

THE SECRETARY Of= THE NAVY

14 January 1976

MEMORANDUM FOR SECRETARY RUMSFELD

Don:

When you met with the Navy team in my office before Christmas, Assistant Secretary McCullen mentioned erosion of benefits-and you asked him to amplify on the problem and quantify, where possible. The attached is his response.

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Bill

J. William Middendorf II

23 MAR 1976

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(14 JAN 76)



Reductions in Military Benefits

TAB A is a tabulation of the cumulative impact of the piecemeal erosion in benefits that has transpired to date. TAB B lists additional proposed reductions.

While the impact of benefit reductions is, by its very nature, essentially non-quantifiable, that aspect should not in any way deter our willingness to confront the issue in a direct and forthright manner. TAB C is indicative of the kinds of signals we are receiving from our military members as expressed in their resignations. While one cannot say with any certainty that the benefits issue by itself is the sole reason for any of our people leaving, the fact that it is showing up as a major contributor **requires** that we take action to come to grips with the problem. It doesn't take the departure of very many naval aviators or nuclear submarine officers to offset the cost savings that were supposed to accrue **from various benefit reductions in the first instance.** We simply cannot afford to delude ourselves by considering the apparent savings only, while assuming that the human reaction and morale determinants are constant and unaffected.

While the increased compensation enjoyed in recent years to make us competitive with the private sector may render it more difficult to justify continuing **certain** of our traditional benefits, the conditions of military employment **are** still unique and should be recognized as such. Factors such as irregular and long working hours, frequent relocation, separation from family for extended periods, and personal risk in time of conflict all contribute to this uniqueness. The adverse impact of these conditions has always been somewhat mitigated by "benefits" which tend to promote stability and a feeling of security among military members, particularly the more junior members and their families. Military life is transitory in nature; and while we are taking steps to reduce personnel turbulence, a significant number of moves will always be required and will often come on relatively short notice. In this context, it is comforting to the Service member to know that the benefits and services his



family requires (medical, PX, commissary, etc.) will be provided at the nearest military base. This is especially significant when the Service member may not be present during the move or when he is required to put out to sea immediately following the move.

Perhaps even more importantly, it is difficult from a psychological point of view for military members and their dependents to give up privileges which they have come to expect and which have historically set them apart from the rest of society, i.e., have made them feel "special". Indeed, the emotional outcry that ensued from **the** proposed elimination of the commissary subsidy vastly overwhelmed any reaction associated with the President's recent cutback of an 8.6% base pay increase; yet the amount of money involved was considerably less. From the standpoint of morale, it is imperative that we not lose sight of this phenomenon when considering further actions relating to benefits.

Reductions in the non-pay elements of total military compensation and other military personnel costs resulting from various decisions to date are expected to yield annual savings on the order of \$1.5 billion by FY 1980. These are substantial reductions by anyone's standards. The associated psychological impact has probably been even greater. It is essential that further decisions in this area be the result of a thorough examination of the entire spectrum of military compensation, both **direct** and indirect. In this regard, I strongly recommend that you declare a moratorium on further benefit reductions **until** the Third Quadrennial Review of Military Compensation has been completed. At that time we will be in a much better position to assess what additional changes, if any, should be made. Then we should take whatever action is called for in a single step, getting it behind us once and for all, while at the same time communicating to our Service members what it is we are doing and why we are doing it.

An important related consideration is the specter of unionism. Without the erosion of benefits issue, it is unlikely that ongoing overtures by various unions to organize Service members would get very far.



