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COMMITTEE ON ARMED SERVICES

U.S. House of Representatives

Washington, DC 20515–6035

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ROBERT L. SIMMONS, II, STAFF DIRECTOR

October 14, 2011

The Honorable Jeb Hensarling
Co-Chair, Joint Select Committee on Deficit Reduction
129 Cannon House Office Building
Washington, D.C. 20515

The Honorable Patty Murray
Co-Chair, Joint Select Committee on Deficit Reduction
448 Russell Senate Office Building
Washington, D.C. 20510

Dear Representative Hensarling, Senator Murray, and Members of the Joint Select Committee on Deficit Reduction:

We appreciate the opportunity to present our views to the members of the Joint Select Committee on Deficit Reduction. We understand the difficult task that lies before you involves no easy choices. While the Joint Select Committee must concern itself with the enormity of the federal debt, the Armed Services Committee is charged with assuring America's military can defend the nation against a multitude of growing threats. We believe that additional reductions in the base budget of the Department of Defense (DoD) will compound deep reductions Congress has already imposed and critically compromise national security. We urge you to refrain from any further cuts in National Defense.

We share your goal of federal deficit reduction and agree with its critical importance; however, from a Constitutional perspective, we would argue that not all elements of the federal budget are equal. In particular, the budget function for National Defense has already experienced significant reductions since the discussion to reduce our nation's debt began this Congress. These cuts were enacted in advance of establishing a mitigating strategy to address increased risks to national security caused by significant budget reductions. If further cuts to the military are implemented, either through sequestration or as a result of a spending reduction package approved by the Joint Select Committee, these cuts would pose a serious threat to the nation's readiness to respond to current and future global security challenges, break the back of our Armed Forces while slowing our economic recovery, and do little to resolve our debt crisis.

The DoD began to do its part to root out waste, improve efficiency, and address the nation's deficit earlier this year. In January 2011, Secretary Gates announced that he had identified approximately $178 billion in overhead efficiencies and other savings within DoD's five-year base budget. Of this amount, about $78 billion would be applied to deficit reduction. These reductions were included as part of the fiscal year (FY) 2012 budget request. In the committee's review of this request earlier this spring, the committee assessed that given the spectrum of threats to our national security, the diverse missions performed by our military, and the funding required for the reset from current contingency operations, the FY 2012 budget request was the minimum amount necessary to support our national security requirements. In fact, many members advocated for additional investment to address the spectrum of threats facing the country, and were concerned that the most recent Quadrennial Defense Review (QDR) did not identify a specific and clear force-planning construct to provide a basis for future budget requests.

Subsequent to the submission of his FY 2012 budget request, in April 2011, President Obama announced his intent to reduce the Defense budget by an additional $400 billion through FY 2023. Many members of this committee voiced concerns about reductions based strictly on "math" without analysis of the impact to the nation's security posture. Although the President directed DoD leadership to commence a strategic review, as General Martin Dempsey confirmed in testimony before the Senate Armed Services Committee, the military has been given "a target, and we're trying to determine what the impact would be to meet that target." Thus it appears unlikely that this review will deliver the strategic framework sought by the committee. Furthermore, the President's proposed cuts were enacted prior to the conclusions of the review as part of Title I of the Budget Control Act (BCA), passed in August 2011.

The President and Congress have agreed to an estimated $465 billion reduction over 10 years to the military's most recent plan, namely the FY 2012 budget request submitted in February. From this request, a number of impacts are anticipated:

- We will reduce the size of a force it has taken 10 years to grow and train, while we continue to fight in multiple theaters – exacerbating current strains on readiness and dwell time.
    - The end strength of the Army and Marine Corps could be reduced to approximately pre-9/11 levels, resulting in the separation of nearly 120,000 soldiers and Marines.
    - It is also expected that the Navy and Air Force, who are already smaller than they were ten years ago, will reduce end strength further.
- Our forward presence will likely be diminished. We could be less capable of responding to humanitarian missions and increase the risk of combat casualties. Future conflicts will likely be longer and more expensive.
- The nuclear triad the United States and over 30 of its allies have depended on as the guarantor of their security for decades could be jeopardized, at the same time that Russia and China are undertaking robust nuclear weapons modernization programs. The United States ability to meet its extended deterrence commitment to NATO would also be questioned.

