



Association of the United States Army

Voice for the Army—Support for the Soldier

April 2016



Sustaining the All-Volunteer Force

A Readiness Multiplier

I firmly believe that our nation needs a professional All-Volunteer Force (AVF). The AVF is the right force for this nation and the nation should never take it for granted. . . . We need to make sure that we can continue to recruit, retain, equip and train the best fighting force on the planet and fairly compensate America's best for their service. Those who defend this nation and the families who support them remain our most valuable national treasure and our competitive advantage.

General Martin E. Dempsey, Chairman, Joint Chiefs of Staff,
Statement before the Senate Armed Services Committee, 3 March 2015

Introduction

The All-Volunteer Force (AVF) is a national treasure and the foundation of America's national defense. Since 1973, the AVF has successfully safeguarded the nation's freedom, prosperity and way of life. In large part, this success is built on long-term investments in the readiness of the force to meet challenges to American security. While that readiness requires investments in organizing, equipping and training, the most fundamental investment is in the men and women of the force. The people of the AVF are the primary component of readiness. This is especially true of the U.S. Army. Unlike other services that derive power from advanced platforms, the collective strength of the Total Army—Regular Army, Army National Guard, Army Reserve—is the Soldier. Readiness requires recruiting and retaining the best and the brightest—fit and resilient men and women of character—to volunteer and serve.

Soldiers and their families face many challenges that are specific to military life, such as frequent relocations and, of course, the risks incurred in combat. To sustain the AVF, it is necessary to provide to Soldiers—Regular Army, Army National Guard, Army Reserve—and their supporting cast (families, military retirees, veterans and their families) a quality of life commensurate with their sacrifice. This necessity is all the more critical in an era when there is an increasingly limited pool of eligible citizens in the population to recruit and when the AVF is competing with other lucrative career paths. The quality of life of Soldiers and those who support them is critical to the readiness and success of the Army and the AVF as a whole.

In today's complex and unpredictable operating environment, demand for Army forces is high and requires commensurate levels of readiness. As General Mark A. Milley made clear in his initial mes-



sage after taking office as the Chief of Staff of the Army on 14 August 2015, the Army's top priority is increasing the readiness of the force. However, budgetary pressures—increasing requirements coupled with the uncertainty of future funding—have forced senior leaders to have to make difficult choices from among different components of readiness: people, training, equipping and leadership development. This trend, if not reversed, will have the greatest impact on the AVF's basic component of readiness—people. The military will not be able to provide an adequate quality of life, degrading its ability to recruit and retain the finest individuals and depriving the nation of the ready forces it needs to win now and in the future. Sustaining the AVF is a readiness multiplier.

Background

The Army has demonstrated its competence in diverse missions both at home and abroad. In support of geographic combatant command (COCOM) requirements, among others, the Army has approximately 190,000 Soldiers deployed to 140 countries. To continue to meet these COCOM requirements, the Army must maintain a ready force that assures allies and can deter and defeat adversaries. This is

particularly true in an era when myriad potential adversaries—nation states, rogue states and nonstate actors—are employing a wider array of strategies and capabilities that challenge global security. During the past five years, however, fiscal pressures have threatened readiness. The Budget Control Act (BCA) of 2011 and the subsequent requirement to comply with deficit reduction (sequestration) together have reduced Department of Defense (DoD) spending by approximately \$1 trillion over 10 years. These fiscal trends have led to budget-driven decisions and forced the military to implement various reforms to the quality of life it provides to the AVF. As stated by Sergeant Major Daniel A. Dailey, Sergeant Major of the Army, during a House Appropriations Committee hearing on 25 February 2016: “We have done our best to ensure Army families are well cared for during these times of fiscal constraint. However, further cuts will have an immediate impact on Soldier and family readiness.”

Quality-of-Life Reforms

Recent reforms included in the President’s Fiscal Year (FY) 2016 budget have several implications for the men and women of the AVF: historically low pay raises; a new retirement program that shifts risk to the servicemember; and increased out-of-pocket expenses for health care and housing. In addition, the FY 2016 budget recommended further study on achieving budget-neutrality for DoD’s commissary system. Further reforms proposed in the President’s FY 2017 budget submission will continue the trends established in the FY 2016 budget.

