



Military Compensation and Retirement Modernization Commission

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

* Pub. L. 112-239, as amended by FY14 NDAA Pub. L. 113-66.



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

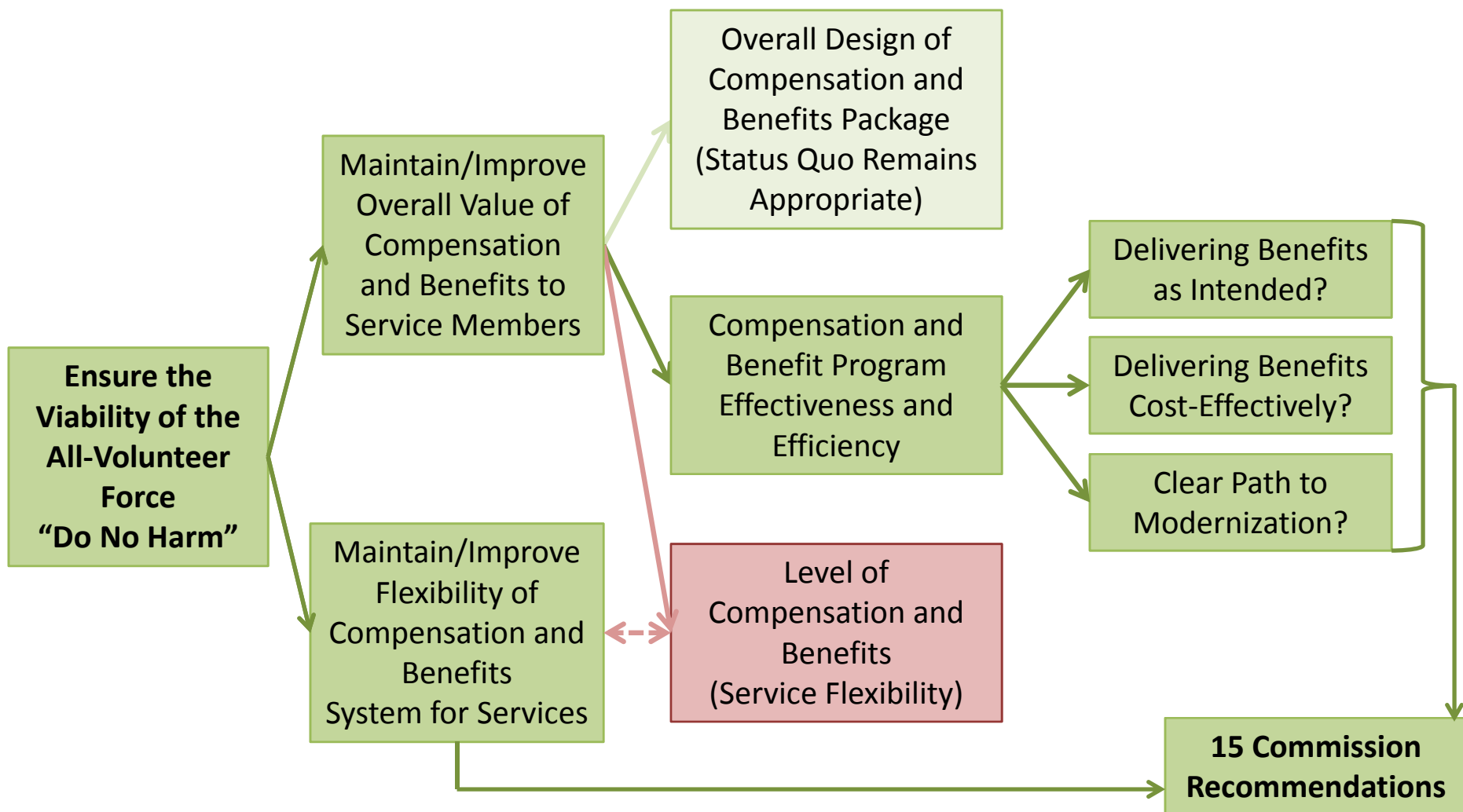
Interagency Working Groups

- DoD health care and costing working groups
- Military Coalition retirement and health care working groups
- Numerous staff-level data-gathering meetings