- A reduction in civilian manpower will likely follow that of the military, potentially resulting in the loss of nearly 110,000 personnel.
- The force structure of each of the military services will be impacted by this reduction over the next 10 years: The Army will likely lose 20 percent of its Maneuver Battalions; the Air Force will likely lose more than 10 percent of its fighters, strategic bombers, and air lift; and the Navy will likely lose 10 percent of its ships.

Adjustments such as these are significant enough to necessitate a revision to our commanders' warfighting plans and the number of missions our force can perform simultaneously, which would compel the nation to reconsider its defense strategy. Such adjustments also force us to abandon one of our greatest strategic assets, the men and women who have fought longer and harder than any generation before them. By dramatically cutting end strength, we will be forced to purge an unprecedented amount of hard earned combat experience and knowledge from our force - experience we will undoubtedly need again.

In addition to these reductions, funding for the Department of Defense could be sequestered beginning in FY 2013, should Congress and the President fail to agree to an additional $1.2 trillion in savings through FY 2021. We understand that sequestration in Title III of the BCA was designed to force Congress to find and agree to other savings. We urge the Joint Select Committee to ensure this trigger - or some partial version of this trigger - does not take effect. Sequestration represents a real cut to National Defense for FY 2013, returning funding to FY 2003 levels through FY 2021. Over the last two months, the Committee has held a series of hearings examining the future of national defense and the U.S. military ten years after 9/11. Testimony from former chairmen of the Joint Chiefs of Staff, former service chiefs, outside experts, and former chairmen of the Committees on Armed Services of the Senate and House of Representatives is unanimous – additional cuts would significantly increase the risk to national security and to our military institutions.

We are not alone in our concern. Members of the Executive Branch have begun to understand the impacts that sequestration would have on our national security. Office of Management and Budget Director Jacob Lew stated in an August 4th blog entry "make no mistake: the sequester is not meant to be policy." And in a recent press conference, Secretary Panetta stated that the cuts contemplated by sequestration would "do real damage to our security, our troops and their families, and our military's ability to protect the nation."

In a letter the committee received on September 15th , Secretary Panetta and Director Lew commented directly on the impacts of sequestration. "The spending limits under Title III, coupled with the sequester that would occur if the joint committee process fails, would require a cut for FY 2013 of as much as 11 percent from DoD's FY 2011 funding level. Compared with the FY 2013 level in the President's budget plan submitted last February, this cut would result in a reduction of as much as 15 to 25 percent depending on whether the President elects to exempt military personnel funding. As a result of the size of the cuts, and the manner in which they may be imposed, DoD would almost certainly be forced to furlough large numbers of its civilian

workers… In short, there could be significant impacts on major military capabilities and on our ability to execute the current national security strategy."

Secretary Panetta, quite plainly, has called sequestration the "doomsday mechanism". But even if full sequestration is avoided, the "doomsday" impacts would still be felt, albeit to a lesser degree, should any additional cuts be made to National Defense. This is why we urge the Joint Select Committee to consider the contribution National Defense has already made to resolve the debt crisis and recommend no further reductions to discretionary accounts. Please refer to the enclosed charts, which describe in greater detail the effects of additional cuts on the discretionary National Defense budget. Figure 1 describes the annual change to the budget for National Defense, as projected by the FY 2012 budget request. Changes as a result of title I of the BCA are shown in yellow, while the additional effects of sequestration are shown in red. Again, please note that in real terms, funding for National Defense does not grow in either scenario for the next ten years. Current funding returns National Defense to FY 2008 appropriations levels, while sequestration relegates defense to FY 2003 appropriated levels through FY 2021. Figure 2 describes the effects of the BCA on military spending in historic terms – expressed as a percentage of total federal budget authority. Figure 3 provides a snapshot of the military's force structure in the 1990s, the drawdowns prior to 9/11, the current force, and the projected force structure following implementation of title I of the BCA and sequestration. Finally, Figure 4 describes the current end strength of the Army and Marine Corps and a comparison to projected reductions following implementation of title I of the BCA and sequestration.