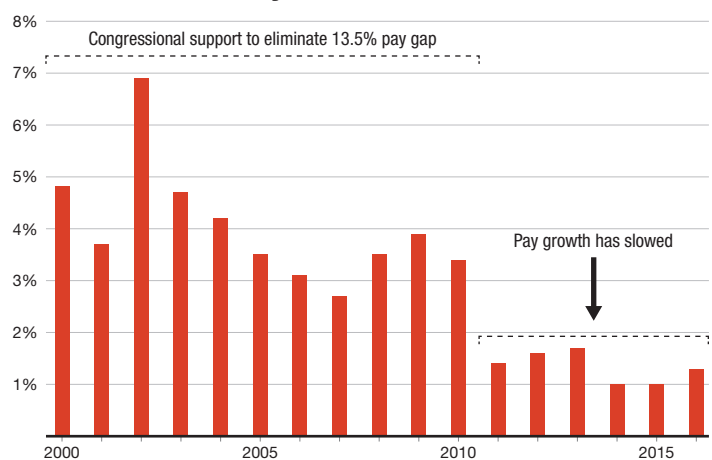
Soldier Pay and Retirement

The FY 2016 budget increased basic Soldier pay by only 1.3 percent, continuing a recent trend of historically low servicemember pay raises. According to the Employment Cost Index (ECI), this is 1 percent less than private-sector wage growth; by law, Soldier pay increase rates must match those of the private sector. The President’s FY 2017 budget submission will continue this trend with a 1.6 percent pay raise (about 50 percent of the ECI). (See table 1.)

The newly-proposed low pay raises come after military retirement reforms included in the FY 2016 budget that were based on the Military Compensation and Retirement Modernization Commission’s (MCRMC’s) recommendations of January 2015. The reforms will reduce annual pensions from 50 percent of final basic pay to 40 percent beginning in 2018—a 20 percent reduction in the actual amount of the pension. The reforms also created 401(k)-style investment accounts that shifted retirement risk and responsibility from the government to the servicemember.¹ The success of the new system relies on servicemembers contributing to their own retirement nest egg. However, with smaller pay raises, servicemembers will have less disposable income to invest in a 401(k)-style plan.



Table 1
Basic Soldier Pay Increase FY 2000–FY 2016



Source: DoD National Defense Budget Estimates for FY16 (Green Book), Office of the Under Secretary of Defense (Comptroller), March 2015, Table 5-12

Health Care

Factors affecting health care include access, cost and quality of care. Because these factors are interwoven, increasing one often comes at the expense of the others. The original FY 2016 budget proposal called for consolidating TRICARE Prime, Standard and Extra, resulting in higher deductibles and copays. However, when it passed the FY 2016 budget, Congress rejected the consolidation plan, so TRICARE Standard deductibles and costshares did not increase. The FY 2016 budget did, however, include increases for those required to pay TRICARE Prime enrollment fees. (See table 2.)

Table 2
Enrollment Fees from FY 2015 to FY 2016

FY 2015		FY 2016	
Single	Family	Single	Family
\$277.92	\$555.84	\$282.60	\$565.20

Source: “Annual Increases,” <http://www.tricare.mil/Costs/HealthPlanCosts/PrimeOptions/EnrollmentFees/AnnualIncrease.aspx>

While active duty servicemembers and their family members do not pay TRICARE enrollment fees, those who do—working-age retirees and their family members—are paying more under the FY 2016 budget. These enrollment fees are applied to the annual catastrophic cap.²

In addition, the FY 2016 budget also saw increases in copays for generic, brand-name and non-formulary drugs obtained either at retail pharmacies or through home delivery. (See table 3.)

