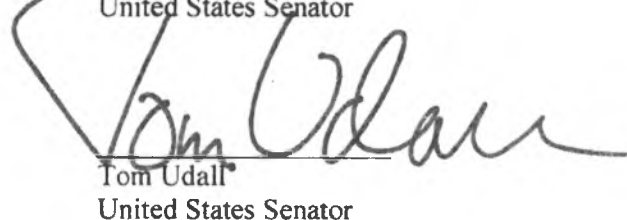
Dianne Feinstein  
United States Senator



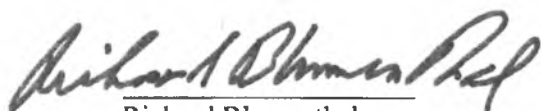
Richard Durbin  
United States Senator



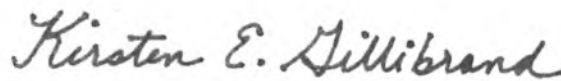
Mark Begich  
United States Senator



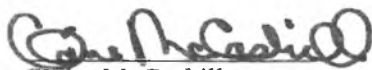
Tom Udall  
United States Senator



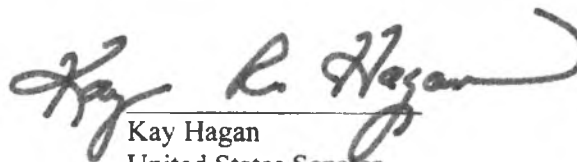
Richard Blumenthal  
United States Senator



Kirsten Gillibrand  
United States Senator



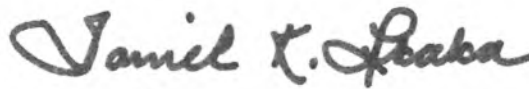
Claire McCaskill  
United States Senator



Kay Hagan  
United States Senator



Robert Casey  
United States Senator



Daniel Akaka  
United States Senator



Jeanne Shaheen  
United States Senator

# ALASKA STATE LEGISLATURE



November 23, 2011

The Honorable Leon E. Panetta, Secretary  
U.S. Department of Defense  
1400 Defense Pentagon  
Washington, DC 20301-1400

Dear Mr. Secretary,

We write to express our concern about some of the recommendations submitted by the Defense Business Board with regard to changing the military retirement system, primarily the recommendations to cut the military retirement benefits upon which our service members have been promised.

We understand the effort of balancing the budget and curbing costs for the Department of Defense, however, cutting benefits to military service members who protect our nation is not the avenue we hope the Department will act upon. Those active duty members who are currently serving were made promises by our nation regarding the benefits they would receive, and we as a nation have an obligation to keep those promises.

The suggested changes will jeopardize the recruitment and retention of our military and compromise the financial security of military families. The men and women who serve our country deserve a secure retirement. Moreover, the current retirement system is an incentive to preserving our volunteer military force. Many of our constituents have come to rely upon the current system to take care of their families after their time serving in the military. Altering this system and breaking the promises made will have a devastating impact on morale and a detrimental impact on our ability to attract the best and brightest to our armed forces.

We encourage you to continue providing a secure retirement for America's military by not reducing the military retirement system for those who are serving our country. While you continue to face decisions on balancing the budget, we truly hope you will reconsider cutting benefits to military members and their families and keep the benefits that have been promised.

We appreciate your consideration.

Sincerely,

Handwritten signature of Senator Bill Wielechowski.

Senator Bill Wielechowski

Handwritten signature of Senator Johnny Ellis.

Senator Johnny Ellis

Handwritten signature of Senator Joe Paskvan.

Senator Joe Paskvan

Handwritten signature of Senator Dennis Egan.

Senator Dennis Egan

Handwritten signature of Senator Hollis French.

Senator Hollis French

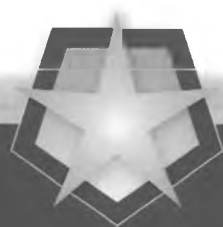
Handwritten signature of Senator Albert Kookesh.

Senator Albert Kookesh

Handwritten signature of Senator Donny Olson.

