

**REPORT DOCUMENTATION PAGE**

Form Approved  
OMB No. 0704-0188

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<b>1. REPORT DATE (DD-MM-YYYY)</b> 13-04-2016		<b>2. REPORT TYPE</b> Master's of Military Studies		<b>3. DATES COVERED (From - To)</b> SEP 2015 - APR 2016	
<b>4. TITLE AND SUBTITLE</b>  Projected Effects Of The New US Military Compensation and Benefits Package On An All-Volunteer Military Force				<b>5a. CONTRACT NUMBER</b> N/A	
				<b>5b. GRANT NUMBER</b> N/A	
				<b>5c. PROGRAM ELEMENT NUMBER</b> N/A	
<b>6. AUTHOR(S)</b>  Johncock, James, D, LCDR, USN				<b>5d. PROJECT NUMBER</b> N/A	
				<b>5e. TASK NUMBER</b> N/A	
				<b>5f. WORK UNIT NUMBER</b> N/A	
<b>7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES)</b>  USMC Command and Staff College Marine Corps University 2076 South Street				<b>8. PERFORMING ORGANIZATION REPORT NUMBER</b>  N/A	
<b>9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)</b>				<b>10. SPONSOR/MONITOR'S ACRONYM(S)</b>  Dr. Lauren Mackenzie	
				<b>11. SPONSOR/MONITOR'S REPORT NUMBER(S)</b>  N/A	
<b>12. DISTRIBUTION/AVAILABILITY STATEMENT</b>  Approved for public release, distribution unlimited.					
<b>13. SUPPLEMENTARY NOTES</b>					
<b>14. ABSTRACT</b>  Military retirement reform has been a contentious and ongoing argument in America's history. With little reform enacted since the end of WWII and increasing military personnel costs amid financial constraints, the necessity for reform can no longer be ignored. The President of the United States established a Military Compensation and Retirement Modernization Commission in 2013 with a mandate to provide specific recommendations that ensured the long-term viability of an all-volunteer force, maintained the quality of life of military members and their families, and modernized and achieved fiscal					
<b>15. SUBJECT TERMS</b>  Military Retirement Reform; Military Compensation; FY2016 Retirement Reform; Military Compensation and Retirement Modernization Commission 2013.					
<b>16. SECURITY CLASSIFICATION OF:</b>			<b>17. LIMITATION OF ABSTRACT</b>	<b>18. NUMBER OF PAGES</b>	<b>19a. NAME OF RESPONSIBLE PERSON</b>
<b>a. REPORT</b>	<b>b. ABSTRACT</b>	<b>c. THIS PAGE</b>			<b>19b. TELEPHONE NUMBER (Include area code)</b>

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MASTER OF MILITARY STUDIES

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**TITLE: Projected Effects Of The New US Military Compensation and Benefits Package  
On An All-Volunteer Military Force**

SUBMITTED IN PARTIAL FULFILLMENT  
OF THE REQUIREMENTS FOR THE DEGREE OF  
MASTER OF MILITARY STUDIES

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## **Executive Summary**

**Title:** Projected Effects Of The New US Military Compensation and Benefits Package On An All-Volunteer Military Force

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**Thesis:** The reformed US Military benefit package will have the following impacts on the current and future volunteer fighting forces: compromised talent management, recruiting incentives and challenges, increased military capabilities, and a sense of ‘breaking faith’ with military families.

**Discussion:** Military retirement reform has been a contentious and ongoing argument in America’s history. With little reform enacted since the end of WWII and increasing military personnel costs amid financial constraints, the necessity for reform can no longer be ignored. The President of the United States established a Military Compensation and Retirement Modernization Commission in 2013 with a mandate to provide specific recommendations that ensured the long-term viability of an all-volunteer force, maintained the quality of life of military members and their families, and modernized and achieved fiscal sustainability in the 21<sup>st</sup> century. The commission’s report was released in January 2015 with the adoption of several of their policy recommendations in the FY 2016 Defense Authorization Bill. The altered compensation package that is to be implemented in 2018 will undoubtedly impact several aspects of today’s fighting force. Drawing from the current conversations and opinions portrayed throughout media outlets, it is critical that the DoD take a proactive approach in developing a strong message that harnesses the positive aspects of the benefits reform while limiting negative impacts of the changes.

**Conclusion:** To minimize negative impacts to talent management, recruiting, military capabilities, and the faith of the military family, DoD should facilitate an open and honest discussion among service members addressing the unsustainable high personnel costs of today’s military, compensation comparisons to the civilian sector, and the potential negative effects if changes are not implemented.

