

Introduction

Mr. Chairman and members of this distinguished subcommittee, thank you for the opportunity to be here today and thank you for your continuing support of the men and women who serve in our Armed Forces.

The Fiscal Year (FY) 2002 budget request puts people first. It contains a number of strong measures to improve recruiting, retention, and morale, including the largest boost in military pay and benefits in a generation. This will help pay military people what is needed to attract, motivate, and retain the top quality people essential to the nation's security. It will enhance recruiting and retention by fundamentally changing the pay structure and increasing pay for grades with difficult retention challenges. The budget request further improves the military's ability to recruit and retain members of high quality and with critical skills through a robust program of Enlistment Bonuses, Selective Reenlistment Bonuses, and other incentive programs.

The budget request also proposes major improvements to housing, healthcare, and overall quality of life. It increases housing allowances to reduce the amount of out-of-pocket expenses and enable military personnel and their families the option of living in private sector housing. And, for the first time in recent years, the President's budget request funds a realistic estimate of military health care costs.

The budget submitted by President Bush places the highest priority on meeting the needs of our people. While it is not sufficient to address all problem areas, I believe the FY 2002 budget satisfies the most urgent, and gives us breathing room to assess the future and identify the next steps leading to next year's budget submission based on the results of the Quadrennial Defense Review.

Today, I would like to outline the initiatives the Department has proposed, as well as discuss the challenges we face in meeting these priorities.

Military Personnel

Despite improvement in FY 2001 recruiting achievement, the recruiting and retention war for talent continues. Although the youth population, which sustains our ability to recruit, has grown steadily since 1995, the Department finds itself facing several key challenges as it looks toward the future. The economy remains strong. College attendance is the overwhelming first choice of high school seniors. The composition of the youth population is changing.

All these factors generate on-going challenges in our efforts to sustain the force. Not surprisingly, our investments in recruiting and retention programs are rising. We have 11 percent more recruiters in the field than we did a decade ago. Funding for enlistment bonuses has grown by over 500 percent since 1991; and the number of reenlistment bonuses has grown from 40,565 in 1991 to 50,868 in 2000, while the reenlistment bonus budget has grown from \$212.7 million in 1991 to \$350.5 million in 2000.

Built over the last quarter of a century, today's volunteer military is recognized as the most capable ever fielded. But a declining veteran population means that fewer Americans have first-hand military experience. Therefore, it is essential that public and private sector leaders at every level step up to the challenge of generating awareness of the military, communicating the importance of the citizen soldier in our history and for our future, and emphasizing the ennobling characteristics associated with military service to the nation.

End-Strength

Our recruiting and retention programs are the cornerstones for ensuring personnel readiness remains high. When retention is high, this eases the pressure on recruiting, and vice-

versa. This fiscal year, the Army, Navy, and Marine Corps have enjoyed high retention, thereby reducing their recruiting missions; they also will achieve end strength targets in FY 2001.

Because the Air Force will not meet its 2nd and 3rd term retention goals, and it is too late to adjust its recruiting mission upward, the Air Force will not achieve the required end strength at the end of the fiscal year. Air Force is projected to miss end strength by 4,100, meaning they would be more than 1,000 below the authorized one-half percent flex. Meeting end strength in FY 2002 requires the accurate development and full funding of our recruiting and retention programs. The budget before you provides these prerequisites, and we are committed to executing the programs to achieve success.

Recruiting

Our success in maintaining a military second-to-none depends on attracting and retaining people with the necessary talent, character, and commitment to become leaders and warriors in the nation's Armed Forces. An asset in that quest is the fact that in today's society, the military is consistently ranked first as the most respected American institution. However, while the quality, dedication, and professionalism of the men and women in uniform command such respect from all Americans, this respect currently does not translate to a willingness to enlist or to encourage others to serve to the degree we need.

Nevertheless, extraordinary efforts by our recruiting force have produced hard-won success. For the first time in three years, all Services achieved their FY 2000 active-duty recruiting goals with excellent recruit quality. Through the first nine months of FY 2001, all Services have met or exceeded their active enlisted recruiting goals. While the Naval Reserve and Air Force Reserve missed their recruiting goals in FY 2000, all Reserve Components achieved desired quality levels. This year, we anticipate that all components, with the exception

of the Air National Guard, will achieve their recruiting missions, even though the Army and Navy will start FY 2002 with fewer people enrolled in the Delayed Entry Program than they would like.