Senator Donny Olson

## DEFENSE BUSINESS BOARD



# Modernizing the Military Retirement System

Task Group

July 21, 2011

*These are the final briefing slides as approved by the Defense Business Board in their public meeting held July 21, 2011. The full DBB report, expected in August 2011, will contain more detailed text which will reflect the totality of the points discussed and modifications adopted by the Board during their deliberations.*

# Task Group Overview

## Terms of Reference

In order to support the Secretary of Defense's efficiency initiatives, review the current structure and function of the military retirement system. Begin with a review of the current reform thinking on military retirement benefits. This research and analysis will help to provide recommendations for optimizing the Department's military retirement system.

## Deliverables

Provide recommendations that will enable the system to be fiscally sustainable and recruit and retain the highest personnel required for our nation's defense.

## Task Group Members

Richard Spencer (Chair)

Patrick Gross

David Langstaff

Phil Odeen

Mark Ronald

Bobby Stein

Jack Zoeller

## DBB Executive Secretary

Catherine Whittington



# Methodology: Interviews

- **Current DoD**
  - Vice Chairman, Joint Chiefs of Staff (VCJCS)
  - Chief of Staff of the Air Force (CSAF)
  - Chief of Naval Operations (CNO)
  - Commandant of the Marine Corps (CMC)
  - Chief of Navy Reserve
  - Chief of Navy Personnel, DCNO, Manpower, Personnel, Training & Education, N1
  - Director, Plans and Resources, Office of the Deputy Chief of Staff of the Army, G1
  - Military Deputy for Budget, Office of the Assistant Secretary of the Army, Financial Management & Comptroller (ASA(F&MC))
  - Under Secretary of Defense for Personnel and Readiness (USD(P&R))
  - Director for Military Compensation (OUSD(P&R))
  - Joint Chiefs of Staff Working Group
  - Members who wrote the 11<sup>th</sup> Quadrennial Review of Military Compensation (QRMC)
- **Former DoD and Government Officials**
  - HON John Hamre
  - HON Ken Krieg
  - ADM Vern Clark, USN (Retired)
  - HON David M. Walker
  - HON Richard Danzig
- **Defense Ministries**
  - Canada
  - France
- **Institutes and Government Agencies**
  - Institute for Defense Analysis (IDA)
  - Congressional Budget Office (CBO)
  - Center for Strategic and International Studies (CSIS)
  - Center for Strategic and Budgetary Analysis (CSBA)
  - RAND Corporation
  - Office of Thrift Savings Plan
  - OSD Office of the Actuary



## Where We Are Today

- The All Volunteer Force has proven to be an outstanding success
- Congress has shown consistent support for the military through increases in both compensation and benefits
- Military compensation is higher than that of average civilians with similar education levels (see **Appendix A**)
  - Enlisted pay ranks in the top quartile of that of high school graduates
  - Officer pay ranks in the top quartile of that of college graduates
- Retiree healthcare (TRICARE) is significantly more generous than civilian programs
- Military retirement exceeds levels in the private sector
- 83% of military personnel receive no retirement benefits

# Findings

## **DoD has maintained the structure of its retirement benefits, which was created prior to the All Volunteer Force**

- Retirement plans are an important component of both private and public sector compensation systems
- Over the last few decades, private sector plans have shifted from defined benefit to defined contribution to address longer life spans and unaffordable costs
- The military retirement system has not materially changed for over 100 years
  - The current military retirement system was designed for an era when life spans were shorter,
  - Pay was not competitive with civilian pay, and
  - Second careers were rare since military skills did not transition easily to the private sector
- Military retirement funds are not able to be invested in higher yielding equities and bonds



## Findings (Continued)

### **Military retirement is more generous and expensive compared to the private sector**

- DoD pays retirees 40 years of retirement benefits for 20 years of service
  - Military skills are transferrable to the private sector
  - Second careers are now common for those retiring in their 40s
  - Payout after 20 years makes retention difficult – 76% leave between years 20 and 25
  - 20 years of service earns a lifetime of payments of 50%, ramping up to 87.5% for 35 years of service
- Retirement funds accrued for personnel serving less than 20 years are effectively applied to the benefits of those serving more than 20 years
- For those serving more than 20 years, the retirement contribution is 10 times greater than the private sector
  - Average private sector pension contributions range from 4-12% per year; military retirement benefit equates to 75% of annual pay per year for those who retire
  - Immediate payout after 20 years has no comparison in the private sector

