



Statement of the Fleet Reserve Association
on
Military Compensation and Benefits

Submitted to the:

Military Compensation and Retirement
Modernization Commission

By

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The FRA

The Fleet Reserve Association (FRA) welcomes the opportunity to submit this statement to the Military Compensation and Retirement Modernization Commission (MCRMC). The FRA is the oldest and largest enlisted organization serving active duty, Reserves, retired and veterans of the Navy, Marine Corps, and Coast Guard. It is Congressionally Chartered, recognized by the Department of Veterans Affairs (VA) as an accrediting Veteran Service Organization (VSO) for claim representation and entrusted to serve all veterans who seek its help. In 2007, FRA was selected for full membership on the National Veterans' Day Committee.

FRA was established in 1924 and its name is derived from the Navy's program for personnel transferring to the Fleet Reserve or Fleet Marine Corps Reserve after 20 or more years of active duty, but less than 30 years for retirement purposes. During the required period of service in the Fleet Reserve, assigned personnel earn retainer pay and are subject to recall by the Navy.

FRA's mission is to act as the premier "watch dog" organization in maintaining and improving the quality of life for Sea Service personnel and their families. FRA is a leading advocate on Capitol Hill for enlisted active duty, Reserve, retired and veterans of the Sea Services. The Association also sponsors a National Americanism Essay Program and other recognition and relief programs. In addition, the FRA Education Foundation oversees the Association's scholarship program that presents awards totaling over \$125,000 to deserving students each year.

The Association is a founding member of The Military Coalition (TMC), a 33-member consortium of military and veteran's organizations. FRA hosts most TMC meetings and members of its staff serve in a number of TMC leadership roles.

FRA is celebrating 89 years of service in November 2013. For almost nine decades, dedication to its members has resulted in legislation enhancing quality of life programs for Sea Services personnel, other members of the uniformed services plus their families and survivors, while protecting their rights and privileges. CHAMPUS, (now TRICARE Standard) was an initiative of FRA, as was the Uniformed Services Survivor Benefit Plan (USSBP). More recently, FRA led the way in reforming the REDUX Retirement Plan, obtaining targeted pay increases for mid-level enlisted personnel, and sea pay for junior enlisted sailors. FRA also played a leading role in advocating recently enacted predatory lending protections and absentee voting reform for service members and their dependents.

FRA's motto is: "Loyalty, Protection, and Service."

Introduction

The current All Volunteer Force (AVF) has been through a dozen years of wartime sacrifices never envisioned by those who designed a voluntary military force. The U.S. military is a stressed force with many serving in multiple deployments in Iraq and Afghanistan. The current benefit package is the glue that holds the all-volunteer force together, and any budget-driven cuts in pay and benefits could have adverse impact on recruitment and retention and ultimately threaten the very foundation of the AVF.

The whole purpose of a unique military retirement pay and health care benefit is to offset the extraordinary demands and sacrifices expected in a military career. FRA advocates that to sustain a first-class, career military force requires a strong bond of mutual commitment between the service member and his/her employer.

Sequestration, CR, and DoD Budget

There's uncertainty and growing anxiety within the active duty, Reserve and retiree communities regarding the effects of sequestration and major concerns about delayed approval of the FY 2013 spending package and the Administration's FY 2014 budget request. This is reflected in responses to FRA's February 2013 on-line survey indicating that 90 percent of retirees were "very concerned" about the situation– the highest rating. FRA urges the Administration and Congress to work together to ensure sufficient funding for FY 2014 and beyond. Former Secretary of Defense (SecDef) Leon Panetta stated that sequestration cuts "would do catastrophic damage to our military, hollowing out the force and degrading its ability to protect the country." It is significant that defense spending totals 17 percent of the federal budget, yet 50 percent of the sequestration cuts are targeted for the Department of Defense (DoD). Operations are winding down in Afghanistan, however, the Nation is still at war and slashing DoD's budget further will not reduce the associated threats. FRA welcomed the agreement to re-open the government until January 15, 2014 and extend the debt ceiling until February 7 of next year. But the Association regrets that the agreement did not at least provide additional flexibility for DoD regarding the next round of sequestration cuts that take effect January 15, 2014.

