MCRMC Recommendations Overview
Military Compensation and Retirement Modernization Commission

Congressional Mandates

- Established by the FY13 NDAA* to conduct a review of military compensation and retirement systems and to make recommendations to modernize them to:
  
  - **ensure the long-term viability of the All-Volunteer Force** by sustaining the required human resources of that force during all levels of conflict and economic conditions
  
  - **enable the quality of life for members** of the Armed Forces and the other uniformed services and their families in a manner that fosters successful recruitment, retention, and careers for members of the Armed Forces and the other uniformed services
  
  - **modernize and achieve fiscal sustainability** for the compensation and retirement systems for the Armed Forces and the other uniformed services for the 21st century

- Required to submit a report by February 1, 2015, to the President of the United States and Congress

Military Compensation and Retirement Modernization Commission
Commission’s Process

**Key Inputs**
- Presidential Principles (Sep. 12, 2013)
- Deputy Secretary of Defense (DSD) letter outlining DoD’s efforts to identify potential compensation efficiencies (Nov. 1, 2013)
- DSD letter with retirement reform options for the Commission’s consideration (Mar. 6, 2014)
- Chairman Joint Chiefs of Staff (JCS) memorandum providing JCS compensation reform principles (Mar. 6, 2014)
- Commission survey of more than 450,000 Active Component (AC) and Reserve Component (RC) Service members, plus 1.3 million retirees, with more than 150,000 survey responses

**Outreach**
- Held 8 town halls across the country with Service members, retirees, their families, and the general public
- Conducted 8 public hearings with installation commanders, noncommissioned officers, spouses, and representatives of advocacy groups with specific experience in military compensation, health care, and quality of life issues
- Visited 55 installations throughout continental United States, isolated locations, and overseas
- Met with 98 Military and Veterans Service Organizations, academic institutions, and other private entities
- Held 55 Commissioner executive session meetings

**Interagency Working Groups**
- DoD health care and costing working groups
- Military Coalition retirement and health care working groups
- Numerous staff-level data-gathering meetings
Ensure the Viability of the All-Volunteer Force “Do No Harm”

Maintain/Improve Overall Value of Compensation and Benefits to Service Members

Maintain/Improve Flexibility of Compensation and Benefits System for Services

Overall Design of Compensation and Benefits Package (Status Quo Remains Appropriate)

Compensation and Benefit Program Effectiveness and Efficiency

Level of Compensation and Benefits (Service Flexibility)

Delivering Benefits as Intended?

Delivering Benefits Cost-Effectively?

Clear Path to Modernization?

15 Commission Recommendations
## Military Compensation and Retirement Modernization Commission

### Effects on a Leave and Earnings Statement

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| Monthly Pay                                      | $3,616.24                    | $3,807.38                        | $191.14                  |
Assets of a Retiring Active-Duty E7, Current vs. Blended Retirement Plans

- Current Plan:
  - Service Member TSP Contribution and Investment Returns: $201,282
  - Other: $161,025

- Blended Plan:
  - Service Member TSP Contribution and Investment Returns: $217,131
  - Continuation Pay and Investment Returns: $16,940
  - Government TSP Contribution and Investment Returns: $31,518
  - Defined Benefit Value: $39,166

Total:
- Blended Plan: $248,649
- Current Plan: $391,347

Chart 6
Recommendation 1: Retirement

Findings

- 83% of Service members leave service without any Government-sponsored retirement assets
- Current Service force profiles can be maintained with a blended retirement system consisting of most of the current defined benefit, defined contribution through Thrift Savings Plan (TSP), and continuation pay at 12 years of service (YOS)
- A blended retirement plan is expected to increase the Government-sponsored assets that Service members have available at 20 YOS (with investment of continuation pay)
- Service members would benefit from additional choice in structuring their defined benefit annuities
- Services would benefit from flexibility to create differing force profiles for various career fields

Recommendation (Details on Following Slide)

- Grandfather current Service members and retirees, but allow opt-in to blended retirement plan
- Implement automatic enrollment and matching TSP for all Service members
- Set defined benefit multiplier at 2.0 (40% of base pay for Service members who retire with 20 YOS)
- Implement continuation pay at 12 YOS to provide midcareer retention incentives

Costs (Savings)

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Chart 7
Recommendation Details

• Defined benefit
  – Maintain vesting at 20 YOS for standard retirement
  – Set defined benefit multiplier at 2.0 vs. current 2.5

• Defined contribution (TSP)
  – Automatic enrollment of Service members to contribute 3% of basic pay at service entry date
  – Automatic Government contributions of 1% of Service members’ basic pay at service entry date
  – Government matching of Service member contributions of up to 5% of basic pay from beginning of YOS 3 through YOS 20
  – Vesting at beginning of 3 YOS (2 years and 1 day)