**For FY11, total government contribution will be \$46B\*\***

\*\*Does not include \$64.1B in unfunded liability amortization payment



## Findings (Continued)

### **“One Size Fits All” has structural disadvantages**

- Surveys consistently report that military retirement has little value in recruitment or retention for at least the first 10 years of service
- The current plan is highly inflexible and especially poorly suited for periods of significant change (e.g., when downsizing the force)
  - It will be very difficult to release personnel with 15 or more years of service, yet these age groups are a likely target for downsizing
  - As a result, DoD will likely require special pay to ease transitioning out of the military (as was done in the 1990s), therefore, increasing costs
- The current system does not compensate for those in high risk situations or extenuating circumstances (e.g., combat duty, hardship tour, and separation from family)



# Assessment

## The Retirement Plan is Unfair

- The military retirement system lacks fairness in several dimensions.
  - Personnel serving 5, 10, even 15 years receive no retirement pay. Those serving 20+ years are endowed with a lifetime benefit.
  - The risky nature of military service is an important justification for the 20-year plan. However, most of the troops engaged in combat serve far less than the required 20 years. (Only 12%-13% of enlisted troops earn retirement pay).
- Retirement is a cost element attributable to each Service member, yet only 17% receive this benefit.
- There is no difference in retirement benefits between those who have served in high risk and low risk positions.

83% of those who serve will receive no retirement benefit



## Assessment (Continued)

### The Retirement Plan is Unaffordable

- The costs of military retirement will seriously undermine future military warfighting capabilities
- For each dollar of current pay, the retirement plan accrues 33 cents, for a total of \$24B\*\* in FY11
- Costs are rising at an alarming rate; future liability will grow from \$1.3T (of which \$385B is funded) to \$2.7T by FY34.
- Increases in inflation and life expectancy will further increase military retirement benefit costs
  - +1% inflation increase = \$3.0B military retirement benefit service cost increase
  - +1 year of life expectancy = \$300M military retirement benefit service cost increase

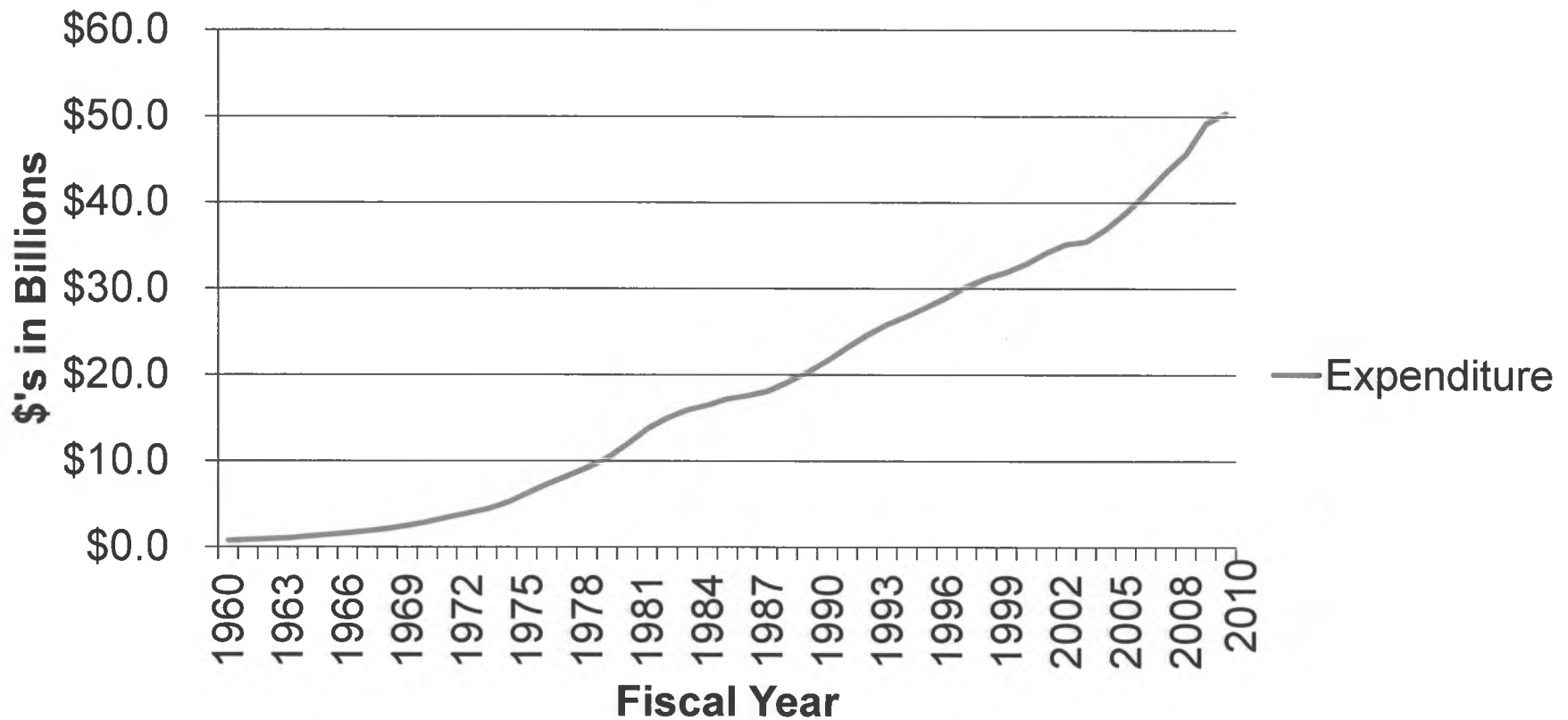
Action must be taken to contain these spiraling costs or they will undermine future warfighting capabilities