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## **Introduction**

The United States converted to an all-volunteer military force in 1973. The decision to lift conscription was ambitious for the time and reliant on the US Government's ability to offer an attractive compensation and benefit package able to recruit and maintain an effective fighting force. To date, the military benefits package remains a key incentive for building a force able to maintain the security of the United States. Despite the minor changes that have been introduced over the past 45 years to keep pace with economic trends, military retirement benefits have remained both constant and a "subject of intense criticism and equally intense support."<sup>1</sup> The President of the United States established a Military Compensation and Retirement Modernization Commission in 2013 with a mandate to provide specific recommendations that ensured the long-term viability of an all-volunteer force (AVF), maintained the quality of life of military members and their families, and modernized and achieved fiscal sustainability in the 21<sup>st</sup> century.<sup>2</sup> The commission's report was released in January 2015 with the adoption of several of their policy recommendations in the FY 2016 Defense Authorization Bill. The following aspects of the reformed US Military benefit package will have a significant impact on the current and future volunteer fighting forces: compromised talent management, recruiting incentives and challenges, increased military capabilities, and a sense of 'breaking faith' with military families. These impacts will be examined by taking into consideration military, academic and mainstream media sources in order to form a recommendation for the Department of Defense (DoD). This recommendation will emphasize the importance of leveraging the potential advantages of the changes to a deep-rooted benefit system in order to ensure the continued strength of an all-volunteer force. The following section will offer a brief history of military retirement reform in the United States in order to highlight this topic's tenure as a prominent political debate.

## **Benefit Reform History**

The United States military pension system's role in the federal budget was born during this country's birth and has been sustained as a topic of political differences throughout history. The first national pension law passed on August 26, 1776, introduced a payment for military service members injured during battle.<sup>3</sup> In 1778, and amid controversy over fairness, Congress "instituted a half-pay service pension for officers...but limited coverage to seven years,"<sup>4</sup> constituting the country's first non-disability military service pension system. Extending pension rights to enlisted military personnel in 1885 and undergoing minor changes throughout the early 19<sup>th</sup> century, the Civil War proved to be the next large catalyst for military pension reform. The 1890 Disability Act, later revised into the Service and Age Pension Law, was a service based pension system that allowed for all veterans to receive lifetime payments starting at age sixty-two in an amount based on their length of service.<sup>5</sup> This reform significantly increased the amount of personnel covered under the pension system, came at an estimated cost of \$1 billion,<sup>6</sup> and "accounted for nearly forty percent of federal spending in the late 1890s."<sup>7</sup> During WWII, most of the retirement benefits available today were initiated and have stood the test of time: the up-or-out promotion system, military members vested for retirement after 20 years of service, and retirement pay calculated at a rate of 2.5 percent times years of service.<sup>8</sup> The established defined benefits compensation package has sustained military recruitment and force structure amid the transfer to an all-voluntary force in 1973, but has come at an increased financial burden to the American taxpayer.

Military retirement reform has remained a contentious issue in American politics and the "number of reports, analyses and studies aimed at reforming the system have been voluminous."<sup>9</sup> All divisive opinions and attitudes involving military retirement and potential reform are driven

by cost, equity, selective retention, civilian comparability, and force management flexibility.<sup>10</sup> Starting with the 1948 Advisory Commission on Service Pay, who deemed the retirement system to be “overly liberal...and wholly unreasonable”<sup>11</sup> there have been numerous attempts and proposed legislation to reduce the cost of military compensation. The Quadrennial Review of Military Compensation (QRMC) was enacted in 1969 to continually address the longevity of the military retirement system and over the last 45 years there have been 8 significant change proposals sent to congress for the reformation of military compensation and retirement.<sup>12</sup> The common thread that continues to tie the various recommendations together stem from “criticism focused on general aspects such as the early retirement age with full benefits...the system’s noncontributory nature, possible inequities to persons separating, and lack of coordination with social security.”<sup>13</sup> Despite previous proposals resulting in very minor changes to the retirement system, the Budget Control Act of 2011 has again highlighted military compensation’s need for reform. Confronted with a reduction requirement of \$500 billion in DoD funds through 2021 and another \$500 billion should sequestration stay in place, DoD’s increasing personnel costs are an easy target.