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Pathway to Recommendations





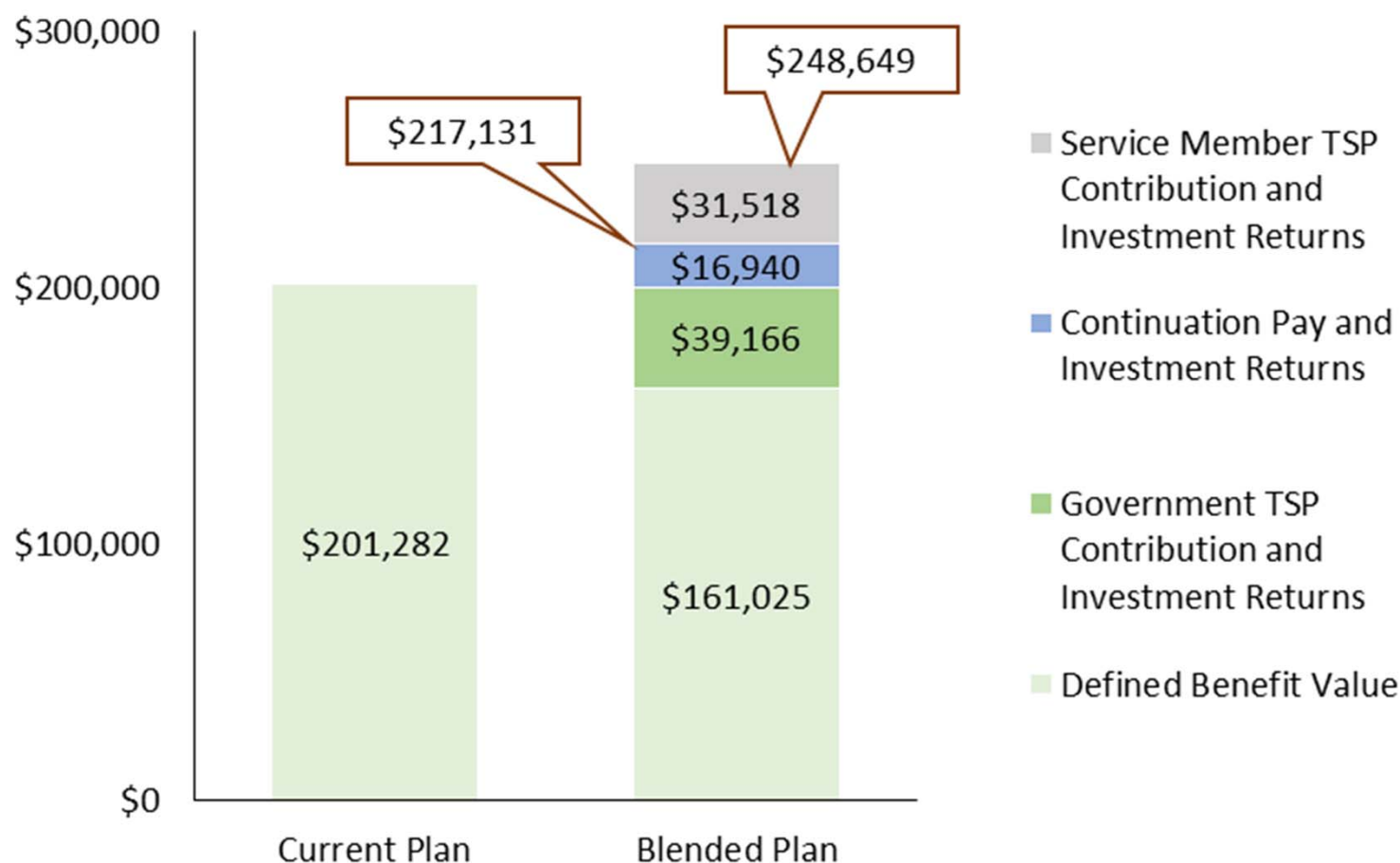
Military Compensation and Retirement Modernization Commission Effects on a Leave and Earnings Statement

