

Statement

of

The Honorable Robert F. Hale
Under Secretary of Defense (Comptroller)

before the

Senate Armed Services Committee
Subcommittee on Personnel

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By the Senate Armed Services Committee**

Mr. Chairman, Senator Graham, Members of the Committee, thank you for the opportunity to join you this afternoon. I will not repeat the thorough statements presented by the Department's other witnesses. I would like to discuss selected personnel and readiness issues in the context of the Department's budget request for Fiscal Year 2013.

The FY 2013 budget for the Department of Defense (DoD) responds to two broad factors. First, to be consistent with Title I of the Budget Control Act of 2011, it reduces defense funding for FY 2013 to FY 2017 by \$259 billion compared with last year's plans. We started by culling \$45 billion from our spending plans in FY 2013, resulting in a request for \$525.4 billion in discretionary budget authority. Adjusted for inflation, that is a reduction of 2.5 percent compared to the enacted budget for FY 2012 -- the third consecutive year of real decline in the Defense budget.

Second, our proposed budget for FY 2013 reflects the new defense strategy that we announced in January. That strategy has been documented in a white paper issued in January. The budget implements this new strategy in four key ways:

- We seek to make more disciplined use of defense dollars. Key changes include streamlining in the Office of the Secretary of Defense and defense agencies, rephrasing of military construction projects in view of force structure changes, further IT consolidations, efforts to improve our purchasing activities, and continued efforts to improve financial management and achieve audit readiness.
- Our budget proposes force structure and investment changes that are consistent with the new strategy. Our military will be smaller and leaner, but also ready and agile. We continue to invest in high priority areas such as Special Operations Forces, cyber, and unmanned aerial vehicles. However, reflecting strategy and good management along with budgetary limits, we propose to restructure and reduce investments in programs including the Joint Strike Fighter, shipbuilding programs, the Army Ground Combat Vehicle program, and the SSBN-X submarine program. We terminate six weapon programs in this budget proposal.
- We continue full support for America's All-Volunteer Force, which is the very foundation of our military strength. But we carefully review and slow the growth in military pay and benefits.
- Finally, we provide full support for our warfighters in combat through our request for funding for Overseas Contingency Operations.

Our budget proposal for FY 2013 needs to be considered as a whole. It proposes changes that are balanced in order to be consistent with both our new strategy and good management. We hope that Congress will be cautious in making changes lest the revised version fail to fully support our new strategy or the current budgetary limits.

Finally, while this budget is consistent with Title I of the Budget Control Act, it does not accommodate the sequestration that could occur under Title III of that Act. Sequestration could have devastating effects on defense activities. It would force us to revisit our strategy and could lead to involuntary separations of personnel, reductions in readiness, and the disruption of numerous investment programs. We still have time to avert sequestration, and the President's FY 2013 budget represents a path to doing so. We urge the Congress to enact a large, balanced program of deficit reductions and then enact legislation to halt the sequestration.

In addition to this brief overview of our FY 2013 request, I want to mention three specific considerations as they relate to personnel and readiness.

1. Budgetary Importance of Force Structure Cuts

The first of these involves force structure changes. Consistent with our strategy and budgetary limits, we assume there will be force structure cuts, primarily in ground forces. Our strategy envisions a force that is smaller and leaner and that no longer maintains forces sized for large, prolonged stability operations.

Specifically, the new five-year budget plan calls for an end strength reduction of about 72,000 Army soldiers and about 20,000 Marines by FY 2017. This will result in an Army of 490,000 soldiers and a Marine Corps of 182,100 Marines. To accommodate these reductions, the Army will eliminate a minimum of eight brigade combat teams, and the Marines will disestablish six battalions and four tactical aircraft squadrons.

There will be smaller cuts in the Navy and Air Force. The Navy will be retiring eleven older vessels, and the Air Force will cut seven TACAIR squadrons. By FY 2017, the Navy's active-duty end strength will be reduced by 6,200 to a force of 319,500 sailors, and the Air Force will lose 4,200 airmen, to bring their total to 328,600.

We will also be reducing end strength in the Reserve Components by 21,500 by FY 2017. This will result in a total Reserve force of 825,600, with Navy Reserve, Air Force National Guard, and Army National Guard Components experiencing the greatest force reductions. There will be no reduction to the Marine Corps Reserve.

Altogether, compared to last year's plans, force structure reductions will save about \$53 billion over the FYDP and \$9 billion in FY 2013 alone. Most of these savings reflect reduced operating costs but there are some investments savings as well.

These force structure changes mean that we need to consolidate our infrastructure. The President will ask Congress to authorize the Base Realignment and Closure (BRAC) process for 2013 and 2015. We recognize the political difficulty associated with the BRAC process, but it is the only effective way to achieve needed infrastructure savings.