The Military Compensation and Retirement Modernization Commission (MCRMC), formed in 2013, underwent a two-year long process to review the compensation system and submit a plan to congress. Through surveying active and retired service members, working with veteran service organizations, research institutions, not-for-profit firms, private firms, and other government organizations the MCRMC’s report was a three hundred page document that suggested the implementation of 15 recommendations. The MCRMC acknowledged the importance of compensation packages to maintain a high quality all-volunteer military force and

focused on modernization techniques to improve the “value to the Service members while making them more fiscally sustainable.”<sup>14</sup>

### **Recent Military Compensation Changes**

The following changes in the military retirement system were adopted by the House of Representatives, the Senate and the President and will have the largest and most immediate impacts on service members: the Military Retirement System will move from a defined benefits (DB) plan to a blended DB and defined contribution plan (DC), basic allowance for housing (BAH) will cover 95% vice 99% of estimated local housing expenses, pharmacy tri-care co-pays will increase, and annual pay increases will be reduced to 1.3% in lieu of 2.3% in future years at the discretion of the President. While current service members are grandfathered into the old retirement plan, the blended DB and DC plan will go into effect for those members entering service after January 1, 2018. Under this system, service members will automatically be enrolled into the Thrift Savings Plan (TSP), will receive 1% contribution from the government, will be vested after the completion of 2 years of service (YOS), and will receive up to a 5% matching contribution from the US Government up to their first 20 YOS. Those members that complete 20 YOS will receive 40% of the average of their highest 36 months of basic pay for the remainder of their life, reduced from 50% under the current system. The remainder of this paper will be devoted to reviewing the potential impacts the compensation changes might have beginning with compromised talent management.

### **Compromised Talent Management**

The US military’s hierarchal structure and lack of lateral entry opportunities creates a

complex dynamic when trying to ensure talented individuals are not only recruited into service but are incentivized to stay for a twenty to thirty year career. A service member's initial years provide the basis of training and knowledge needed to fill senior level positions. A great opportunity cost is felt by the military if the best and brightest leave before they have fulfilled their potential. Compensation packages are often used as a tool to both attract and maintain talent. The US military's shift to reduced compensation incentives may negatively impact the decisions service members make regarding the length of their military careers. The academic, military, and mainstream media literature provides a varied array of opinions. The academic works attempt to quantify what benefits are needed to drive a person to stay in the military while the military and mainstream media resources speculate decisions that appear to be rooted in emotions and assimilations.

The academic works reviewed justify the importance of retirement benefits in driving retention and separation through research and decision model dynamics. Scholars agree that there is a need for careful analysis of effects even minor changes might have on military structure, as "retirement can be a blunt instrument for shaping the force."<sup>15</sup> The uniqueness of the military retirement system is explained in terms of the 'golden handcuffs,' the twenty-year mark serves as a pulling mechanism for those that approach it and a push mechanism for those that pass it; After six YOS (years of service) all four military branches have a continuation rate greater than 90%, after eleven YOS it increases to 95%, and after twenty YOS only 10% of officers and 3% of enlisted fulfill a thirty year career.<sup>16</sup> The DB retirement plan serves as an important aspect of military compensation because it offers predictability. Having a guaranteed, low-risk, steady income stream promised to military personnel during old age serves as an extremely desirable feature and offers a great retirement incentive to complete twenty YOS.<sup>17</sup> In

support of a Department of Defense (DoD) working group, the RAND Corporation assisted in studying the effects a hybrid DC and DB retirement system would have on retention when compared to the current system. Through the analysis of over one thousand dynamic retention model simulations, covering several different compensation options, it was found that with great certainty it is feasible that a hybrid compensation system can maintain the current force size, shape, and experience mix.<sup>18</sup> Maintaining a large portion of the military compensation in the DB option while bringing a percentage forward “will increase equity and efficiency, realize savings to the DoD...while maintaining the strengths of the current system.”<sup>19</sup>

The military resources reviewed stressed concern over the effects the new military compensation reform might have on those service members who under the current system start to feel the ‘pull’ of the twenty YOS retirement incentive. The 20% reduction in the DB portion of the retirement package “while well-intentioned, could decimate the senior noncommissioned and officer ranks, by giving them too much incentive to start a civilian career earlier.”<sup>20</sup> All service members are indoctrinated into a proven system that builds discipline, confidence, leadership, and teamwork; all these traits are desirable in any civilian or government agency looking to recruit a mid-career military member. Since the military competes with the outside opportunities available to their personnel, some advocates worry that the compensation reform “will discourage midcareer officers from staying to the 20-year mark and encourage senior troops to leave earlier than they had previously planned.”<sup>21</sup>

In regards to talent management, the mainstream media resources offer somewhat of a mixed message. Several portray the changes as good for the continued strength of the force, others highlight that mid-career service members might leave too soon, and some feel that the reform did not go far enough in bringing about change to the current system. *The Hill*