This has not come easily. We budgeted over \$2.3 billion this year for enlisted recruiting including advertising, incentives, and recruiter salaries. Our expenditure-per-recruit will be at an all time high of \$11,471, 53 percent higher than 10 years ago, accounting for inflation. Recruiter manning is higher than before the drawdown with more than 15,000 active component production recruiters. Advertising budgets have increased 55 percent since FY 1997.

In addition to expecting to achieve our overall numerical goals, we continue to keep a close watch on the quality of new service members. For FY 2001, through June, quality remains strong at 91 percent high school diploma graduates and 66 percent with above-average aptitude. Years of research and experience tell us that those with a high school diploma are more likely to complete their initial term of service. Additionally, research shows a strong correlation between above average scores on the enlistment test and on-the-job performance.

We continue to work to identify ways to expand our target market. There are several ongoing pilot programs designed to tap the high scoring non-high school diploma graduate market. The National Defense Authorization Act for Fiscal Year 1999 directed a five-year project to attract more home schooled graduates and ChalleNGe-GED holders to the military by treating them as high school diploma graduates for enlistment purposes. Attrition data for the early accession cohorts have not fully matured, but do provide some basis for comparing attrition rates among educational credentials. In general, 12-month attrition rates for ChalleNGe-GED holders appear to be similar to those of high school diploma graduates while the attrition rates of home schooled youth are much higher. As the sample size continues to increase, we will assess the

military performance and attrition behavior of the home schooled and ChalleNGe recruits to determine their appropriate enlistment priority. We also are examining the enlistment propensity of home schooled youth and ChalleNGe participants. We expect to learn about their interest, or lack of interest, in military service and use this information to tailor enlistment incentives for youth who are likely to be successful military recruits.

The Army also recently launched a four-year test program called GED Plus. This program will give some individuals who left high school before obtaining their diploma an opportunity to earn a GED and enlist in the military. GED holders in this special test program will have to meet stringent criteria: they must have left school voluntarily, but now cannot return because of age; they can not require moral character waivers for enlistment; they must score above average in aptitude on the enlistment test; and they must receive a passing score on the Army's motivational screen (Assessment of Individual Motivation (AIM)). (As part of this effort, AIM will be validated as a predictor of first-term attrition. If proven successful in the Army pilot, AIM can be used as part of the enlistment process across all Services.) Since GED Plus graduates will be required to have above average enlistment test scores, job performance should not be adversely affected.

Army also has launched its pilot test of the recently-authorized "College First Program" which promises to identify better ways to penetrate the college-bound market. To improve the quality of the pilot, expanded legislative authorities are being proposed by the Department, and I hope the Committee will support them. Specifically, we are requesting an extended Delayed Entry Program (DEP) period that would add six months to the currently authorized two-year DEP; we also are requesting an improved stipend, along with authority to permit pilot program

participants to enroll in the Montgomery GI Bill or the Army College Fund. All of those initiatives promise to improve the quality of the pilot test and the validity of its conclusions.

Officer accessions come from three primary sources: the Service academies, Reserve Officer Training Corps (ROTC), and Officer Candidate/Training School. All Services met their overall active-duty officer accession goals for FY 2000, although the Navy and Air Force both had some deficits in specialized officer communities, including naval flight officer, nuclear power, and scientists and engineers. The Services are on track to make FY 2001 commissioning goals, but again anticipate shortages in some specialties. To address the skill mix issue, we are proposing an accession bonus for those officer specialties that routinely experience recruiting shortfalls, and hope the committee will support this proposal.

Our evaluation of recent recruiting challenges suggests that, among other issues, some potential recruits have made up their minds against military service by the time recruiters approach them. We have expanded our market research to include those individuals who influence the decisions young people make; parents, teachers, counselors, and coaches. Armed with these results, we hope to design communication strategies that will increase youth consideration of military service as an attractive alternative. Our initial effort is an advertising campaign, launched this year, aimed at parents of recruitment-aged youth. This campaign is designed to raise the interest of parents in learning more about military opportunities. We plan to augment this advertising campaign with an integrated communications campaign emphasizing the nobility of service to all Americans.

