

## **Principles for Modernizing the Military Compensation and Retirement Systems**

Sections 671-680 of the National Defense Authorization Act for Fiscal Year 2013 establish the Military Compensation and Retirement Modernization Commission. Section 674(c) requires the President to provide the Commission and the Congress with principles to guide the Commission's review and recommendations.

For over a decade, our men and women in uniform have participated in one of the most extraordinary chapters of service in the history of our Nation. They have served multiple tours of duty in distant, different, and difficult places. They come from all walks of life and all stations; Active, Reserve, and National Guard; serving together to protect our people, while giving others a chance to lead a better life. We owe each and every one of them and their families a tremendous debt of gratitude for their sacrifice, service, and patriotism.

Our Nation requires a strong military for our security and for the defense of American values and principles abroad. While we have successfully transitioned from a conscripted force to an All-Volunteer Force, sustaining this force requires responsive and prudent management, especially given the fiscal challenges we face as a Nation.

In conducting the Commission's review and in developing recommendations, you should ensure that the Commission examines all areas outlined in section 671(b)(1) and considers the full breadth of the military compensation and retirement systems, to include healthcare programs, programs supporting military families, as well as programs of the Federal Government that may influence decisions of current and future members of the military to join and remain in the service of our Nation. The Commission's review should also consider and examine: our Nation's ability to sustain an All-Volunteer Force; the retention of our most experienced and qualified service members and the alignment of compensation and management to achieve this end; our current promotion system and associated force shaping tools; and our responsibilities to the American taxpayers. The review should provide recommendations for sustaining the long-term viability of the All-Volunteer Force in a fiscally responsible manner.

The Commission's recommendations and analysis for reforming and modernizing the military's compensation and retirement systems should be based upon the priorities outlined in sections 671(b)(2) and 674, and upon the longstanding principles of military compensation developed by the 5th Quadrennial Review of Military Compensation, as outlined below. The Commission's recommendations for change must grandfather any currently serving military members and current retirees in the current military retirement systems, but may allow currently serving members and current retirees the choice to change to your proposed retirement system. The Commission's recommendations should also be guided by the following principles:

1. **Manpower and Compensation Interrelationship.** Military compensation and retirement systems are an integral part of the military's overall human resource management system and are key tools for recruiting, managing, and retaining the best military personnel. The military compensation and retirement systems should consider differences between service in the Armed Forces and service in other uniformed services. They should also consider

differences between regular and reserve military service and facilitate, as appropriate, the use of reserve service to support regular military forces.

2. Efficiency. The military compensation and retirement systems must attract, retain, and motivate a sufficient quantity of military personnel and those of the highest quality to sustain the All-Volunteer Force. While the military compensation and retirement systems should provide a reasonable standard of living, they should be fiscally sustainable and impose the least burden possible on the American taxpayer, consistent with maintaining a high-quality, All-Volunteer Force.
3. Equity. Military members, whether in the active or reserve components, must be allowed to compete equally for pay and promotion according to their own abilities and should receive equal pay for substantially equal work under the same general working conditions.
  - a. To the extent possible, compensation should be comparable with pay in the American economy.
  - b. Compensation should be competitive externally with private sector pay. It should also be competitive internally, to incentivize acquiring skills and accepting challenging assignments, to recognize hardships and danger, and to facilitate the distribution and separation of military members at appropriate times.
4. Effectiveness. The military compensation and retirement systems must be effective in times of peace, war, and other levels of conflict. These systems must be robust and assist in expanding and contracting the force as appropriate, to include the seamless use of reservists and retirees.
5. Flexibility. The military compensation and retirement systems must be flexible to adjust to changing conditions in the American economy, to changes in the labor markets, and to changes in military force structure requirements. These systems should be capable of rapid and equitable adjustments. They should facilitate the mobility required to employ the force in time of war and in peacetime support the need of force managers to professionally develop future military leaders.
6. Motivation. The military compensation and retirement systems should encourage meritorious performance and the desire to seek and perform in positions of greater responsibility.
7. Fiscal Sustainability. The military compensation and retirement systems should be fiscally sustainable in order to ensure long-term certainty for service members and retirees.
8. Force Management. The military compensation and retirement systems must actively retain the most experienced and qualified service members and align compensation and benefits to achieve this end. Along with the review of compensation the interrelationship of the military's current promotion system should be reviewed, as well as associated force shaping tools.

Together, these principles form a useful foundation to guide the Commission's review and development of recommendations to modernize the military compensation and retirement systems.