While significantly smaller in relation to other budget functions, there are only two areas in which exclusively mandatory spending reductions could theoretically be achieved in the defense budget: changing military retirement and changing TRICARE for life[1].

- The military retirement trust fund pays benefits to 2.2 million retirees, including disabled retirees, and their survivors. Any change to garner immediate savings from military retirement will also impact all 2.3 million active, National Guard and reserve personnel currently serving.
- The TRICARE for Life trust fund pays the health care costs for 2.1 million Medicare-eligible military retirees.

We urge the Joint Select Committee to exercise caution when considering many of the existing deficit reduction proposals relating to service-member benefits, as they ask more of current and future military retirees than the general population. Moreover, these deficit reduction proposals ignore the fact that unlike civilians, military retirement is deferred compensation for the extraordinary sacrifices made by military retirees through 20 to 30 or more years of service to the nation. Military lifestyle and career demands are radically different from any private sector or government civilian endeavor. The retirement and health care systems that support the military community should reflect that reality. Some differences include:

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[1] It should be noted that proposed pharmacy co-pay reforms could generate savings in both mandatory and discretionary spending (mandatory savings applies to the 2.1 million military retirees covered by TRICARE for Life).

- Combat hazards and inherently dangerous occupations.
- Physically demanding occupations.
- Austere work environments and hardship locations.
- Extended absences from family.
- Frequent requirements for involuntary family relocations.
- Retired members are subject to recall to military service and prosecution under the military justice system.
- Opportunity to serve to typical retirement age is limited by an up or out and mandatory retirement policies.
- Because of involuntary up-or-out and mandatory retirement policies that limit the duration of military careers, retirement pay and health benefits provide essential support when service members inevitably transition to new private sector jobs.

Changes to military retirement and health care should be viewed through the lens of these differences and in the context of expected life stream earnings. Otherwise, any change to military retirement or health care will be judged as breaking faith with current and former service members. Concerns about breaking faith would certainly be compounded if more significant reductions in benefits and life stream earnings are imposed on military retirees than on any other Americans.

Military Retirement

Immediate, comprehensive military retirement reform is a bridge too far. A minimum of one year would be required to achieve consensus from all stakeholders on a solution that yields budgetary savings. Without such an agreement, major reforms risk devastating recruitment and retention, jeopardizing the all volunteer force and potentially reducing combat readiness. As a counter to these risks, actively serving members of the Armed Forces could be grandfathered, but such an effort eliminates immediate savings necessitated by the Budget Control Act.

Even so, elements of such proposals – particularly the July 2011 Defense Business Board Retirement Reform plan and the 10th Quadrennial Review of Military Compensation, Retirement Reform plan – continue to be socialized. We strongly oppose the recommendations of these proposals that the military retirement system should be more like civilian retirement plans.

- The proposals do not assess the impact of such changes on either the retention of the current or future all-volunteer military.
    - Reliance solely on a defined contribution system paid at age 60 has been studied and found to decimate retention.
    - Immediate dismantlement of current 20-year retirement sacrifices the current system's immense retention power for current and future service members with 10 or more years of service – the so-called "golden handcuffs" that sustained the all volunteer force and combat effectiveness over the last ten years of war.
- The Defense Business Board proposal would reduce life stream earnings for retirees by over 50 percent.
- The cost during difficult retention periods (such as during war) are not known and may exceed the costs of the current system because of immense bonuses that would have to be paid to incentivize repeated combat zone tours.

Furthermore, the combined effect of major military retirement reform with proposed changes to the civilian and military retiree annual cost of living adjustment (COLA) would have a disparate impact on the military retiree, in comparison to that experienced by federal civilian retirees, potentially reducing the military retiree's life stream earnings by 25 to 50 percent.

Military Health Care

Changes to TRICARE for Life must also be examined with caution. Such changes will impact most heavily the 2.1 million Medicare-eligible military retirees who, for the most part, live on fixed incomes. Some have suggested a combination of changes to both TRICARE for Life annual enrollment fees and pharmacy co-pays, which would constitute a substantial double hit on the TRICARE for Life population, the least able to absorb the fiscal impact. Pharmacy co-pay reforms that peg new cost shares to Federal Employee Health Benefit Program rates could at least double the cost of prescriptions to DoD beneficiaries. Likewise, if Medicare Part-B enrollment fees area also increased, the TRICARE for Life beneficiaries will absorb a third increase in their health care costs because they must enroll in Medicare Part-B to be eligible for TRICARE for Life.