Table 3

TRICARE Copays from FY 2015 to FY 2016

Retail (30-day supply)	FY 2015	FY 2016
Generic	\$8	\$10
Brand-name	\$20	\$24
Non-formulary	\$47	\$50
Home delivery (90-day supply)		
Generic	\$0	\$0
Brand-name	\$16	\$20
Non-formulary	\$46	\$49

Source: "Prescription Costs," TRICARE website, <http://www.tricare.mil/Costs/PrescriptionCosts.aspx>

FY 2015 monthly premium payments for reserve component servicemembers and their families enrolled in TRICARE Reserve Select increased for FY 2016. (See table 4.)

The President's FY 2017 budget submission proposes reorganizing the existing TRICARE system into two

Table 4

TRICARE Reserve Select Premiums

Type of Coverage	2015 Rate	2016 Rate
Member and family	\$205.62	\$210.83

Source: "TRICARE Reserve Select Enrollment," https://www.hnfs.com/content/hnfs/home/tn/benef/enroll/trs_enrollment.html

plans—TRICARE Select and TRICARE Choice. The former would be a health maintenance organization-type program, similar to TRICARE Prime and limited to areas around military hospitals and clinics; the latter would be modeled on the TRICARE Standard fee-for-service plan. Those working-age retirees and their families who pay enrollment fees for TRICARE Prime would also pay these fees, referred to in the President's FY 2017 Budget Proposal as participation fees, in the new TRICARE Select plan, although the fees would be at higher rates for both individuals and families. While TRICARE Standard does not contain enrollment/participation fees, the new TRICARE Choice plan would require these fees in addition to meeting deductibles and paying costshares. Under both plans, the fees would be indexed to the per-capita annual National Health Expenditures (NHE) (projected to have grown 5.4 percent in 2015)³ in addition to current costshares. (See table 5.)

In the President's FY 2017 budget submission, Medicare-eligible military retirees and their spouses using TRICARE for Life (TFL) would begin paying enrollment fees that increase yearly through 2021 and are indexed to the per-capita annual NHE after FY 2020. These new

Table 5

Proposed TRICARE Health Plan Participation Fee Rates

Plan Year 2018

Proposed TRICARE Health Plan Participation Fee (inflated annually by National Health Expenditures per-capita percentage)	Cost	
Non-Medicare eligible beneficiary	TRICARE Select: \$350 individual / \$700 family	TRICARE Choice: \$450 individual / \$900 family
Medicare eligible beneficiary (TRICARE for Life)	See table 6	

Source: Defense Budget Overview: United States Department of Defense Fiscal Year 2017 Budget Request, Office of the Undersecretary of Defense (Comptroller) Chief Financial Officer, February 2016, pp. 6-13-6-15, http://comptroller.defense.gov/Portals/45/Documents/defbudget/fy2017/FY2017_Budget_Request_Overview_Book.pdf

Table 6

TRICARE for Life Annual Family (Two Individuals) Enrollment Fees*

Retired Pay	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Percentage of Gross Retired Pay	N/A	0.5%	1.0%	1.5%	2.0%	2.0%
Ceiling	\$0	\$150	\$300	\$450	\$600	\$632
Flag Officer Ceiling	\$0	\$200	\$400	\$600	\$800	\$842

*Individual fees are 50% of family fees (e.g., 1% of Gross Retired Pay in FY 2020 and after). Ceilings indexed to retiree National Health Expenditures per capita after FY 2020.

Source: Defense Budget Overview: United States Department of Defense Fiscal Year 2017 Budget Request, Office of the Undersecretary of Defense (Comptroller) Chief Financial Officer, February 2016, pp. 6-13-6-15, http://comptroller.defense.gov/Portals/45/Documents/defbudget/fy2017/FY2017_Budget_Request_Overview_Book.pdf

Table 7

Pharmacy Copays Effective 1 January 2017

FY 2017 Presidents Budget Proposal, 9 February 2016

	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
Retail (30-day supply)										
Generic	\$10	\$10	\$11	\$11	\$11	\$11	\$12	\$13	\$14	\$14
Brand-name	\$28	\$30	\$32	\$34	\$36	\$38	\$40	\$42	\$45	\$46
Non-formulary	Available only on a limited basis									
Home delivery (90-day supply)										
Generic	\$0	\$0	\$0	\$11	\$11	\$11	\$12	\$13	\$14	\$14
Brand-name	\$28	\$30	\$32	\$34	\$36	\$38	\$40	\$43	\$45	\$46
Non-formulary	\$54	\$58	\$62	\$66	\$70	\$75	\$80	\$85	\$90	\$92
Military Treatment Facilities				No charge – still \$0 copay						

*Increases for FY 2016 authorized by the National Defense Authorization Act for FY 2016.