MILITARY BENEFIT REDUCTIONS (SINCE FY 1973)

<u>TOPIC</u>	<u>EFFECT ON INDIVIDUAL</u>	<u>DATE OF CHANGE</u>	<u>TOTAL IMPACT</u>
Medical Benefits for All Eligible Personnel	Members obtain care under CHAMPUS and pay \$50 deductible or \$100 for family plus 20% of all charges in excess of deductible amount..	FY 74 - FY 76	Increased cost.to member (CHAMPUS). Reduction of services at hospital. Inconvenience to sailor and family.
CHAMPUS Benefits	Member must pay for total medical expenses for services listed under total impact.	FY 73 - Present	Orthodontics eliminated. Psychiatric care reduced. Special education eliminated. Learning disabilities excluded. Pastoral services deleted.
Shortage Specialty Pro Pay for Enlisted Members	Eligible members lost \$50 - \$150 per month.	1 Jul 75	Pro pay for most NEC's terminated.
Travel Pay for Enlisted Upon Reenlistment	Each member reenlisting lost an average of \$110.	1 Jan 75	Loss of travel pay upon immediate reenlistment. One day break in service - no loss of travel pay - majority reenlist immediately to retain job position.
Selective Reenlistment Bonus	Members in skills terminated or reduced in award level perceived a loss of up to \$12,000.	FY 75 - Present	Skills in program reduced from 80 in FY 75 to 47 in FY 76. First term incentive decreased in 48 skills, increased in only 13 skills.
Lump Sum Reenlistment Bonus for Enlisted Members	Purchasing power of payment reduced due to inflation. Example \$5,000 Bonus equates to \$3,790 applying inflation.	31 Dec 74	Spread payments over 4-6 year period mandatory.

TAB A



<u>TOPIC</u>	<u>EFFECT ON INDIVIDUAL</u>	<u>DATE OF CHANGE</u>	<u>TOTAL IMPACT</u>
Enlisted Under-graduate Degree Completion Program (ADCOP)	Eliminated program for 150 members scheduled to attend each year. Loss of \$10,000 benefit per person.	1 Oct 74	Enlisted must obtain education during off duty hours.
Air Carrier Standby Fares	Members must pay at least 75% of regular fare vs 50% standby fare.	Jan 74	Eliminated 50% fare for commercial travel.
Shipment of Foreign Privately Owned Vehicles	Members must pay for overseas shipment of foreign made vehicles at a cost of \$400-\$600 per POV	Jan 73	Eliminated space required shipment of foreign autos, reduces impact on balance of payments.
Uniformed Services Savings Deposits Programs	Termination of program affecting approximately 25,700 accounts.	30 Jun 74	Eliminated program. Member unable to obtain 10% interest on deposits.
United States Armed Forces Institute	Requires members to pay for services provided at a cost of approximately \$50 for participants.	26 Nov 73	Eliminated program. Loss of 200 USAF1 correspondence courses. Centralized record keeping and text books.
Survivor Benefit Plan (Modified Civil Service Plan)	Continue to pay premium after loss of beneficiary.	93rd Congress	Member perceives Congress providing benefits to civil service civilians but taking from military.
Per Diem (Increased Civil Service and Congressional Rates)	Costs member \$ out-of-pocket when on per diem.	94th Congress	Member perceives Congress providing benefits to civil service civilians but taking from military.



MILITARY BENEFIT REDUCTIONS UNDER CONSIDERATION

<u>TOPIC</u>	<u>EFFECT ON INDIVIDUAL</u>	<u>DATE OF CHANGE</u>	<u>TOTAL IMPACT</u>
Leave Payments Upon Reenlistment or Termination of Service	Reduces the number of days of accrued leave that can be paid.	N-76	Limit entitlement to pay to not more than 60 days for unused leave during career. Increase rates for BAQ and BAS pay to enlisted personnel when converting leave.
POV Shipment Restriction to Overseas Areas	Additional cost and inconvenience to member.	N-77	Service members would be required to put POV in storage; sell POV in CONUS and purchase a POV in overseas area. Upon completion of tour member must sell POV overseas.
Commissary Support	Increase commissary prices.	N-77 - 78	Eliminate all appropriated fund support for commissary.
GI Bill	Members must pay for all educational expenses.	N-77	Reduces educational opportunities for active duty. Could have adverse impact on recruiting.
Disability Retirement	Members must pay higher rate of tax.	N-77 - 78	Reduction of retired pay eligible for tax exemption.
Medical Services	Member must pay all or a part of medical services.	N-76 - 77	Reduction or close medical treatment facilities due to personnel shortages.
Deduction for Moving Expenses	Members will have to account for moving expenses on Federal income taxes.	21 Dec 73	IRS feels not appropriate to extend moratorium on reporting moving expenses.
Sales and Excise Tax on on-Base	Payment of Sales and excise tax on PX, commissary, etc. purchases.	N-76 - 77	Monetary loss to the sailor.



