

Prepared Statement

of

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Readiness**

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Chairman Wilson, Congressman Davis and distinguished members of the subcommittee, thank you for the opportunity to come before you on behalf of the men and women who so ably serve in the uniforms of our nation's armed forces.

I am here today to speak to you about the state of the military retirement system for our uniformed services. Since the military transitioned to an All Volunteer Force, military compensation has been under continuous scrutiny. The primary goals of the military compensation system are to attract, retain, distribute, and eventually separate members so the U.S. can field a force to deter potential enemies, and when called upon, succeed on the battlefield. Even though some consider military benefits significant, we must remain cognizant that they support the brave men and women who volunteer to defend this great nation.

These men and women are a very small portion of our population, and they bear significant burdens on behalf of our nation. They endure substantial physical risks and many have deployed multiple times. They uproot their families frequently in support of our national defense. Our nation places great demands on them and has great expectations of them. Our recognition and remuneration of them should be equally significant and should acknowledge their continued sacrifices. Some believe the military retirement system is rich and generous when compared to the private sector. While compensation should be in line with the private sector, it should not be the same. The sacrifices these men and women bear are very different and these differences should be reflected in their compensation.

Today's military retirement system was created in an earlier era, long before the advent of the All Volunteer Force. The retirement system for active duty members is a defined benefit plan that is based upon years of service (YOS) and the basic pay earned near the end of the member's career. To qualify for regular retirement, the member must complete at least 20 years

of active duty or equivalent service. This is referred to as cliff vesting at 20 years. The monthly retired pay begins immediately after retirement and is a lifetime entitlement. The reserve components and National Guard have a related but somewhat different retirement system.

In general, the military retirement system accomplishes the purpose for which it was designed. The 20-year cliff vesting schedule provides a strong incentive to attain 20 years of service, especially for those who have served at least 10 years. After completing 20 years of service the incentive is to leave active duty shortly thereafter.

The current military retirement system has a number of advantages. It is generally well understood, predictable, and robust. It also influences retention behaviors across the force in a manner that varies little from year to year, allowing force managers to forecast accurately and ensure each Service retains sufficient manpower by strength, skill, and specialty.

A number of criticisms, however, have also been leveled at the current military retirement system. Some have argued that the current system defers too much of military compensation until later years and that more of this deferred compensation should be placed in current cash compensation. Others complain that because vesting in the current system does not occur until a member has served 20 years, only a fraction of the force receives any retirement benefit; in fact, most leave with no retirement benefits. Despite these criticisms, the current military retirement system has served the Department well. Over time, however, while the military retirement system has remained essentially the same, the world and private-sector compensation practices have changed.

At the time the Department transitioned from the draft to the All Volunteer Force, private sector employees often remained with one employer for an entire career. Defined benefit

retirement plans with cliff vesting schedules were common and retirement benefits were not as portable as they are today.

Over time, the demographics of the workforce have changed. Unlike their predecessors, the generation entering the workforce today expects to work for many employers over the course of a career. Life expectancies have increased, and second or multiple careers have become the norm. Private sector retirement plans have changed to more closely align with the changing workforce. Today, portable, defined contribution plans, such as 401(k) plans, are the norm, and defined benefit retirement plans with cliff vesting have become much less common.

Companies in the private sector have adjusted and reacted to these changes, with many routinely hiring employees in the mid and senior levels from outside the company workforce. While the Department has some flexibility in this area, the services must grow most of their military workforce internally. It generally takes 15 to 20 years to develop the next generation of infantry battalion commanders and submarine captains. As a result, the Department must ensure military compensation, promotions, and personnel policies all foster greater retention and longer careers necessary to create these experienced leaders. This need for greater longevity and continuity suggests there are valid reasons why mirroring a private sector compensation package may not necessarily be the proper approach for the military.

The Department recognizes the generous funding and support the Congress has provided to sustain our military, especially over the past decade in which the country has been at war. However, the Department also recognizes the importance and urgency of addressing the prolonged economic downturn and the country's current fiscal situation. As such, the Department expects to do its part.

Over the past year, the Department has begun reviewing the military retirement system in order to identify possible changes or alternative systems. The officer, enlisted, and civilian leadership of all Services, from the active duty, reserve, and National Guard components as well as the United States Coast Guard are participating. The review is designed to be deliberate, careful, and pragmatic. The Defense Business Board proposal is one of several proposals that are being reviewed and modeled to determine the impact on recruiting and retention. The Department is working to strike the right balance, weighing the impact of a new system on recruiting and retention, considering the welfare of the individual service member and family and, acknowledging our responsibilities to the American taxpayer.

As history has shown, changing the military retirement system is difficult, and the impacts of the changes are often only felt many years after the change. As this Congress knows, the changes to the military retirement system in the mid-1980s to the REDUX military retirement system, required rethinking after problems with retention surfaced 10-15 years after implementation. The Department is determined to avoid the same delayed impacts felt following the changes to the REDUX system, if changes are made to the current retirement system.

Before proposing changes to the military retirement system or any part of the military pay and benefits structure, however, the Department is committed to conducting significant evaluation and in-depth analysis of any proposal. The Department must ensure its ability to continue recruiting and retaining the highest quality All Volunteer Force. The Department needs to ensure any proposed changes do not break faith with current members and must also understand, to the fullest extent possible, the impact of any changes on the future of our All Volunteer Force.

At this time, the Department does not have any specific proposals or recommendations ready to offer. Within the last month, the President recommended forming a Commission to review the military retirement system. , The Department expects to provide significant input to the Commission, and also expects that any proposals offered will similarly be presented to the Congress and to this subcommittee for discussion and evaluation. I look forward to continuing to work with each of you as the Department moves forward on this issue. I thank you again for the opportunity to testify and for your continued support of our military members and their families. I look forward to your questions.