FRA supports the "Down Payment to Protect National Security Act" (S. 263), sponsored by Sen. Kelly Ayotte (N.H.) and its House companion bill (H.R. 593) sponsored by House Armed Services Committee Chairman Rep. Howard "Buck" McKeon, (Calif.) that would amend the Budget Control Act (BCA) by excluding the DoD budget from the next round of sequestration cuts mandated by the BCA.

FRA supports a defense budget of at least five percent of GDP that will adequately fund both people and weapons programs, and is concerned that the Administration's spending plan is not enough to sufficiently support both.

Active Duty/Reserve Pay

FRA strongly supports a 2014 full Employment Cost Index (ECI) military pay increase of 1.8 percent. The Rand Corporation released a study last year recommending smaller military pay increases starting in FY 2015. The study is one of many recent reports echoing the same tired refrain that pay and benefits are too generous. The study indicates that military pay increased faster than civilian pay since 2000, but ignores the fact that military pay increases lagged behind civilian pay during the 1990s resulting in a 1999 pay gap of 13.5 percent, which contributed to major recruitment and retention problems. The study suggests that smaller pay increases will not significantly impact retention and recruitment due to the relatively high unemployment rate throughout the economy. FRA strongly disagrees and believes the current high rate of unemployment will not continue indefinitely, and that pay for the all-volunteer military should accurately reflect service and the sacrifices borne by those who serve and their families. As Alex Keenan wrote in *Navy Times* (03-11-13), “The plain truth is that if we want the best, most-highly trained, most capable military in recorded history, we have to be collectively willing to pay the monetary price – not only because it benefits our own national security, but because the people wearing the uniform are willing to pay an even higher price if called upon.”

Reserve Component Issues

FRA stands foursquare in support of the Nation’s Reservists and to improved compensation and benefits packages to attract recruits and retain currently serving personnel. These changes should include eliminating the fiscal year early retirement limitation which is addressed in the “Reserve Retirement Deployment Credit Correction Act” (S. 240) sponsored by Sen. Jon Tester (Mont.) and its House companion bill (H.R.690), sponsored by Rep. Tom Latham (Iowa).

FRA also supports making early retirement credit retroactive to September 11, 2001, after which the Reserve Component changed from a strategic Reserve to an operational Reserve that’s vital in prosecuting the war efforts and other operational commitments.

FRA supports the “Healthcare for Early Retirement Eligible Reservists Act” (H.R. 738), sponsored by HASC Personnel Subcommittee Chairman Rep. Joe Wilson (S.C.), that would allow retirees of the Reserve Component to receive medical and dental care at military treatment facilities (MTF) or VA facilities prior to reaching age 60. The FY 2009 NDAA granted qualifying Reservists early retirement, but did not authorize healthcare benefits . In addition Reservists in the Individual Ready Reserve (IRR) have no access to health care.

The Association also supports restoring the Reserve Montgomery GI Bill benefits to at least 47 percent of active duty MGIB benefits. Further FRA recommends funding of a tailored Transition Assistance Program (TAP) to meet the unique needs of Reservists, including academic protections for mobilized Reservists students such as refund guarantees, exemption from repayment of federal student loans during activation, and maintaining academic standing.

Retiree Pay

Many wrongly believe that the retired service members receive “50 percent of pay after 20 years of service,” but that is not true. The retired pay calculation is based solely on base pay. Unlike many civilian retirement programs that are based on total compensation (including locality differentials), military housing (BAH) and subsistence allowances are excluded from retired pay calculations. In fact a twenty-year retiree’s retirement pay only replaces 34-37 percent of gross active-duty pay and allowances.