*Newspaper*, which is a politically driven media outlet, delivers a clear message that “if the United States hopes to maintain the most powerful military in the world, and recruit and retain America’s best...the thoughtful reform proposals presented by the MCRMC is a big step in the right direction.”<sup>22</sup> In contrast, the *Wall Street Journal*, whose focus is a business centric media outlet, presents an opposing view. In one article the author notes the successful retirement reforms of the U.K., Poland, Ireland, and Sweden forces that reduced benefits and increased the age of eligibility for military pensions suggesting that the US Military could follow suit and feel no negative effects.<sup>23</sup> Although a separate *Wall Street Journal* article argues that mid-grade officer’s incentives should be increased, rather than decreased.<sup>24</sup> Lastly, in reviewing the mainstream media articles in reference to retention shifts under changes to compensation, it was clear that some media outlets highlighted the growth of military pay when compared to the civilian sector. While upcoming changes will surely create concern, it is also important that service members looking to leave be reminded that on average military members “earn more than 90% of their civilian counterparts with similar education and experience.”<sup>25</sup>

### **Recruiting Challenges And Incentives**

Successful recruitment into an all-volunteer military force is not only contingent upon the ability to offer an exciting opportunity for young men and women to serve their country but also relies on an enticing compensation package that is comparable to outside opportunities. Each service member joins the military for various reasons and values monetary incentives differently. The ability to offer adequate payment, healthcare, and the opportunity to provide for family and future retirement savings can serve as a powerful tool to attract our country’s best and brightest. The academic sources reviewed bring light to the challenges the military hierarchal system offers

when compared to other available opportunities. The military and mainstream media outlets deliver a message that highlights the compensation reform's ability to better provide for those that do not desire to complete a full twenty-year career.

Academic studies revealed that the military's hierarchical structure's compensation policies must be aimed at "attracting, retaining, and percolating the most able to the top"<sup>26</sup> because of the timeframe needed to build a top-level military individual. Each recruit that enters military service has a value equal to the value of their current output plus their future value for positions they have the potential to serve in.<sup>27</sup> The Center for Strategic and International Studies also notes that the DoD lacks a mechanism that replicates the decision process for a man or woman to join the force and the weight compensation plays in that decision; sophisticated decision making models exist, but they contain assumptions that may not hold true under individual circumstances.<sup>28</sup> Despite the presented challenges, if civilian comparisons were the decider, the recent military compensation reform would make "military compensation more competitive with the private sector and offer features that service members demand."<sup>29</sup>

In the military resources studied, there was a positive message interpreted in the compensation reform's ability to offer better incentives for all recruits and expand benefit accessibility. Under the current system, approximately one in five recruits will see retirement benefits from their service to country, the plan that will go into effect in 2018 will expand that access to approximately four out of five recruits.<sup>30</sup> Also, the military journals and newspapers that interviewed Defense Secretary Ashton Carter were given his explanation emphasizing that compensation reform was not about money as much as it was about meeting the needs of a new generation of people that "value flexibility in their careers, and don't necessarily want to think in a block of 20 years."<sup>31</sup> Military literature showed significant value in the reform as it related to

starting a process that will better meet the needs of young people today and allow more options when making career choices after high school and college.

The mainstream media literature related its effect on military recruits by stressing the fact that so few service members currently receive any retirement benefits, highlighting the challenges of recruiting today's military force, and addressing the extreme budget concerns when looking at the cost of the retiree. Mainstream media literature claimed that currently 83% of service members, to include those that have sacrificed to fight the wars in Afghanistan and Iraq, do not qualify for any military benefits under the current system.<sup>32</sup> Although, under the new retirement system recently passed a "vast majority of troops, including those called on to do most of the fighting, would get a 401(k)-style retirement account."<sup>33</sup> Many media outlets asserted, "The main purpose of the retirement reform is to allow non-career military members to boost their retirement nest eggs."<sup>34</sup> Also brought to light was the current recruiting situation the military faces and how compensation reform might address those challenges. The military is now recruiting from a millennial generation where "almost three-quarters of Americans from age 17 to 25 are disqualified from serving in uniform due to obesity, education, criminal records, or medical reason."<sup>35</sup> In addition to a shrinking pool of young Americans, the US Government also must address the fact that in the not so distant future "the military will soon pay more to its retirees than it does to its active troops."<sup>36</sup> Studies have shown what drives Baby Boomers and Generation X is different than what Millennials value. The need to save money combined with a need to make military service more enticing for those that are eligible make the defined contribution plan a helpful tool in attracting recruits for tomorrow's force.<sup>37</sup>

### **Increased Military Capabilities**

The ability for the compensation package reform to increase capabilities is driven by its ability to decrease the significant growth in DoD personnel costs. A decrease in personnel costs allows for an increase in budget expenditures on equipment and the development of new military technologies and capabilities. Of the four effects addressed in this paper, increased capabilities was the least covered over each of the three types of sources analyzed. While academic, military, and mainstream media sources all recognize an effect of personnel costs on being able to spend money on military capabilities, military literature heeds warning to an idea that cutting personnel costs is a result of it being the easiest course of action to remedy a tough situation.