\*\*Does not include Treasury interest of \$22B



# Military Retirement Trust Fund Payments/Expenditures

## Military Retirement Trust Fund Expenditures by Fiscal Year



**Military retirement payments continue to increase (\$50B in 2010; \$108B in 2035)**

Source: Valuation of the Military Retirement System, September 2009, OSD Office of the Actuary, Dec 10



## Assessment (Continued)

### The Retirement Plan is Inflexible

- The current system cliff vests at 20 years of active service
- Personnel with fewer years of service earn no retirement
- Only 7% of personnel leave between the 15<sup>th</sup> and 20<sup>th</sup> year of service, compared to 76% of those serving 20 to 25 years
- Years served is the only factor in the retirement benefit calculation, regardless of whether the Service member's career risk profile is in an administrative role or a high risk combat role
- Modifying the retirement system would create an effective force shaping tool



# Recommendation

## A Comprehensive Solution: A New Defined Contribution Plan

- The most flexible and readily available plan would be based on the existing Uniformed Military Personnel Thrift Savings Plan (TSP), but with the government providing annual contributions (see **Appendix C**)
  - Payments into the plan would include an option for military member contributions
  - Plan accounts would be transportable into the private sector and back into the military
- DoD contributions could vary depending on circumstances, such as larger contributions for personnel at risk or on hardship tours
- The Defined Contribution Plan would provide flexibility to assist in force shaping and sizing
- The individual account would provide for rights for survivorship
- Fully disabled participants would qualify for an immediate pension formulated with VA benefits as presently structured



# Key Elements of A New Defined Contribution Plan

- Establish a mandatory TSP program for all Military Service Personnel
  - The government contribution, including extra incentives, would be funded at a percentage level comparable to the highest end of a private sector pension plan
  - The plan would vest after 3 to 5 years, payable at age 60 to 65 (or Social Security age)
  - Partial withdrawals (or loans) to cover education, healthcare, or other specified emergencies
- Plan would be risk adjusted to recognize combat roles, family separation, and other unusual duty, for example:
  - Double contributions for years in combat zones or high risk positions
  - Greater contributions for hardship tours
  - Retirement age could be lowered using similar metrics
- Like most private sector severance plans, the option of a time formulated transition payment should be considered to facilitate the change to a new career
- Comprehensive solution would apply to reserve as well as active duty personnel

The new plan would enhance fairness and flexibility, and provide a more affordable cost structure



# Attributes of A New Defined Contribution Plan

## ■ Individual Features

- Uniformed Military Personnel TSP individual account
- Payout options to include: traditional payout, annuity, or lump sum
- Partial payout options to include: education, home ownership, or business acquisition
- Right of survivorship transferability upon death

## ■ Military Service Features

- Affordable, fair, and flexible solution to current system
- Risk profile multiplier and vesting option provides tool for force management either encouraging or discouraging retention
- Active Duty and Reserves under one plan

## ■ Coverage

- No impact on existing retired population
- Fully disabled veterans not effected by new plan