We strongly oppose Simpson-Bowles Commission proposals that would restrict first-dollar coverage in Medicare supplemental insurance, including TRICARE for Life. Our principal concern is the potential for the proposed reforms to be applied only to TRICARE beneficiaries, due to predictable resistance to implement substantial Medicare reform across the board. This increases the likelihood that a huge inequity would be created among the Medicare eligible population, to the detriment of those who served our nation for twenty years or more. Similarly, we oppose the Simpson-Bowles Commission's proposal to establish a global budget for total federal heath care costs and limiting the growth to gross domestic product plus one percent. Veterans' health care was not addressed by this proposal. Thus, only a portion of the veteran population – currently serving members of the Armed Forces and military retirees - would be disproportionately targeted. It also creates the potential for certain programs (Medicaid, Medicare, and Children's Health Insurance Program) to consume the annual growth, leaving programs like TRICARE stagnant, because these Federal programs cover populations with some of the highest health care burn rates.

In fact, the President and some in Congress have proposed exempting any reforms to veterans' health care benefits. As a result, those who served less than 20 years in the military would not be asked to contribute to deficit reductions, but those who served in the military for 20 or more years would. We urge your Committee to consider that if special consideration is being given to those who served part of their lives in military service, such special consideration in shaping retirement and health care reforms should also be given to those military retirees who spent the majority of their working lives in service to the nation.

As a bottom line, the committee strongly recommends that the Joint Select Committee:

- Make no further cuts to discretionary spending for national defense.

- Keep faith with the current force. Avoid to the greatest possible extent adopting multiple simultaneous changes to military retirement and health care whose combined effects will have a devastating impact on the fiscal and quality of life of military retirees, and impose more sacrifice on the military population than is being asked of any other American.

In closing, we thank you for the opportunity to discuss the impacts on discretionary defense spending already underway due to recent initiatives, the perilous implications of sequestration on our nation's security, and the need to maintain faith with our service members and their families as they defend our nation.

Sincerely,

Howard P. "Buck" McKeon

Howard P. "Buck" McKeon
Chairman

W. Todd Akin MO-2

Mac Thornberry

J. Randy Forbes

Bob Wittman VA-01

Joe Wilson, SC-02

Mike Pence OH-3

Trent Franks AZ-2

Allen West FL-22

Joe Heck NV-03

Mo Brooks, AL-5

Frank LoBiondo NJ-2

J. Rigell VS-3

Vicky Hartzler MO-4

John Fleming LA04

Jeff Miller FL-01

Martha Roby AL-02

K. Y. [illegible] TX-11

Mike Rigell VA-02

Doug Lamborn CO-5

Steven Palazzo MS 4

Duncan Hunter CA-52

Bruce Lilling IL-17

Tim Griffith AR-02

Todd R. Platts PA-19

Austin Scott GA-08

Mike Rogers - AL

Bill Shuster, PA-9

Jeanne Rooney FL 16

Walter B. Jones

IN-9

MD-6

Figure 1 - National Defense Base Budget Topline
January 2012 – Implementation of Budget Control Act (BCA) Sequestration
FY 2009 – FY 2021