Academic sources speak to the ease at which the people of the United States might feel obligated to be extremely generous to those that have served in the military, but the reality is the government must maintain its role as a “careful steward of taxpayer’s money and of service members in the future.”<sup>38</sup> The current budgetary constraints the government is facing from a large deficit and growing debt requires all expenditures to be carefully considered. Every resource devoted to retirement is a resource “that cannot be spent on better equipping or protecting service members in the future.”<sup>39</sup> Without attention and action “military readiness would further deteriorate because the higher personnel budget in the volunteer regime would crowd out military research and development and the purchase of military hardware.”<sup>40</sup>

Military literature emphasized that “unless the Defense Department and Congress make more dramatic reductions, the military will have no choice but to continually cut the total number of troops.”<sup>41</sup> The *Military Times* included an interview with Retired Marine Major General Arnold Punaro, who spoke to the fact that “we have fewer carriers, fewer tactical fighters, fewer bombers, fewer Army divisions, fewer Marine regiments than we've had because of the astronomical costs of personnel.”<sup>42</sup> Although former Indiana Congressman and Reserve Colonel

Steve Buyer sees the reform and personnel cuts as result of a powerful defense industry that has become a force that drives a “cash-strapped” military to focus on what seems to be as an easy target, personnel costs.<sup>43</sup>

Mainstream media sources portrayed the goal of military compensation of one that cannot simply address individual issues but must look at the compensation system meant to address several existing issues. The goal of compensation reform must focus on not just protecting the benefits that currently exist, instead “the goal should be to ensure the system is tailored for today’s AVF, improves overall readiness and allows the DOD to focus more resources on war fighting capabilities.”<sup>44</sup>

### **Sense Of ‘Breaking Faith’ With Military Families**

The idea of ‘breaking faith’ with military families represents the growing divide between government officials, the American people, and members of the armed forces. Trying to quantify what justifies an appropriate expense for the American taxpayer in regards to the value of military service is one plagued with extreme emotion. This potential effect of the new military compensation program has been the predominant subject of most media sources in describing the new system. All three types of literature address this unavoidable consequence and feeling that these changes will bring. Although each media source delivers varying degrees of the advantages and disadvantages, as compared to the current system and how specific elements are incorporated to ensure service members remain confident that they are not only taken care of but better off under the new system.

The academic sources consistently highlighted the complexity and potential effects even minor changes might have on a well-engrained system. The idea of what constitutes an adequate

compensation amount is one “the nation must decide”<sup>45</sup> with an understanding of what reducing military compensation might mean. Military culture and perception matter in compensation reform decisions, “even if cost savings seem clear and risks to force health appear manageable, proposals that run counter to military culture can be very difficult to implement successfully.”<sup>46</sup> Even without empirical measures of military culture, equity and fidelity serve as major tenants and will significantly impact to how modifications will be perceived.<sup>47</sup> Academic sources also highlight the unfairness of the current system when considering that most combat veterans do not receive military pensions and the disproportion in the number of enlisted versus officer service members that do fulfill a twenty-year career and receive a pension. The current retirement system “disproportionately benefits higher-paid personnel, would be considered abusive in a private-sector plan and would not pass the nondiscrimination tests that are designed to protect lower-paid workers.”<sup>48</sup> Academic literature clearly outlines issues with the current compensation available, highlights cultural impacts that will be felt during the reforms implementation, and argues that the current changes didn’t go far enough to address some of the inequities.

Military media addresses the concerns of service members and highlights MCRMC and the government’s attempt to ensure faith is maintained with military members. The complexity of compensation reform is understood and the MCRMC recognized that in today’s military it is vital that in each decision the military family be considered as an integral part.<sup>49</sup> The reformed system was well thought out and an attempt made to craft a “deal that preserves the old pension promises for service members”<sup>50</sup> while also increasing options when it comes to personnel finance and retirement. Also, it tries to remedy the fact that current service members who do not complete 20 YOS are “fatigued by multiple combat tours and unsettled ... are left with no employer-backed retirement offerings, even though most of their civilian counterparts have