Source: Defense Budget Overview: United States Department of Defense Fiscal Year 2017 Budget Request, Office of the Undersecretary of Defense (Comptroller) Chief Financial Officer, February 2016, p. 6-14, http://comptroller.defense.gov/Portals/45/Documents/delbudget/fy2017/FY2017_Budget_Request_Overview_Book.pdf

enrollment fees for TFL are over and above the already-established monthly per-person (retiree and spouse) Medicare Part B means-tested premiums. Those retirees already using TFL on the date of enactment would be exempt from the new fees. (See table 6 on the previous page.)

The President's FY 2017 budget submission would also continue increases in copays for pharmaceuticals. (See table 7 above.)

Basic Allowance for Housing

Basic Allowance for Housing (BAH), which provides servicemembers with housing compensation, is based on local-area rental market data and varies by geographic duty station, pay grade and dependency status. The cost of utilities is also considered. The FY 2015 National Defense Authorization Act (NDAA) introduced a 1 percent out-of-pocket housing expense for servicemembers that will increase annually by 1 percent until 2019, when it will be 5 percent. Thus, effective 1 January 2016, out-of-pocket expenses were set at 2 percent in 2016, 3 percent in 2017, 4 percent in 2018 and 5 percent in 2019. The stability of BAH funding is what attracted private industry (e.g., the Residential Communities Initiative) to partner with DoD to improve on-post dwellings. Fluctuations in BAH funding could impact future public-private partnerships.

Other proposals have been considered to modify the BAH. Prior to passing the FY 2016 budget last year, the U.S. Senate considered limiting dual-military couples and cohabitating servicemembers to one BAH payment; this proposal was not passed. In addition, the Veterans Employment, Education and Healthcare Act, which passed in the House of Representatives on 9 February 2016, would cut in half the housing stipends provided to military dependent children (per the Post-9/11 Veterans Educational Assistance

Act of 2008—the so-called “Post-9/11 GI Bill”). Since then, the bill has been received in the Senate and is currently being reviewed by the Senate Committee on Veterans' Affairs.

Military Construction

Military Construction (MILCON) funding provides the Army with the capital assets needed to conduct Army business and train, educate and provide support for Soldiers and families. The President's FY 2017 budget submission, however, proposes a reduction to \$7.6 billion in DoD's total MILCON funding from the \$8.2 billion enacted in FY 2016—a decrease of over \$554 million. The Army's total MILCON budget would decrease from the \$1.1 billion enacted in FY 2016 to \$838 million in FY 2017—a reduction of more than \$269 million. These figures include both base and Overseas Contingency Operations (OCO) funding. The lack of sufficient MILCON funding requires the military to retain facilities beyond their expected service life, thereby increasing maintenance costs in an era of smaller budgets.

Commissaries

Commissaries sell grocery items at cost in installations around the world, providing lower overall prices and savings to military families. For those military families who live in rural locations where there are limited options for buying groceries, commissaries provide a significant benefit. The FY 2016 NDAA mandated that the Defense Commissary Agency plan for a system that achieves budget-neutrality by 1 October 2018. Specifically, DoD was required to submit a report by 1 March 2016 on potential savings from privatization, store closures and consolidation of the commissary and exchange systems—Congress has not yet received this report. The President's FY 2017 budget submission seeks to cut \$200 million from commissary funding; Congress should have the report in hand before evaluating the \$200

million reduction. This cut could impact grocery prices, the number of hours and days the commissaries will be open and the number of commissary employees (many of whom are dependent family members).