Constant FY 2012 Dollars

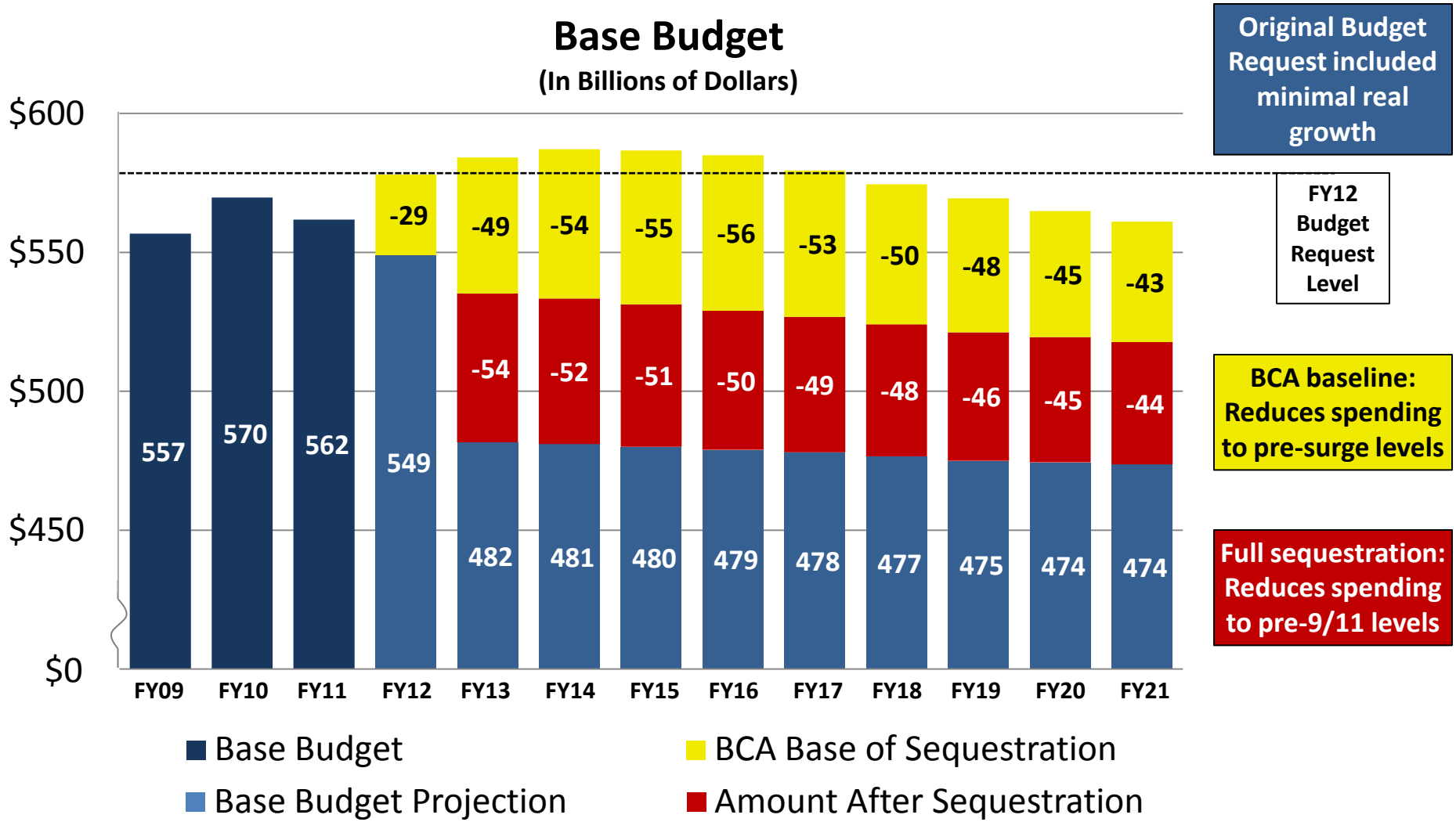

Figure 2 - Defense Department Funding as a Percentage of Total Budget Authority FY1976 – FY2021