2. Budgetary Importance of Pay and Benefit Changes

The second item I want to mention is the budgetary importance of pay and benefit changes. Since 2001, the cost of military pay and benefits has grown by over 87 percent (30 percent more than inflation), while Active Duty end strength has grown by about three percent. We felt we had to review pay and benefits to avoid overly large reductions in forces and investments.

As my colleagues have noted, the military and civilian leadership considered changes in pay and benefits based on several guiding principles. To begin with, the military compensation system must take into account the unique stress of military life. It should not simply be a copy of civilian systems. The system must also enable us to recruit and retain needed personnel. And we must keep faith with our military personnel. That means changes to the system of pay and benefits that do not cut anyone's pay. We propose to slow the rate of growth, not to institute pay freezes or pay cuts.

Changes affecting pay and compensation were designed to be disproportionately small when compared to the changes in forces and investments. While pay and benefits account for about one-third of the Defense budget, savings from the initiatives we are proposing will amount to about \$29 billion over the FYDP, which is slightly more than 10 percent of our savings target.

As our acting Under Secretary for Personnel and Readiness indicated, we plan military pay raises in FY 2013 and 2014 consistent with the Employment Cost Index. In later years increases will be lower, but by then Service Members and their families will have had time to plan. Over the five years of the FYDP, this approach will realize total savings of about \$16.5 billion.

We have also proposed changes in the cost-sharing formula for health care. This will mostly affect retirees and, especially, retirees who are under the age of 65 and are still in their working years. We have exempted those who are medically retired and survivors of those killed on Active Duty. Our proposed changes save about \$12.9 billion over the next five years. Dr. Rooney's statement expands on these changes, and I will not repeat them here.

However, I do want to emphasize one very important point that Dr. Rooney has made. Changes in cost sharing represent only one of the key steps that we are taking to improve health care and to hold down cost growth. We are also working to improve overall health care – moving from health care to health. We are reducing internal costs by cutting administrative overhead at headquarters and buying more effectively. And we have significantly reduced payments to our civilian providers in order to slow the growth in health care costs.

I also want to note that, while our budget does not change the formula for enrollment fees for federal civilian employees or civilian retirees, those fees have and

are increasing. Fees for civilian employees and retirees are tied to private-sector plans and increase with increases in health care costs. It is important to note that fees paid by civilian employees and retirees will remain substantially higher than those paid by military retirees even after all of the changes proposed for military retirees have taken effect.

Our health care proposals, and all of our proposals for military compensation, have the full support of our military leaders – including both officer and enlisted leaders. These leaders have supported these changes in a letter to each of our oversight committees.

Several of our proposed changes in pay and benefits will require legislative authority. For instance, we need authority to exempt survivors of members who die while on Active Duty or military disability retirees and their families; to establish an annual TRICARE Standard enrollment fee for most retirees and their families; and to introduce an annual enrollment fee for TRICARE for Life beneficiaries. While these particular proposals require legislation, we need your support for all of these important changes.

If Congress does not provide us with needed support, we will face a major problem that would jeopardize our defense strategy. Without needed authority, we will face further cuts in forces and investment to be consistent with the Budget Control Act. Because our budget proposal already makes substantial reductions in the investment accounts, further cuts might fall mostly on forces. If, for example, Congress did not support any of our proposed changes to pay raises and health care, and we elected not to make further cuts in investment, we would be required to increase the size of our force reductions by roughly half. That could mean cutting roughly another 60,000 Active Duty and Reserve Forces by FY 2017. Additional force cuts of this magnitude would jeopardize our ability to pursue the new defense strategy.

3. Readiness

The third and final concern that I would raise today is the matter of readiness. Our strategy calls for a force that is leaner and smaller, but also agile and ready.

Readiness is a complex topic. There is no single part of the budget that we could characterize as the “readiness” budget. That said, Operation and Maintenance (O&M) is the title most often associated with readiness. And I would point out that O&M is the only title that would increase in the President’s budget. Total O&M increases by six percent between FY 2012 and FY 2013 while the overall budget declines by one percent. We believe that we have made budgetary decisions designed to protect the readiness of our military forces.

When making our force structure decisions, we also favored the forces that are especially agile. Special Ops forces are a case in point. These forces, designed to be agile, continue to increase under this budget proposal. We also preferentially retained

forces that can self-deploy. Accordingly, we maintained funding for a fleet with long-term level of 11 aircraft carriers and 10 air wings. We also maintained funding for the bomber force.

Conclusion

In conclusion, I would emphasize again that our budget is an interconnected whole, and we ask that the Congress consider it as such.

Thank you again for the opportunity to testify this afternoon. And, as always, thank you for the support of our men and women in uniform, and the civilian employees who support them. I welcome your questions.

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