Additionally, we have initiated a comprehensive advertising tracking study. We have hired a renowned firm to track all Department and Service national advertising, broad-scale promotional activities, and current events that might affect attitudes towards the military. The

results will be quantifiable measures of the effect of marketing activities on the attitudes of target audiences toward the military, enabling the prioritization of expenditures on the basis of more immediate measures of effectiveness.

We do not expect the recruiting market to soften. We must equip recruiters to succeed in the college-bound market. All of our traditional recruiting tactics, techniques and procedures are optimized for working the high school senior population. The realities of today's demographics require that we undertake an overhaul of our methods and our incentives to enable success in the more difficult college market. Some initial actions have been taken to tailor enlistment incentives, create new programs, and better understand the market. This will be an area of specific focus in FY 2002.

Retention

Today's economy also competes directly with Services' retention efforts. The private sector seeks to employ our personnel for the same reasons we must retain them – their skill, experience, technical training, and demonstrated leadership.

The Department's investment in retaining high quality, trained, and ready enlisted personnel during FY 2000 yielded mixed results. On the active component side, the Army, Navy, and Marines achieved desired levels of aggregate retention; the Air Force struggled during FY 2000, missing aggregate retention by 1,700. FY 2001 projections indicate this trend will continue; the Army, Navy and Marine Corps will again achieve aggregate enlisted retention goals. Although there are promising indicators that the Air Force will exceed their initial term retention goal by about 600, if current FY 2001 trends continue, the Air Force, as a result of short-falls in second and third term retention, will likely miss its overall retention goal by 3,000 or more. For all Services, although aggregate enlisted retention shows improvement, this comes

at the cost of significant increases in retention incentive spending reflected in the current budget submission, where the funding for special and incentive pays is increased by \$152 million over the FY01 budget. Shortfalls persist in a wide range of technical specialties, including: communications/computer, aviation maintenance, information technology, electronic technicians, intelligence analysts, linguists and air traffic controllers.

We expect officer retention challenges to continue. Although Services were not able to implement it in the past fiscal year due to funding constraints, we believe that the Critical Skills Retention Bonus program authorized in the FY 2001 National Defense Authorizations Act is an important tool that will help the Services tackle continuing shortfalls in specific skills, and we have requested this authority be extended in FY 2002. Concern with pilot manning continues. While the enhanced aviation continuation pay program resulted in a substantial increase in years of committed service throughout the Department, it does not appear to have solved the problem. Services, already experiencing pilot shortages as a result of reduced accessions during the downsizing, are further being affected by the demand caused by pilot retirements in the airline industry. Although we are able to fill cockpits now, pilot manning will require close attention throughout the Future Years Defense Program.

Compensation

Competitive pay is clearly one of the key components to ensuring that we attract and retain the high quality, highly skilled men and women needed in our armed forces today. Compensation includes all pays and allowances: basic pay, housing and subsistence allowances, and special and incentive pays. We are grateful to the Congress for its work in significantly improving each of these areas over the past two years.

Pay raises send a clear signal that our nation recognizes the courage and ideals required for military service. While we have taken some important steps in the right direction, we cannot afford to become complacent. Analysis in support of the 9th Quadrennial Review of Military Compensation (9th QRMC) has taken a hard look at the pay comparability of our forces against the levels of pay they might command in the private sector based on their skills, experience, and education. The results indicate that while NCO pay would be adequate for a high school educated force, increasing percentages of the force have completed at least a year of college by the time they are E-5s. Today's pay table does not compare favorably with the income levels of similarly educated civilian workers.

Accordingly, the Department is recommending pay raises greater than those legislated in recent years. While targeted bonuses may be the most economic manner to achieve improved retention in specific skill areas, we believe the pay table imbalance, due to educational attainment changes alone, is of sufficient magnitude that immediate permanent corrections are required. Accomplishing these changes should begin to ease the growing demand for bonuses, returning them to their proper use. Additional money has been budgeted to provide a minimum pay raise of 6 percent for all enlisted personnel, 5 percent for all officers, and larger increases targeted for mid-grade and senior NCO's and mid-grade commissioned officers. The proposed pay raise takes into consideration certain fundamental criteria: that raises for each successive promotion are larger than the previous, that raises for promotion are worth more than raises for longevity, and that meaningful longevity increases are still provided to reward continued service where advancement opportunity is limited. The proposed pay raise addresses several concerns. First, it provides the greatest emphasis to the pay grades with the greatest retention concerns, E-5 to E-7 and O-3 and O-4. While the most junior enlisted pay grades (E-1 to E-3) are temporary

