



DEPUTY SECRETARY OF DEFENSE  
1010 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1010

NOV 01 2013

The Honorable Alphonso Maldon, Jr.  
Chairman  
Military Compensation and Retirement  
Modernization Commission  
1101 Wilson Boulevard  
Arlington, VA 22209

Dear Mr. Chairman:

Secretary of Defense Chuck Hagel and I appreciate the important work of the Military Compensation and Retirement Modernization Commission, and we look forward to helping to inform your deliberations. The Department of Defense (DoD) has been working diligently for the past several years to find efficiencies in military pay and compensation. I have included many of these accomplishments in this letter for consideration during your review.

As Secretary Hagel has previously stated, sustaining the All-Volunteer Force and caring for our Service members and their families underpins everything we do as an organization. Accordingly, in our most recent budget proposal for fiscal year (FY) 2014, we requested funding to ensure that our military personnel are adequately compensated, and that they are properly equipped, trained, and led.

As you know, DoD is currently operating in an environment of significant fiscal challenges and budgetary uncertainty. Having only recently fully reopened, following a lapse in appropriations, DoD continues to operate on a short-term continuing resolution, and the damaging sequester-related cuts required by the Budget Control Act of 2011 remain the law of the land. Earlier this year, our Strategic Choices and Management Review illuminated the difficult choices facing DoD in the event that sequestration's abrupt cuts continue into the future. Simply put, sequestration places the United States at risk of fielding a force that is unprepared due to a lack of training, maintenance, and investment in modernization. We owe it to our men and women in uniform to ensure that this hollowing of the force does not occur.

Mindful of the critical need to balance appropriate compensation with readiness, force structure, and investments, DoD has made multiple proposals to Congress that seek to slow the growth in the costs of military pay and benefits while still supporting the All-Volunteer Force. Early in this Administration, we expanded the Federal Drug Ceiling Pricing to retail pharmacies. This was a successful effort that has substantially reduced our costs for pharmaceuticals. In our budget proposal for FY 2012, we proposed and subsequently implemented a substantial change affecting provider costs for military health care by using Medicare rates for smaller hospitals. We have also implemented a similar change for outpatient care. In addition, we proposed, and Congress approved, prohibiting some new enrollees from entering the expensive Uniformed Services Family Health Program. In our budget proposal for FY 2013, we proposed increases in co-pays for pharmaceuticals aimed at providing more incentive to use generic drugs provided by mail order. We also proposed modest increases in enrollment fees for TRICARE, which



included indexing of the fees to a health care index. These proposals were partially accepted by Congress.

In our FY 2014 budget proposal, we continue to make proposals that provide guidance in areas that are of greatest interest to DoD with regard to military pay and benefits. Although Congress has not yet completed action on these proposals, they include:

- Limiting the FY 2014 military pay raise to 1.0 percent instead of the full increase called for in law (1.8 percent based on the increase in the Employment Cost Index);
- Implementing increases in TRICARE enrollment fees, deductibles, and co-pays to bring the beneficiary cost share closer to the original levels mandated by Congress when the program was established; and
- Making further adjustments to pharmacy co-pays to provide even stronger incentives to use mail order and generic drugs and requiring prescriptions for long-term maintenance medications to be filled through Military Treatment Facilities or the mail order program.

As we look forward to future budget proposals, we continue to evaluate and compare the regular military compensation of officers and enlisted members with private sector compensation for individuals with similar education and experience. We seek to ensure that – even after any proposed changes – pay remains competitive with that of private sector counterparts and sufficient to meet DoD’s recruiting and retention objectives. It is important to consider the reversibility of initiatives in the event that changes in the external environment or in the behavior of the force demand a change to our approach. Innovations in compensation should improve force management flexibility in ways that also recognize the Services’ differing force profiles and retention requirements; however, any changes must keep faith with currently serving members. Finally, even while total defense budgets are declining, we seek to ensure the portion of the defense budget devoted to compensation is sufficient to sustain the All-Volunteer Force, yet ensures that we have adequate funding to pay for readiness and modernization.

We are currently formulating proposals on military pay and benefits that will be included in the FY 2015 President’s Budget. As soon as they are approved by the President and submitted to Congress, we will make them available to the Commission. We expect the budget to be submitted in early 2014.

This letter has focused on military pay and benefits other than retirement. Our staff also has expertise on military retirement. Although we have not made any specific retirement proposals, we would be glad to discuss our thoughts on the military retirement system informally with the Commission.

Again, thank you for your leadership of this important effort. We look forward to assisting the Commission in whatever way we can.

Sincerely,

A handwritten signature in black ink, reading "Ashton B. Carter". The signature is written in a cursive style with a large initial 'A' and a distinct 'B'.