**Eliminate Harmful Sequestration Cuts**

**Issue:** Unless current law is changed, the Defense Department will have to cut an additional $54B in FY 2016 and $269 billion over the following five fiscal years thereby re-creating the potential for a hollow force similar to previous years of budget cutting.

**Background:** The Budget Control Act (BCA) of 2011 established automatic budget cuts known as sequestration which reduces America's national defense capabilities putting our national security at greater risk.

During the 2011 debt negotiations, the Administration agreed to reduce the DoD budget by $487B over a ten year period; however, with the enactment of sequestration, DoD had to make an additional $500B in budget cuts. Former Secretary of Defense Panetta testified in December 2012 that such a “meat axe” approach to budget reductions will “hollow out the force.”

The Bipartisan Budget Act (BBA) of 2013 mitigated the spending cuts for FY 2014 and 2015. However, the original sequestration cuts FY 2016 through 2021 remain in effect continuing to place national security at increased risk.

Concern for readiness was reinforced by former Secretary of Defense Chuck Hagel when he stated “the only way to implement sequestration is to sharply reduce spending on readiness and modernization, which would almost certainly result in a hollow force... the resulting force would be too small to fully execute the President’s defense strategy.”

The proposed FY16 defense budget assumes additional monies will be forthcoming to mitigate sequestration impacts. However, the sequestration “sensitive” budget submission proposes to make significant reductions to several compensation areas for the military community.

The budget caps the FY16 pay raise a full 1% below the private section and what the law authorizes; increases active duty members out of pocket expenses for housing; reduces commissary savings; and increases their health care costs and pharmaceutical expenses. History proves that the net effect of these actions will create a hollow force because of an inability to recruit and retain a quality all-volunteer force.

Recent Military Times survey indicates that calls for pay and benefit cuts are hurting morale – the numbers are glaring. 56 percent of the 2,300 active duty personnel stated their quality of life is good or excellent – down from 91 percent in 2009. 44 percent felt their pay and allowances were good or great – down from 87 percent in 2009.

**MOAA Position:** Debt reduction is a national priority. However, military personnel and their families should not have to shoulder a disproportional share of the rebalancing. They have sacrificed more than any other segment of the American population.

**Recommendation:** Congress needs to end the harmful effects of sequestration by supporting a bipartisan debt reduction package that avoids disproportional penalties on servicemembers and their families.
Sustain Military Pay and Benefits

Issue: Budget cuts undo Congress’s decade of work to rebalance military compensation with the extraordinary demands and sacrifices of a military career.

Background: The FY 2016 budget submission proposes several significant pay and benefit cuts which are inconsistent with the extreme sacrifices exemplified by the last 13 years of combat operations.

- Capping pay below private sector pay growth for a third straight year (and potentially four more)
- Reducing Basic Allowance for Housing (BAH) by up to 5% - this is a second year reduction which reverses DoD’s own initiative to eliminate out-of-pocket housing cost which was completed in 2005
- Reducing commissary savings for uniformed service families by 66%
- Combining TRICARE healthcare plans, increasing fees & establishing a means-tested enrollment fee for TRICARE for Life

The Pentagon is stating that spending on pay and benefits for service members has “risen about 40 percent more than growth in the private sector” since 2001. The truth is that spending did grow 2000-2010 but since 2011, personnel cost growth has slowed considerably to less than 2% per year.

Congress worked hard to fix the 13.5% pay gap, eliminate the 18% out-of-pocket housing costs military members faced, and reverse the resulting retention problems caused by repeatedly capping military raises below private sector pay growth in the 1980s and ‘90s. Consequently, cost growth since 2000-2001 was essential to keep the previous compensation cutbacks from breaking the career force.

Sustaining pay raises comparable to the average American is a fundamental tenet of the AVF. In the late 1970s Congress enacted two double-digit pay raises to correct retention in the wake of multiple pay raise caps. In 2003, Congress explicitly linked annual military raises to private sector pay growth via the Employment Cost Index (ECI). The FY 2016 budget proposes a 1.3% pay raise cap (vs. the 2.3% indicated by the ECI). It is the third straight year of pay caps with four more years planned.

By the late 1990s, the Defense Department persuaded Congress to make military housing allowances meaningful by setting BAH at 100% of median local housing costs. This standard was codified after years of budget cuts reducing BAH rates below actual housing costs.