Summary

Adequate pay, a fixed retirement, TRICARE coverage, housing allowances and commissaries help mitigate the risks that Soldiers and their families incur when they join the Army. Measures to ensure a high quality of life throughout their careers and into retirement allow them to face the unique challenges of military life and to focus on the mission at hand. In addition, Soldiers and their families and military retirees, veterans and their families have earned this compensation through their sacrifice to the nation. While these increased expenses may appear negligible when viewed individually, in the aggregate they undermine this carefully-crafted earned deferred compensation and pose even greater risks to the future of servicemembers and their families. Ultimately, they undermine the security Soldiers have earned for their careers and their retirement. As observed by Representative Susan Davis (D-CA) during a House Armed Services Committee hearing on 24 February 2016 regarding health care, “There is a shifting of cost from DoD to the beneficiaries. Constituents might be asking, ‘I’m paying more for my health care, but what do I get in return?’”

Effects of Quality-of-Life Issues on Readiness

Shrinking Pool of Recruits

Long-term trends are also compounding the challenge of recruitment and retention. Recent studies show that only 17 percent of Americans between the ages of 17 and 24 are “qualified military available”—not enrolled in college and able to meet the standards to enlist in the military without a waiver—and only 4 percent of the 4.1 million Americans who turned 18 in 2015 are both qualified and willing to serve.⁴ In a time when the pool of recruits is shrinking and demand for the Army remains high, the military cannot afford to reduce its incentives to join the AVF.

Retention

The failure to retain those who do join the AVF will prove costly in multiple ways. To develop a noncommissioned officer (NCO), the Army must invest a minimum of five to eight years of training; for an experienced pilot, 10 years; for a battalion commander, 18 years. This investment cannot be surged, as these skills require multiple and constant iterations of exercises at the individual and collective levels. Without incentives for Soldiers to remain in the AVF, the military will lose the long-term investment it has made in each recruit.

Military Families

The recent reforms and proposals are already having an impact on military families’ perceptions. Recent surveys find

that 78 percent of military families—as opposed to 48 percent of the general population (the median result of surveys from September 2015 to January 2016)—expect to be at least somewhat financially impacted by recent fiscal cuts. In addition, 40 percent of military families reported that the insufficiency of the annual 1.3 percent pay raise will cause them to delay a major purchase; 36 percent said it would cause them to reduce a debt payment and/or take longer to pay a major debt; and 30 percent said it would cause them to reduce the amount put into a savings account or the Thrift Savings Plan. Also, 86 percent of military families are taking precautionary measures, such as reducing everyday spending, to deal with cuts. Moreover, a recent survey indicates a preference for the current retirement system; 78 percent of military families prefer being grandfathered into the current retirement system rather than participating in the recently-passed military retirement reform (up from 70 percent in September).⁵

Surveys such as these indicate that the new reforms and cuts are creating pressures on military families and reducing their incentive to remain in the AVF. It is not surprising, then, that the President’s FY 2017 budget submission encourages Congress to consider modifying the retirement reform. These modifications include delaying matching contributions to junior Soldiers (in an effort to improve retention), extending matching contributions to senior leaders, allowing the services more flexibility on continuation pay and increasing the maximum matching contribution.

Retirees

Some have argued that these new reforms and proposals do not specifically impact the servicemember but, rather, focus on military retirees, especially those who are still of working age, and their families. Surveys suggest, however, that as many as 80 percent of servicemembers come from a family in which a parent or sibling is also in the military.⁶ Military retirees and their families are a key source of support for their children and/or relatives who serve. If these retirees do not receive the compensation they have earned, this will impact the perceptions of their family members, a major recruiting pool. These potential recruits will have less incentive to join the military or, if they do join, they will be less likely to remain.

If these trends continue, the military will not be able to retain sufficient manpower and will be squeezed even tighter for resources. The result is a force that is not ready for present or future contingencies.

The Way Ahead

The Total Army’s collective strength originates from quality individuals recruited from communities across the nation. The Army builds readiness by training and developing those recruits into ethical and competent Soldiers who are mentally and physically fit and thus able to withstand



the intensity of ground combat. In addition, families of Soldiers make sacrifices for the nation that contribute to Army readiness and play an important part in achieving mission success. As a result of the dedication and sacrifices of Soldiers and their families, together with the support and advocacy of military retirees and veterans, the AVF remains a vital part of America's security.