“Personnel expenditures are directly associated with defense readiness and renegeing on past commitments by imposing drastic health care fee hikes on military retirees will negatively impact recruiting and retention. Threats to also cut retirement benefits and other quality-of-life programs are major concerns within the active and reserve military communities and are viewed as devaluing military service....Military retirees who are younger than 65 and are enrolled in TRICARE Prime experienced a 13-percent increase in their annual enrollment fees last year, and these fees will increase annually based on inflation. Pharmacy copays will also increase in 2013.”¹

COLA Adjustments

The Administration’s FY 2014 budget request includes a plan to calculate future cost of living adjustments (COLAs) for inflation adjusted benefits by using the chained Consumer Price Index (CPI) in lieu of the current Consumer Price Index (CPI). The so-called “chained CPI” takes into account the effect of substitutions consumers make in response to changes in prices. FRA believes that change over time would have a significant cumulative impact on the annual COLAs for military retirees and personnel receiving veterans’ benefits.

In addition, under current law, military retired pay is rounded down to the next lowest dollar. For many enlisted retirees, their retired pay is sometimes the sole source of income for them and their dependents. Over time, the effect of rounding down can be substantial for these personnel and FRA supports a policy change to rounding up retiree COLAs to the next highest dollar.

TRICARE Benefits and Fee Increases

FRA’s membership appreciates the following Sense of Congress provisions in the FY 2013 National Defense Authorization Act (NDAA): (1) DoD and the Nation have a committed health benefit obligation to retired military personnel that exceeds the obligation of corporate employers to civilian employees; (2) DoD has many additional options to constrain the growth of health care spending in ways that do not disadvantage beneficiaries, and (3) DoD should first pursue all options rather than seeking large fee increases or marginalize the benefit for beneficiaries.

Health care dominated priorities for military retirees responding to FRA’s 2013 on-line survey , with quality of health care benefits rated as “very important” by over 95% of respondees. Access to the benefit followed in importance as indicated by over 94% of those participating in the survey.

¹ FRA Letter to the Editor of *The Washington Post* dated December 7, 2012, Joe Barnes NED

At the start of the FY 2013 DoD was scheduled to reduce TRICARE Prime Service Areas, a change that will affect more than 170,000 retirees and their qualified family members and require enrollment in TRICARE Standard. Our members are voicing serious concerns about this change due to the higher costs associated with TRICARE Standard.

FRA understands that under the new TRICARE contracts access to TRICARE Prime is limited to within 40 miles of a Military Treatment Facilities (MTF) and in areas affected by the 2005 base closure and realignment process. FRA believes current TRICARE Prime beneficiaries that live outside the TRICARE Prime Service Area (PSA) should be allowed to continue to have access to TRICARE Prime coverage (grandfathered) until they re-locate or change their current primary care provider.

Beyond the Military Health Agency (MHA) transitioning to a more integrated delivery model that will leverage a shared service approach to common functions, FRA believes that DoD must sufficiently investigate and implement other options to make TRICARE more cost-efficient as alternatives to shifting costs to TRICARE beneficiaries.

Concurrent Receipt

FRA continues its advocacy for legislation authorizing the immediate payment of concurrent receipt of full military retired pay and veterans' disability compensation for all disabled retirees. The Association appreciates the progress that has been made on this issue that includes a recently enacted provision fixing the Combat Related Special Compensation (CRSC) glitch that caused some beneficiaries to lose compensation when their disability rating was increased. There still remain Chapter 61 retirees receiving Concurrent Retirement and Disability Pay (CRDP) and CRDP retirees with 20 or more years of service with less than 50 percent disability rating that should receive full military retired pay and VA disability compensation without any offset.

The Association strongly supports pending legislation to authorize additional improvements that include Senate Majority Leader Harry Reid's legislation (S.234), Rep. Sanford Bishop's "Disabled Veterans Tax Termination Act" (H.R. 333) and Rep. Gus Bilirakis' "Retired Pay Restoration Act" (H.R. 303).

SBP/DIC Offset Repeal

FRA supports the "Military Surviving Equity Act" (H.R. 32) sponsored by Rep. Joe Wilson (S.C.) and its Senate companion bill (S. 734) sponsored by Sen. Bill Nelson (Fla.), to eliminate the Survivor Benefit Plan (SBP)/Dependency and Indemnity Compensation (DIC) offset for widows and widowers of service members. These bills would eliminate the offset, also known as the "widow's tax," on approximately 60,000 widows and widowers of our Armed Forces.