one.”<sup>51</sup> Understanding that these changes require a more proactive and intrusive approach to the finances of every enlistee, “Congress has mandated refresher financial literacy courses throughout troops’ careers: at duty station changes, shortly after promotions, following ‘life events’ like marriage or the birth of a child, and before and after deployments.”<sup>52</sup> The new system to be implemented in 2018 will also require an annual study that shows the financial health of the military force and addresses educational shortfalls, if any are found. Even with what seems to be an attempt to keep faith with military service members, there are many people critical of the new system’s narrative “that young troops would get a retirement benefit for the first time, career troops would get a better long-term benefit and the whole package still would save the government billions of dollars each year.”<sup>53</sup> The director for legislation for the National Association, Rick Jones, stated that “as of now, it looks like the new benefit for people who serve less than 20 is being paid for by cuts in the benefit for those who have served 20 or more.”<sup>54</sup> Major Todd Bonham from the *Army Times*, questioned the new systems ability to even save money and compared it to the similar shift corporate America experienced in the 1970s as DB programs were reduced; “the new hybrid plan removes the risk from the government and places it on the Soldier, Marine, Airman or Sailor.”<sup>55</sup> Major Bonham also warns that this initial reform bill will be followed by further attempts for savings and result in a “gradual shift from the hybrid model to the Full Monty — the defined contribution plan only.”<sup>56</sup>

Mainstream media articles praise the compensation reforms ability to recognize the value service members place on the DB program and its attempt to ensure a generous deferred savings program is kept in place. Media outlets also address the idea of ‘breaking faith’ has been an issue sensitive to Congress resulting in costly decisions; “with fewer veterans in Congress, lawmakers—perhaps feeling just a tad guilty—routinely have boosted annual military pay raises

beyond what their commanders and Pentagon civilians have recommended.”<sup>57</sup> Potentially, this continued openhandedness resulted in a pushing of blame on the government who is now trying to control something that they have let build over time by being too generous while the country has been in Iraq and Afghanistan. It is also pointed out in mainstream media articles that some defense officials maintain that the value of benefits under the new system “is equivalent to the old system, though there is room for variance because of the element of individual choice in contributions.”<sup>58</sup> The old system provided predictability, the new system provides less predictably of future retirement savings and the reformed compensation success will be based on the DoD’s ability to offer sound financial advice to service members; service members need to “understand their options and the risks associated with them.”<sup>59</sup>

### **Recommendations**

Consistent with the complexity of the issues related to military retirement reform, the literature researched presents a wide array of facts, opinions, and predictions. The emotions associated with the alteration of military compensation are captured and must be taken into account throughout the implementation of any changes. American culture consistently shows an appreciation for military service and prefers the idea of maintaining an AVF. Despite the recognized difficulty in putting a price tag on a man or women who willingly defends the population, the reality remains that today’s military and the country’s financial situation looks much different than WWII when most of the compensation benefits were implemented. In a liberal market economy the military uses compensation incentives to recruit service members, but once implemented the associated costs are difficult to control and becomes even harder to take away.<sup>60</sup> After analyzing the academic, military, and mainstream media literature it is

apparent that the DoD must take a proactive approach in addressing benefit reform to current and future service members. The new reform offers some positive and some negative aspects and they need to be dealt with in an open and honest forum developed by top military leaders and driven down throughout all ranks in order to create a common understanding. The literature analyzed recognizes valid concerns as it relates to impacts and can be used to map communication for these changes. Also, recognizing the media's propensity to focus on the twenty-year pension reform, service members and their families must also be better informed of the shorter-term financial changes that will be felt sooner. Drawing from Richard Petty and John Cacioppo's Elaboration Likelihood Model as the basis<sup>61</sup>, the DoD needs to force an open and honest discussion internally with service members along three functional lines: the unsustainable high personnel costs of today's military, compensation comparisons to the civilian sector, and the potential negative effects if changes are not implemented. In addition, the military must take a renewed focus on continuous financial training that ensures service members and their families understand the programs and are well suited to take advantage of the positives of military compensation while avoiding some of the negatives.

The elaboration likelihood model presents two different methods by which individuals receive a message and are persuaded to change an attitude/opinion: the central route and the peripheral route. The central route of persuasion presents compelling facts and elaborates information that requires the thoughtful consideration of the information.<sup>62</sup> The peripheral route persuasion occurs from simple cues and is usually born from pre-determined bias.<sup>63</sup> Since its introduction, the elaboration likelihood model has been applied to marketing strategies, persuasion plans, and used to model behavioral responses during research studies. For example, in John Reinard's "The Empirical Study of the Persuasive Effects of Evidence: The Status After

Fifty Years of Research,”<sup>64</sup> the elaboration likelihood model establishes the framework for the ideal circumstances when evidence produces maximum effects on persuasive communications. Reinard concludes that persuasive effects are maximized when highly credible sources present high quality evidence.<sup>65</sup> In order to form a persistent attitude change, the DoD needs to engage service members with the facts of the financial situation that can be reinforced throughout the chain of command. After reviewing all outlets, it appears that military and mainstream media literatures are driving emotional responses to a subject prone to peripheral persuasions. This is especially true amid the mixed messaging from top military officials who recognize the need for a change, veteran groups and military retirees that provide negative commentary about the changes, and the American public who is weary of disrupting the benefits to those whom they are grateful for their service. Central route communication will not make all members believers in the changes, but through facts, evidence and honest communication, it allows for the greatest potential for personnel to understand the need for the greater good.