• Continuation pay at 12 YOS to provide midcareer retention incentives
  – “Basic continuation pay” of 2.5 times monthly basic pay for Active Component (AC) members (0.5 of AC pay for Reserve Component (RC) members)
  – Additional continuation pay from Services as needed to maintain desired force profiles

• Service member defined benefit annuity choice
  – Choice to receive all or part of pre-Social Security age defined benefit annuities as lump-sum payments
  – Full annuities resume at full Social Security receipt age to ensure steady old-age income

• Service career field flexibility
  – Authority to propose adjustments to YOS to qualify for defined benefit annuity for individual career fields
  – Enables differing force profiles to resolve long-term manpower challenges
  – Requires 1-year waiting period after YOS adjustment is proposed to the Congress
Military Compensation and Retirement Modernization Commission

Recommendation 3: Financial Literacy

Findings
• Lack of choice in current compensation programs result in complacency and insufficient knowledge among Service members with regard to managing their personal finances
• 90% of Service members indicated they would like to receive more financial education; 82% indicated their spouse should be included
• Service members appear to be more at risk than the national population when managing financial products

Recommendation
• Increase the frequency and strengthen the content of financial literacy training
• Provide professional financial literacy training at appropriate career points
• Assign responsibility for financial literacy training and monitoring to DSD
• Provide an online budget planner with automatic updating and prompting through Defense Finance and Accounting Services
• Restructure leave and earnings statement to include TSP balances and value of benefits paid by DoD

Costs (Savings)

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Chart 9
Military Compensation and Retirement Modernization Commission

Recommendation 6: Health Care Benefit

Findings
- TRICARE has a weak health care network because of low reimbursement rates (Medicare rate or less)
- TRICARE limits family members’ access to care with a frustrating referral process
- TRICARE beneficiaries prefer greater choice in health care
- Structural aspects of the TRICARE program have hindered advancements and efficient operations

Recommendation (Details on Following Slide)
- AC Service members should continue to receive health care through their units or MTFs
- DoD should establish a health program to offer a selection of commercial insurance plans to other beneficiaries
  - AC family can purchase a plan funded with a new Basic Allowance for Health Care (BAHC)
  - RC members can purchase a plan from the DoD program, at varying cost shares
  - Office of Personnel and Management (OPM) administers the program with DoD input and funding
- No changes to eligibility for care at MTFs, pharmacy benefit, dental benefit, or TRICARE For Life
- Increase non-Medicare-eligible retirees’ cost shares gradually over 15 years
- Institute a program of education and benefits counseling
- Finance health care programs through trust funds

Costs (Savings)

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Recommendation Details

• Selection of commercial insurance plans
  – For AC families, RC members and families, non-Medicare-eligible retirees and families, survivors, and certain former spouses
  – Offer an array of health plan options that vary in type, covered benefits, and price, with several choices in every location
  – Beneficiaries continue to be eligible for care at MTFs
  – Leverage OPM's experience to administer the program—DoD retains topline for this program (into a trust fund), as well as the tools to influence readiness

• Basic Allowance for Health Care (BAHC)
  – AC Service members receive BAHC to offset the vast majority of dependent health care costs
  – BAHC based on the costs of median plans available in the family’s location, plus average out-of-pocket costs
  – Part of BAHC used to directly transfer the premium for the plan the family has selected to the respective insurance carrier
  – Remainder of BAHC available to AC families to pay for copayments, deductibles, and coinsurance
  – Establish a program to assist AC families that struggle with high-cost chronic or catastrophic conditions until they reach the catastrophic cap

• RC members able to purchase a plan from DoD program at varying cost shares
  – Reduce cost share to 25% to encourage RC health and dental readiness and streamline mobilization of RC personnel
  – When mobilized, RC members receive BAHC for dependents; select a DoD plan or apply BAHC to current (civilian) plan

• Non-Medicare-eligible retirees’ cost contributions remain lower than the average Federal civilian employee cost shares, but increase 1% annually over 15 years

• Financed through trust funds
  – MERHCF expanded to cover the health care and pharmacy programs for non-Medicare eligible retirees
  – DoD, Department of Homeland Security, Department of Commerce, and Health and Human Services transfer funding to OPM’s Employee Health Benefits Fund, in a segregated account
  – New trust fund created and managed by DoD for health-care expenditures appropriated in the current year
Recommendation 2: Survivor Benefit Plan
Recommendation 4: Reserve Component Statuses
Recommendation 5: Joint Readiness
Recommendation 7: Exceptional Families (ECHO)
Recommendation 8: DoD-VA Collaboration
Recommendation 9: Commissaries and Exchanges
Recommendation 10: Child Care
Recommendation 11: Service Member Education
Recommendation 12: Transition Assistance
Recommendation 13: Nutrition Assistance (FSSA)
Recommendation 14: Space-Available Travel
Recommendation 15: Military Student Identifier