SBP and DIC payments are paid for different reasons. SBP is purchased by the retiree and is intended to provide a portion of retired pay to the survivor. DIC is a special indemnity compensation paid to the survivor when a member's service causes his or her premature death. In such cases, the VA indemnity compensation should be added to the SBP the retiree paid for, not

substituted for it. It should be noted as a matter of equity that surviving spouses of federal civilian retirees who are disabled veterans and die of military-service-connected causes can receive DIC without losing any of their federal civilian SBP benefits.

Retention of Final Full Month's Retired Pay

FRA urges the Subcommittee to authorize the retention of the full final month's retired pay by the surviving spouse (or other designated survivor) of a military retiree for the month in which the member was alive for at least 24 hours. FRA strongly supports "The Military Retiree Survivor Comfort Act" (HR 1360), introduced by Rep. Walter Jones (N.C.) that achieves this goal.

Current regulations require survivors of deceased military retirees to return any retirement payment received in the month the retiree passes away or any subsequent month thereafter. Upon the demise of a retired service member in receipt of military retired pay, the surviving spouse is to notify DoD of the death. The Department's financial arm (DFAS) then stops payment on the retirement account, recalculates the final payment to cover only the days in the month the retiree was alive, forwards a check for those days to the surviving spouse (beneficiary) and, if not reported in a timely manner, recoups any payment(s) made covering periods subsequent to the retiree's death. The recouping is made without consideration of the survivor's financial status.

The measure is related to a similar pay policy enacted by the VA. Congress passed a law in 1996 that allows a surviving spouse to retain the veteran's disability and VA pension payments issued for the month of the veteran's death. FRA believes military retired pay should be no different.

Protect the Commissary and Exchange Systems

Military commissaries and exchanges are essential parts of the military benefit package and FRA's on-line survey completed in February 2013 indicates that nearly 61 percent of retirees rated Commissary/Exchange privileges as "very important." FRA is a member of the recently established Coalition to Save Our Military Shopping Benefits. The Coalition now has 13 member organizations representing 1.5 million service members, veterans, and their families, many of which are authorized patrons of the resale system.

A new study by the Resale and MWR Center for Research entitled "Costs and Benefits of the DoD Resale System" indicates that these programs provide military members, retirees and their families with shopping discounts worth \$4.5 billion annually. These stores are the biggest employers of military family members with 50,000 spouses, dependent children, retirees and veterans on the payrolls, adding \$884 million a year to military household incomes. The Association notes with concern DoD's plans to soon issue furlough notices to the Defense Commissary Agency (DeCA) employees and close commissaries on Mondays for the remainder of the fiscal year due to sequestration related cuts to operating accounts of 9.2 percent.

The report also indicates that approximately \$545 million a year from store operations is reinvested in base infrastructure. This is from profits of military exchanges and from a five-percent surcharge collected at cash registers in commissaries. These facilities and capital

improvements become assets on the balance sheet of the Federal government. Exchange profits also fund important base morale, welfare and recreation programs (MWR) that contribute to an enhanced quality of life for military beneficiaries.

Child Care and Family Housing

Access to affordable, quality child care must be a high priority for all the military services. Adequate and reliable child care helps reduce stress on a military family – especially when one of the parents is deployed. Master Chief Petty Officer of the Navy (MCPON) Michael Stevens' March 19, 2013 statement to the House Military Construction and Veterans Affairs Appropriations Subcommittee state that Navy Child Development Centers (CDC) provide quality care that is affordable when compared to commercial programs that charge based on age (children age three and under the most expensive and typically most junior enlisted have younger children); whereas Navy fees are based on total family income. Sergeant Major of the Marine Corps Micheal Barrett also testified before the Subcommittee indicating that the Marine Corps is scheduled to increase CDC spaces in FY 2013-2014. The Navy completed its CDC multi-year expansion efforts last year that added 7,000 new child care spaces to meet the Office of Secretary of Defense (OSD) guidance to provide 80 percent of potential child care needs. This expansion reduced waiting times to three-months or less. The impact of sequestration on CDCs is unclear. Some centers are staffed by non-appropriated fund (NAF) workers who will not be affected by furloughs. Others are staffed by civilian government employees and some by a combination of both. Centers staffed by DoD civilians will be impacted by furloughs.