The first area that needs to be understood by all military members is the unsustainability of the current system. As mentioned through much of the analyzed literature, the personnel costs of today’s service members has increased significantly. Since 2000, funding for military personnel has grown by 46%, or by \$45 billion.<sup>66</sup> These growing costs are the result of increases in basic allowance for housing (BAH), military retirement, basic pay, and healthcare. BAH price increases are the most predominant as they account for \$10.9 billion of the increases in cost seen since 2000.<sup>67</sup> This tax-free benefit has significantly grown since the DoD decided to privatize housing and cover 100% of the average cost of local housing. The new benefits program makes a small adjustment to these expenses by reducing BAH rates to cover 95% of average housing costs but still remains far from the 80% it use to cover prior to 2000. Increases to military

retirement expenses are driven by four main factors: increases to basic pay (“multiplier effect”), service members are staying in longer and less are leaving at retirement eligible ages, military retirees are living longer, and assumptions about likely interest rates for the Military Retirement Fund the government invests in are earning less.<sup>68</sup> Following WWII the life expectancy of individuals was at least 7.5 years shorter than it is today; today’s retiree will likely earn forty years of retirement benefits for twenty years of active service.<sup>69</sup> Healthcare represents the other main contributor to expense increases and is an issue not unique to the military. As the nation tries to resolve growing costs it is vital for leadership to remind military personnel the significant savings in healthcare costs when compared to the civilian sector. The revised compensation plan does add copay costs to prescriptions filled outside of DoD facilities but it is important to note that neither Congress nor the President enacted all suggestions of the MCRMC to reduce the financial burden of healthcare costs to the DoD. The disbelievers to the unsustainability of personnel costs and DoD’s budget will often cite defense spending as a smaller percentage of GDP since WWII and it’s percentage consistency over the last decade. While much of a political argument, the country’s deficit serves as a catalyst and need for increased fiscal responsibility across all government departments. Compensation reform is about saving money in a responsible manner that maintains the best fighting force and adheres to present day economic realities, not those of 1950. Having direct dialogue with service members will increase the likelihood of understanding the ‘why’ this is a necessity and not a nicety.

The second honest and open discussion that needs to be driven throughout all military ranks is an appreciation for the compensation service members receive when compared to their civilian counterparts. Understandably, military service is unlike a civilian job and consists of different requirements and sacrifices, but one must also recognize the changing make-up of

today's force and those actively involved in the deployments and combat missions. In 2012, *Time Magazine* referenced statistics from a 2010 Defense Business Board that outlined DoD's active duty deployment percentages: 30.3% deployed one time, 18.3% deployed twice, 11.4% deployed three or more times, and 40.0% had not deployed.<sup>70</sup> Despite this, the most important information that needs to be known is that enlisted military members make more than 90% of their civilian equivalents and officers make more than 83% of their civilian counterparts with similar education and experience.<sup>71</sup> These calculations used regular military compensation as a way to better represent military pay and included basic pay, average BAH, basic allowance for subsistence, and income tax advantages. Also, from 1999-2014 military pay raises have been equal if not exceeding that of the civilian sector, including multiple years when it was almost 2% higher.<sup>72</sup> Since America has gone to an AVF, and especially over the last decade while the country has been faced with conflict, there has been an understanding that successful recruiting required generous benefits to entice military recruits and maintain members for twenty and thirty year careers. The American taxpayer has been generous. The storyline that portrays military members as underpaid is no longer valid in the 21<sup>st</sup> century. While every American would love to make more money, today's military members need to understand that their willingness to volunteer to defend their country is well compensated when compared to the compensation of the average taxpayer charged with footing the bill.

The third reality that needs to be communicated with service members is the alternatives if compensation and personnel costs are not significantly reduced over the coming years. Regardless of how much service members think that it is only prudent to maintain the current compensation package, the country's financial situation remains weary and lack of cuts to personnel costs means further reductions to manning or a decrease in technology advancements

and product procurements. As discussed earlier in this paper, the literature reviewed stressed this fact the least when looking at potential effects of the program. These compensation reforms serve two main reasons, reduce personnel costs and create incentives for those not completing 20 YOS. In an overall sense, both of these results realize positive incentives for the DoD and service members as a whole. All members now have the opportunity to walk away with savings and continued reduction in personnel costs could mean further investments in equipment and technology. Force size and capability drive success, in order to maintain size and grow capabilities service members must be willing to take a small reduction in compensation to help ensure the future of the world's finest fighting force.