## ■ Transition Alternatives for All Present Active Duty Personnel

- Higher Cost Alternative – No transition (see **Appendix E**)
- Lower Cost Alternative – Immediate transition with no loss of accrued benefits (see **Appendix F**)



# Conclusions

- The current military retirement system is out of date.
  - It is unfair, unaffordable, and inflexible.
  - As costs escalate, the continuation of the system will seriously erode future military capabilities.
- A comprehensive alternative that would fix these shortcomings is required.
  - All military personnel earn retirement benefits.
  - Costs are far more manageable in future years.
  - Contributions are flexible and reward longer service, high risk assignments, and family separation.
  - Retired and disabled members would be unaffected. They would still receive current benefits.
- Modifying the existing system to reduce cost would have to be dramatic to address affordability. The system would continue to be unfair and inflexible.
- Implementation should be phased-in to ensure current military personnel are treated fairly with due consideration to cost.



HR 3520 IH

112th CONGRESS

1st Session

**H. R. 3520**

To amend title 10, United States Code, to ensure that the retired pay benefits promised a person when they join the Armed Forces are not reduced.

**IN THE HOUSE OF REPRESENTATIVES****November 29, 2011**

Mr. YOUNG of Alaska introduced the following bill; which was referred to the Committee on Armed Services

**A BILL**

To amend title 10, United States Code, to ensure that the retired pay benefits promised a person when they join the Armed Forces are not reduced.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

**SECTION 1. SHORT TITLE.**

This Act may be cited as the 'Keeping Our Promises Act of 2011'.

**SEC. 2. PROTECTION OF RETIRED PAY BENEFITS FOR CURRENT MEMBERS OF THE ARMED FORCES.**

Section 1411 of title 10, United States Code, is amended by adding at the end the following new subsection:

`(c) No Reduction in Retired Pay Benefits for Current Members- Notwithstanding the effective date or specified applicability of any change regarding the entitlement of members or former members of the armed forces to retired or retainer pay under this title or to the computation of such retired or retainer pay under the formulas of the table in section 1401(a) of this title or of any other provision of law, the change shall not apply to a member or former member who first became a member of the armed forces before the effective date of the change unless--

`(1) the member or former member affirmatively accepts the change; or

`(2) the change would have the effect of expanding the entitlement or eligibility of the member or former member to retired or retainer pay or increasing the amount of such retired or retainer pay.'.

END

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## ★ TAKE ACTION

### Protect Military Pensions

The Pentagon is considering a system that would cut and privatize military retirement in order to reach its budget reduction goals. Instead of being eligible for a pension after twenty years, servicemembers will contribute to a 401k every month that cannot be accessed until they reach traditional retirement age.



11

Please sign our petition to Secretary Panetta below!

Dear Secretary Panetta,

We are concerned about the proposed plan to cut and privatize military retirement. Not all careers are created equal, and our troops deserve a retirement system that respects their sacrifice, both now and in the future. The Pentagon budget should not be balanced on the backs of servicemembers and their families. We should not do so, especially, when we are overpaying for unnecessary defense contracts and extending our commitment in wars that aren't making us any safer. It is simply unacceptable to ask troops to today or in the future to throw their pension on a Wall Street roulette wheel. Additionally, by gutting the guaranteed pension program, we destroy one of the key programs that helps the military recruit and keep its best and brightest. If we end the pension system as we know it down the road, we almost certainly will lose many men and women who would otherwise make a career of military service. For these reasons, we find this proposal unacceptable and ask that you keep the current retirement system that respects the sacrifice of the men and women who defend this nation.

First Name\*

Last Name\*

Email\*

Street

City

State/Province

Zip/Postal Code\*

I am a Veteran

Where have you served?

Feel free to add additional comments here:

1-25 of 11847 signatures

| Number | Date                         | Name             | Location              | Feel free to add additional ...   |
|--------|------------------------------|------------------|-----------------------|---|
| 11847  | Wed Feb 01 08:38:32 EST 2012 | George Bames     | Wallkill , NY         | Mr. secretary, To compare our pensions to private sector the way you did is just wrong and you know it. |
| 11846  | Wed Feb 01 00:44:57 EST 2012 | Felix Rivera Jr. | South Farmingdale, NY | This does not play well with us.  |
| 11845  | Tue Jan 31 14:22:18 EST 2012 | Roy Adams        | NC                    |   |
| 11844  |                              | Michael Jensen   | Orion, MI             |   |