Regarding military housing, the Marines have more than 24,000 homes and 96 percent are privatized (PPV). The Marine Corps reports that PPVs improve family housing, community centers, and playgrounds creating more of a sense of community. The Navy has privatized 97 percent of its homes in CONUS and Hawaii. The Navy will begin construction of new housing at the Naval Base Coronado, Calif. for 468 E-1 through E-4 Sailors. The Navy is working to reduce inadequate housing from 37 percent currently, to 10 percent by FY 2019.

FRA believes there is also a need to reform enlisted housing standards by allowing E-7s and above to reside in separate homes, track the Basic Allowance for Housing (BAH) to ensure it is commensurate with actual housing costs, ensure adequate housing inventory and that housing privatization programs are beneficial to service members and their families.

Uniformed Services Former Spouses Protection Act (USFSPA)

The antiquated Uniform Services Former Spouse Protection Act (USFSPA) has had a significant impact on current and former service members pay. According to Military.com writer Amy Bushatz, "The military divorce rate went down slightly in 2012, settling at 3.5 percent from the record high 3.7 percent in 2011. Military officials and divorce experts are hopeful that the overall rate, which had crept slowly up from 2.6 percent in 2001 to 3.7 percent in 2011, is starting to move downward." Female enlisted soldiers and Marines, however, continue to experience the

highest rate of divorce – 9.4 percent and 9.3 percent respectively. In the Army, the female enlisted divorce rate is more than triple that of enlisted males.”

Related to these statistics, FRA urges Congress to review the Uniformed Services Former Spouses Protection Act (USFSPA) with the intent to amend the language so that the Federal government is required to protect its service members against State courts that ignore the Act.

The USFSPA was enacted 30 years ago; the result of Congressional maneuvering that denied the opposition an opportunity to express its position in open public hearings. The last hearing, in 1999, was conducted by the House Veterans’ Affairs Committee rather than the House Armed Services Committee which has oversight authority for USFSPA.

Few provisions of the USFSPA protect the rights of the service member, and none are enforceable by the Department of Justice or DoD. If a State court violates the right of the service member under the provisions of USFSPA, the Solicitor General will make no move to reverse the error. Why? Because the Act fails to have the enforceable language required for Justice or the Defense Department to react. The only recourse is for the service member to appeal to the court, which in many cases gives that court jurisdiction over the member. Another infraction is committed by some State courts awarding a percentage of veterans’ compensation to ex-spouses, a clear violation of U.S. law; yet, the Federal government does nothing to stop this transgression.

There are other provisions that weigh heavily in favor of former spouses. For example, when a divorce is granted and the former spouse is awarded a percentage of the service member’s retired pay, the amount should be based on the member’s pay grade at the time of the divorce and not at a higher grade that may be held upon retirement.

FRA believes that the Pentagon’s USFSPA study recommendations are a good starting point for reform. This study includes improvements for both former spouse and the service member.

Conclusion

FRA is grateful for the opportunity to provide these recommendations to the distinguished members of this Commission.

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John Davis served in the United States Marine Corps Reserve in an artillery unit (155 self-propelled howitzers) and as a Second Lieutenant in the Illinois Army National Guard in the 1980s. He joined the FRA team as Director, Legislative Programs in February 2006. In addition to his FRA duties, Davis was recently elected (November 7, 2013) Co-Chairman of the Military Coalition (TMC) and co-chairs the TMC Retired Affairs Policy Committee.

John worked for almost 13 years with the National Federation of Independent Business (NFIB), including 9 years as Director of the Illinois chapter and 3 ½ years in the federal lobbying office in Washington DC. John has lobbied on a variety of issues including healthcare, tort reform, education, insurance, taxation, and labor law.

In 2005 John received a Masters of Public Policy (MPP) degree from Regent University, Alexandria VA. John has a Bachelor of Science degree from Illinois State University in Political Science and History. John is a proud father of two children: Anne age 31 and Michael age 28 who deployed to Iraq and later Afghanistan with his Marine Corps Reserve unit from Quantico Va. (4th LAR).