<u>TOPIC</u>	<u>EFFECT ON INDIVIDUAL</u>	<u>DATE OF CHANGE</u>	<u>TOTAL IMPACT</u>
Elimination of Military Post Offices in Areas Served by USPS .	Affects sailors in Alaska, Hawaii, Puerto Rico, Kwajalein Island.	N-76	Increased postal costs for sailor.
CHAMPUS Benefits	Further reduction of CHAMPUS benefits proposed by HAC in N-76 Budget.	N-76	Increased costs for active duty and retired personnel. Morale impact.
Retirement Modernization Act	Reduces retirement annuity.	Before 93rd & 94th Congress	Reduces retirement attractive- ness as a career benefit.



RECENT EXTRACTS FROM OFFICER RESIGNATION REQUESTS

From: Lieutenant, USN -- Nuclear Submarine Officer -- Six yrs service, Nov 1975

"Another problem which has affected my ability to adequately counsel enlisted men on their decision to re-enlist or leave the service is the rapidly accelerating erosion of benefits accorded members of the military service. Commissaries, exchanges, special services and adequate medical coverage are being phased out. Under present conditions the savings at commissaries and exchanges are not worth the inconvenience of shopping in them and personnel stationed where these are not available are not compensated. At this time I do not believe that the Navy as a whole is giving a comparable medical coverage to the civilian community. There are not enough doctors to provide treatment for military personnel and dependents. The "free" medical coverage is substandard when compared to general company policies which a nuclear **trained** operator could expect to receive if he were to leave the service."

From: Lieutenant, USN -- Nuclear Submarine Officer -- Seven yrs service, Nov 1975

"I remain unconvinced by arguments, some espoused by military leaders, that military pay has reached 'comparability' with civilian wages. The extended working hours routinely required and the unavoidable family separations are hardly "comparable" with civilian labor practices. The erosion of military benefits which has occurred and appears to be continuing further aggravates the problem. I see little promise of achieving an acceptable balance of reward and sacrifice in the future of the nuclear submarine service."

From: Lieutenant, USN -- Naval Aviator -- Ten yrs service, **Dec** 1975

"The continuing diminution of promised benefits, i.e., adequate dependent medical care; commissaries, education programs; by the Congress and by the military establishment itself seems a succession of broken promises."

From: Chief Warrant Officer, USN -- Surface Engineer Officer -- Twelve yrs service, **Oct** 1974

"After much consideration however, I feel that recent Naval policies and programs have so severely curtailed the possibilities for personal growth and family security that I can no longer dedicate myself and my family to the Navy as a career.

While in the service I have observed the continuing deterioration and/or dissolution of many fine Naval programs. Of specific concern the following have contributed heavily to my decision:

a. The medical care of dependents by Naval facilities can no **longer** be considered viable either in professional expertise or availability.



While I realize the Navy is presently enacting new programs in this area I note with dismay the extended time gap involved before dependent services will be truly available.

b. The savings at Naval Exchanges and Commissary Stores can be matched at civilian chain stores. In a time where self-generating inflation daily cuts deeper into the Navy pay check, the loss of real savings in these facilities heightens the continually deteriorating standard of Navy life.

c. Education opportunities such as USAF1 and **ADCOP** have been eliminated. The "Navy Campus for Achievement Program" simply fails to encompass these losses.'