The final, and most important recommendation is the DoD's required commitment to providing financial training to service members. The MCRMC Report recognizes the critical financial decision service members will now have to make under the new program and raises concern that only 12% of military members surveyed indicated they received financial training from their command.<sup>73</sup> Breaking faith with the military family was the predominant subject of the analyzed literature. DoD's ability to take an invested interest in making sure each member understands the risk associated under the new program and the need for long-term financial discipline will help in maintaining the confidence of military families. Lack of planning for retirement savings is a larger societal issue; 53% of Americans aged 25-34 do not have assets in their retirement account.<sup>74</sup> When specifically looking at military personnel, only 29% of US Army Soldiers participate in the Thrift Savings Plan (TSP).<sup>75</sup> Despite the new retirement reform forcing automatic contributions into a TSP account, there should be an understanding that by decreasing pay raises, decreasing housing allowances, and the introduction of some healthcare costs the military members will have to make financial choices with reduced paychecks. Many

junior and midgrade military members are already living paycheck to pay check and feel financial burdens. Without a complete understanding and willingness to contribute to retirement savings and take advantage of matching Government contributions, the program will not meet its intended goal of helping all service members build savings, regardless of time in service. The incorporated training can not simply be hired financial advisors or a collateral assignment that someone in the command undertakes, it is imperative the chain of command take an intrusive approach to personal finances and continually stresses the importance of financial discipline. It is also recommended that spouses, when willing, be included in financial discussions to ensure a complete understanding of available benefits and long term saving options. There also needs to be care taken as the military transitions to the new benefits program. In 2018, new service members will be receiving different benefits than their leadership. It is necessary that all military members understand the changes, can speak to service members concerns, and military leadership is ready to be actively involved in financial discussions with those who they are charged to lead.

The operationalizing of the recommended open and honest discussion and implementation of better financial training will require the commitment of top military leaders, engaged military officers willing to commit the time and manpower resources that respect the importance of this topic, and military service members willing to approach the discussion with an open mind. Through unification of top down messaging, a clearer understanding of changes and avoidance of confusion will exist throughout the force. It is important that the DoD initially recognizes that while the compensation reform offers benefits to a majority of those that serve, it comes with a reduction to the previous benefits of “career” service members. The DoD must be clear that the new program introduces some financial risk to what was previously guaranteed and

the groups that will most likely feel the effects are service members, who under the new program, approach their tenth to fifteenth year of service. The implementation program should start with each service chief releasing a force wide message to their respective service outlining the changes and addressing the need in accordance with the recommendations described above as soon as possible. The messaging should also require mandatory force wide training to be conducted in FY17. This training should be developed jointly among the services and require for each command to complete the training prior to the end of FY17. In order to ensure the effectiveness and show a commitment to the members, it is also recommended that non-military financial specialists accompany Commanders as they conduct training in order to offer a better understanding of the TSP program, answer questions, and offer an unbiased explanation of long term retirement savings. By introducing a financial subject matter expert, it also serves as the first touch point in the development of a relationship among commands that are more focused on the financial health of their personnel. This force wide training should also capture major discussions points that can be pushed back up the chain to give high level commanders and service chiefs a better understanding of the concerns felt at the ground levels of the force. By delivering a consistent message through committed commanders, this program will not only better inform military members on benefits reform but also help to rebuild a narrative and appreciation for the benefits available to an AVF willing to defend their country.

### **Conclusion**

After decades of an engrained compensation program, the military's recently passed shift in compensation benefits is understandably being introduced amid concern, uncertainty, and even excitement by those now able to receive long-term benefits for less than 20 YOS. The most likely areas impacted are compromised talent management, recruiting incentives and challenges,

increased military capabilities, and a sense of ‘breaking faith’ with military families. As media outlets portray these changes and potential impacts through varying lenses it is important that the DoD draw on current discussions and effectively communicate the changes in a manner that garners wide support over uneasiness. The rapid growth of personnel costs at a time of financial constraints make these changes necessary for the sustainment of today’s force. An honest and detailed DoD led conversation across all services could allow for a better understanding and acceptance among all ranks. By addressing the ‘why,’ clearly outlining the personal financial risks within the new program, and communicating the consequences if changes do not incur will help in quieting the negative perceptions and commentary surrounding the upcoming changes. In preparation for the recruits of 2018, today’s force must become educated on changes and ready to lead a military more fiscally responsible with taxpayer money and more fiscally responsible in personal finances.

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