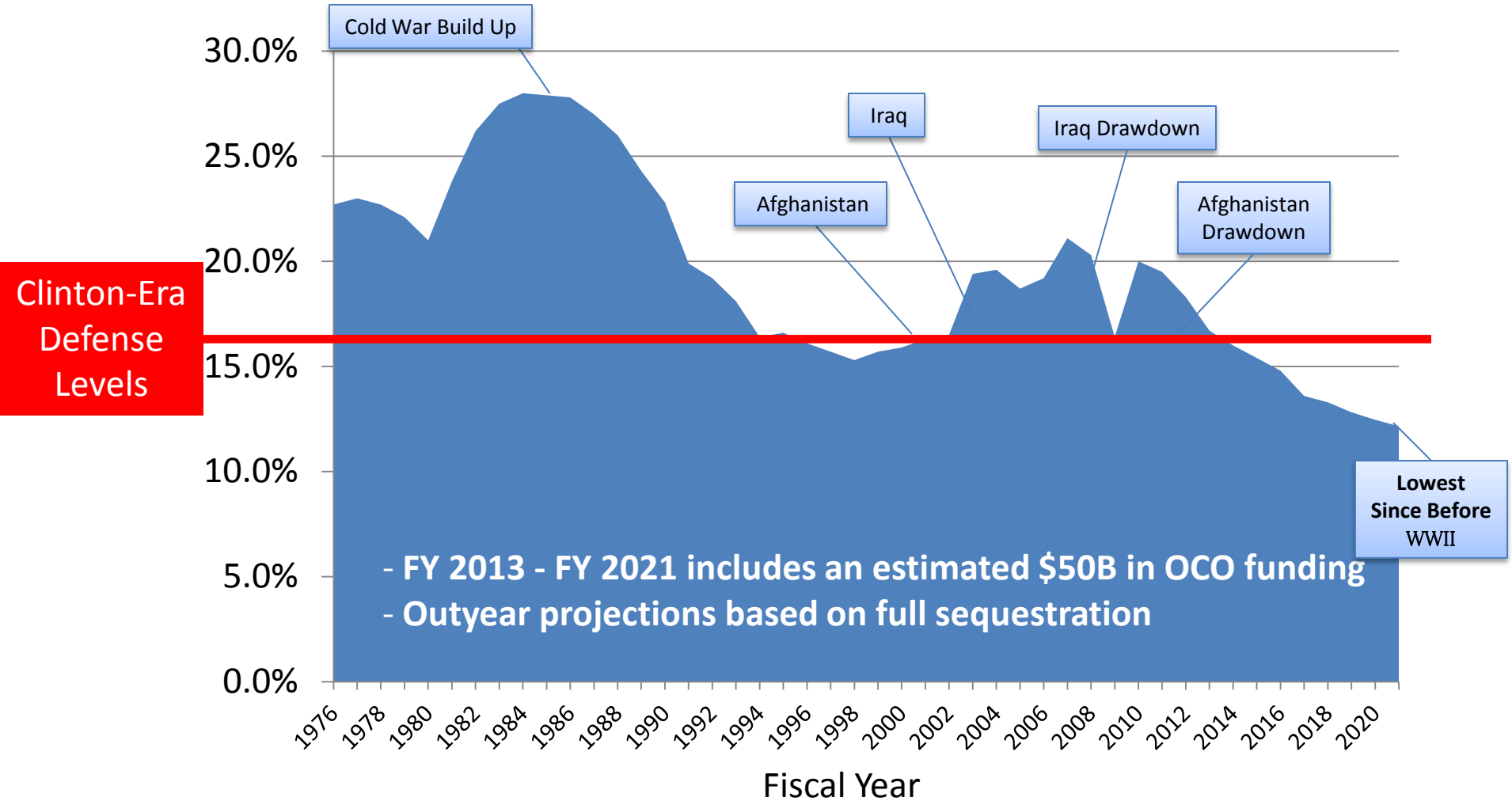

Figure 3 - Declining Force Structure

	1990	2000	Today	Estimate Based on Current Funding	If Super-Committee Fails
Army Maneuver Battalions	172	98	100	78	60 - 70
Navy Ships	546	316	288	263	238
USAF Fighters	4355	3602	1990	1739	1512
Strategic Bombers	282	153	135	118	101
Strategic and Tactical Air Lift	872	743	651	572	494

"The general trend has been to replace more with fewer more-capable systems. We are concerned that, beyond a certain point, quality cannot substitute for quantity."

-The QDR in Perspective: Meeting America's National Security Needs in the 21st Century. Final Report of the Quadrennial Defense Review Independent Panel. Stephen J. Hadley and William J. Perry, Co-Chairs. Washington, DC, 2010

Figure 4 - Cuts to Military End Strength

	Today	Estimated Force Based on Current Funding	If Super-Committee Fails
Army	569,400	481,000	426,000
Marine Corps	202,000	173,000	145,000
Total	**771,400**	**654,000**	**571,000**