Between the FY 2014, FY 2015 and FY 2016 pay caps, the proposed BAH reductions, the reductions in commissary savings, and the new TRICARE fee structure, an E-5’s family of four would experience a loss of nearly $5,000 in purchasing power annually; and an O-3’s family of four would experience a loss of nearly $6,500.

MOAA Position: We understand the difficult predicament the Pentagon now faces and we agree that balancing the force and ending the harmful effects of sequestration must be accomplished. Not doing so makes risks to national security unacceptable.

Past experience with capping military raises below private sector pay growth has shown that once pay raise caps begin, they continue until they undermine retention and readiness of the AVF – and this proposal represents caps for seven straight years.

The troops’ last four raises averaged less than 1.4%, with the FY 2014 and FY 2015 pay raises being the lowest in 50 years. Yet this proposal is not limited to pay. Capping pay, increasing out-of-pocket expenses for housing, slashing commissary savings, and increasing TRICARE costs for military families would repeat the insidious measures which led to retention and readiness problems in the past.

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Recommendation: Sustain currently serving pay and benefits for FY 2016.
Reject Disproportional TRICARE Fee Hikes and Health Plan Changes

**Issue:** The FY 2016 DoD budget proposes a health plan which inappropriately raises TRICARE fees and reduces access.

Plan would consolidate the TRICARE Health Plans into one and calls for:

- Increasing costs for active duty families who have limited or no access to MTFs and creating a first ever, means-tested network copays based on sponsor’s rank
- Re-labeling TRICARE Prime enrollment fee to “participation” fee for working age retirees with no guaranteed access to care and with no evidence of a planned or managed network of available providers
- Forcing working age retirees for the first time ever to pay to be seen at MTFs
- Dramatically increasing pharmacy copays to surpass the median of civilian plans
- Imposing a means-tested, enrollment fee for new TRICARE for Life beneficiaries – which no other federal retirees has

**Background:** DoD has proposed a similar plan last year. Congress rejected much of the plan on the basis that Pentagon leaders need to better manage costs instead of shifting costs onto beneficiaries. The current proposal goes well beyond just fee increases and shifting costs; it is an attempt to re-structure and reduce the value of the benefit with no evidence of systemic improvement in the existing system.

“Cost Growth since 2000” claims are exceptionally misleading; costs are actually on a downward trend

- 2000 is inappropriate baseline; that era reflected both spending and retention low points
- Health care cost growth spiked in 2002-03 after TRICARE for Life (TFL) enactment
- Congress enacted legislation in FY 2012, FY 2013, and FY 2015 that have “slowed the growth”
- At 10% of DoD budget, health care is a bargain when compared to the fact that health care comprises 23% of the federal budget

The “consolidation” will result in paying more and receiving less value and access. The streamlining of health care plan options in the new proposal reduces choices for beneficiaries by eliminating Prime – just as it also completely takes away any guarantee access to care for retiree’s under age 65. This is at odds with the recommendations in DoD’s own internal review which states that access needs to be improved. Combine this with a new, drastic fee increased payment structure, personnel pay more and get less.

**Proposed increases are out of line with the changes already authorized by Congress.** The FY 2012, FY 2013, and FY 2015 Defense Authorization Acts increased fees by 16% including large pharmacy copays, indexed future Prime and pharmacy fee increases to military retired pay growth, instituted the mandatory Home Delivery program, and launched the Defense Health Agency (DHA), all of which will even further “slow the growth” of health care costs.

TFL Enrollment fee is out of line with original law. The 2001 law specified that no enrollment fee beyond Medicare Part B costs should be required for beneficiaries over 65, recognizing their lengthy service as their premium – this was not intended to be an “insurance product.”

Proposed health fee schedules discriminate against both military retirees and active duty family members. No other federal employee or retiree pays income or rank-based fees for service-earned health coverage, and it’s rare in the private sector – this proposal recommends means-testing for both retirees over 65 and currently serving family members.

Comparison with civilian/corporate cash fees is inappropriate. Military retirement and medical benefits are the primary offsets for enduring decades of extraordinarily arduous service conditions. Military retirees pre-pay huge “up front” health premiums through 20-30 years of service and sacrifice – Tricare and TFL are earned benefits.

**DoD leaders should be held accountable to fix program inefficiencies.** Studies show consolidation of budget oversight would save billions vs. having three separate service programs and multiple contractors vie for budget share and to institute innovative provider payment mechanisms, as is starting to be done by Medicare, which reimburse for value instead of volume in the current TRICARE fee-for-service model.

**Recommendation:** Reject disproportional TRICARE fee hikes and plan changes.

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