| | CURRENT COMPENSATION SYSTEM | ALTERNATIVE COMPENSATION SYSTEM | CHANGES IN COMPENSATION |
|--|-----------------------------------|---------------------------------------|-------------------------------|
| ENTITLEMENTS | | | |
| Basic Pay | \$3,076.20 | \$3,076.20 | \$0.00 |
| Basic Allowance for Subsistence | \$357.55 | \$357.55 | \$0.00 |
| Basic Allowance for Housing | \$1,152.00 | \$1,152.00 | \$0.00 |
| Basic Allowance for Health Care | \$0.00 | \$305.00 | \$305.00 |
| Thrift Savings Plan, Government Automatic Contribution | \$0.00 | \$30.76 | \$30.76 |
| Thrift Savings Plan, Government Matching Contributions | <u>\$0.00</u> | <u>\$92.29</u> | <u>\$92.29</u> |
| TOTAL ENTITLEMENTS | \$4,585.75 | \$5,013.80 | \$428.05 |
| DEDUCTIONS | | | |
| Standard Deductions | \$844.33 | \$844.33 | \$0.00 |
| Thrift Savings Plan, Member Contributions | <u>\$92.29</u> | <u>\$92.29</u> | <u>\$0.00</u> |
| TOTAL DEDUCTIONS | \$936.62 | \$936.62 | \$0.00 |
| ALLOTMENTS | | | |
| TRICARE Dental | \$32.89 | \$32.89 | \$0.00 |
| TRICARE Choice Health Plan | <u>\$0.00</u> | <u>\$236.91</u> | <u>\$236.91</u> |
| TOTAL ALLOTMENTS | \$32.89 | \$269.80 | \$236.91 |
| MONTHLY PAY | \$3,616.24 | \$3,807.38 | \$191.14 |



Military Compensation and Retirement Modernization Commission Effects on Assets Available for Retirement

Assets of a Retiring Active-Duty E7, Current vs. Blended Retirement Plans





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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)

| Constant FY 2016 \$ Millions | 2016 | 2017 | 2018 | 2019 | 2020 | 2053 | 2054 | 2055 |
|------------------------------|-------|---------|---------|---------|---------|---------|---------|---------|
| Implementation | 154 | - | - | - | - | - | - | - |
| DoD Budget | (990) | (1,185) | (1,238) | (1,297) | (1,357) | (1,894) | (1,894) | (1,894) |
| Federal Outlays | 522 | 1,564 | 1,645 | 1,719 | 1,792 | (4,666) | (4,666) | (4,666) |

Chart 7



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Recommendation 1: Retirement Details

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



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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)

| Constant FY 2016 \$ Millions | 2016 | 2017 | 2018 | 2019 | 2020 | 2053 | 2054 | 2055 |
|------------------------------|------|------|------|------|------|------|------|------|
| Implementation | 10 | 10 | 5 | - | - | - | - | - |
| DoD Budget | 85 | 85 | 80 | 75 | 75 | 75 | 75 | 75 |
| Federal Outlays | 85 | 85 | 80 | 75 | 75 | 75 | 75 | 75 |

Chart 9



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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)

| \$ Millions | 2016 | 2017 | 2018 | 2019 | 2020 | 2053 | 2054 | 2055 |
|-----------------|---------|---------|---------|---------|---------|---------|---------|---------|
| Implementation | 100 | 100 | - | - | - | - | - | - |
| DoD Budget | (3,900) | (3,900) | (6,173) | (6,234) | (6,292) | (6,666) | (6,666) | (6,666) |
| Federal Outlays | 100 | 100 | (1,242) | (1,374) | (1,507) | (3,229) | (3,229) | (3,229) |

Chart 10



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Recommendation 6: Health Care Benefit Details

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



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Other Recommendations

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