Today's volunteer Soldiers—Regular Army, Army National Guard and Army Reserve—and Department of the Army civilians are expected to perform competently in an era of increased operational tempo involving multiple and simultaneous deployments at home and abroad. They follow in the footsteps of those military retirees and veterans who have already performed admirably. These individuals and their families have earned an environment that will protect and promote their quality of life, for they are the bedrock of Army readiness.

The military must always find a balance—consistent with the nation's security and strategic interests—between the readiness of the current force and that of the future force. The current operating environment is imposing a high demand on the Army. In a world of limited resources, the Army has responded by investing in the readiness of the current force. However, recent fiscal trends are leading to unrealistic tradeoffs and imposing burdens on endstrength and on the future force. They have led to short-sighted reforms that are having a negative effect on military families and military retirees. While these tradeoffs



may appear mutually exclusive, together they will degrade recruitment and retention. Indirectly, budget reductions targeted toward military retirees diminish the advocacy and support for the Army. Today's Soldiers are tomorrow's retirees and veterans—and they too are watching.

Ultimately, these reforms, aimed at maintaining readiness in the short term, are mortgaging the military's future readiness, thus achieving the opposite effect in the long term. Consequently, they could prevent the military from sufficiently manning the AVF with the quantity and quality of Soldiers it requires to be ready for tomorrow's threats. Reforms and proposals that shift risk from the government to former, present and future Soldiers cause even greater risk to the sustainment of readiness of the All-Volunteer Force. The quality of life of Soldiers and those who support them is inextricably linked to readiness.

Endnotes

- ¹ Defense Budget Overview: United States Department of Defense Fiscal Year 2016 Budget Request, Office of the Undersecretary of Defense (Comptroller) Chief Financial Officer, February 2015, p. 6-7, http://comptroller.defense.gov/Portals/45/Documents/defbudget/fy2016/FY2016_Budget_Request_Overview_Book.pdf.
- ² *Ibid.*; TRICARE Prime Fact Sheet, August 2015, http://tricare.mil/~media/Files/TRICARE/Publications/FactSheets/Prime_FS.pdf.
- ³ National Health Expenditure Projections 2014–2024 Forecast Summary, <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/downloads/proj2014.pdf>.
- ⁴ "Population Representation in the Military Services: Fiscal Year 2014 Summary Report," Office of the Under Secretary of Defense, Personnel and Readiness, pp. 2–3, <https://www.cna.org/pop-rep/2014/summary/summary.pdf>; Colonel Michael Runey and Colonel Charles Allen, "An All-Volunteer Force for Long-Term Success," *Military Review*, November–December 2015, p. 97, http://usacac.army.mil/CAC2/MilitaryReview/Archives/English/MilitaryReview_20151231_art016.pdf.
- ⁵ "September 2015 Survey Results," Financial Behaviors Index, First Command Financial Services, Inc., September 2015; "First Command Reports: Career Military Families Sticking with Frugal Ways for Thanksgiving," Financial Behaviors Index, First Command Financial Services, Inc., 19 November 2015, <http://www.firstcommand.com/news/first-command-reports-career-military-families-sticking-with-frugal-ways-for-thanksgiving.htm>; "January 2016 Survey Results," Financial Behaviors Index, First Command Financial Services, Inc., January 2016, <http://www.firstcommand.com/fbi>; Defense Budget Overview: United States Department of Defense Fiscal Year 2017 Budget Request, Office of the Undersecretary of Defense (Comptroller) Chief Financial Officer, February 2016, p. 6-7, http://comptroller.defense.gov/Portals/45/Documents/defbudget/fy2017/FY2017_Budget_Request_Overview_Book.pdf.
- ⁶ David Zuchino and David S. Cloud, "U.S. Military and Civilians Are Increasingly Divided," *Los Angeles Times*, 24 May 2015, <http://www.latimes.com/nation/la-na-warrior-main-20150524-story.html>.