grades our members pass through fairly quickly, an additional 1 percent above the minimum 5 percent is provided to address financial well-being. Warrant officer pay was targeted due to concerns over pay compression between the mid- to senior enlisted and warrant pay, and to provide an accession incentive for Army warrant officer pilots. Senior enlisted pay was increased, not only to avoid pay compression, but to recognize increased responsibility and, consistent with the advice of senior enlisted leadership, larger raises were provided to E-5 and E-7 in recognition of the achievement of NCO and senior NCO status. E-4 pay was adjusted upward consistent with Navy recognition of E-4s as non-commissioned officers. Finally, larger increases are provided to E-3s with less than two years of service, and to E-4s with less than four years of service to motivate members to seek early promotion. The \$1 billion increase is equivalent to a 6.9 percent across the board raise. We believe that this plan targets the most urgent issues within a balanced program.

The Department intends to sustain its efforts to significantly improve military housing allowances and eliminate average out-of-pocket costs by 2005. The budget provides for further increases in the allowance next year, reducing the average out-of-pocket costs from 18.8 percent in 2000 to 11.3 percent in 2002. The housing allowance is an important element of compensation and the Department has worked hard to significantly improve data collection efforts to ensure the allowance accurately reflects the rental markets where Service members reside.

We are also implementing important new authorities provided by the Congress pertaining to the critical skills retention bonus and Thrift Savings Plan (TSP). As mentioned previously, the new critical skills retention bonus authority will give Services a broad, flexible and highly responsive tool to quickly and effectively target retention problems in specific skills.

Additionally, the TSP will give every Service member an opportunity to build a significant amount of tax-deferred savings. We expect the provision allowing deposit of any and all special and incentive pays, especially lump-sum bonuses, to be a particularly popular option. We have been working closely with the Federal Retirement Thrift Investment Board and are confident we will be ready to fully implement the program beginning with an October 2001 open season.

As you are aware, the Secretary conducted a review of morale and quality of life issues confronting our service members. In addition, we are in the midst of the Quadrennial Defense Review where we are taking a hard look at the future requirements for human resources. Immediate needs to stabilize the current force are addressed in this year's budget. In the coming months, additional measures will be developed to transform force management policies to provide the Services with broad, flexible and responsive tools to manage future challenges. Our focus will be on a better ability to manage the total force – to preserve the advantage provided by top-caliber people.

Civilian Workforce

The DoD civilian workforce has been and will continue to be a major contributor to military readiness, providing continuity, expertise, and commitment. Civilians are an important and integral part of the DoD Total Force for several reasons. The use of civilians frees Service members to perform military duties, provides skills unavailable in the military, and helps assure continuity of operations. Civilians perform critical roles, from keeping war fighting organizations ready for worldwide deployment today to building the sophisticated tools necessary to maintain readiness tomorrow. DoD civilians provide significant support in roles such as depot maintenance, supply, acquisition, transportation, training, deployment, medical

care, research and development, engineering, and facilities operations. With increasing frequency, civilians will deploy with the other Total Force components. They have provided direct support to operations such as Desert Shield/Storm, Haiti, the Balkans, Kosovo, and Operations Northern and Southern Watch. Currently, over 43,000 DoD civilians are forward stationed throughout the world. In short, DoD civilians have global impact on our day-to-day mission accomplishment.

However, the last eleven and a half years has been a time of significant turmoil for the civilian workforce. Since the civilian drawdown began at the end of FY 1989, DoD has eliminated 430,000 positions, reducing the workforce by over 37 percent. Programmed reductions will increase that figure to 42 percent by the end of FY 2007. The resultant imbalances in age and experience pose problems with the orderly transfer of institutional knowledge, as Baby Boomers will begin to retire in increasing numbers this year.

To address workforce shaping needs, DoD has developed a four-pronged strategy: (1) workforce analysis and modeling, (2) accession management, (3) development and retention, and (4) transition assistance.

In the first area, the Department has commissioned research to identify skills needed in the future, as well as occupations where substantial change can be expected. This research, plus the workforce models for projections, will help the Department anticipate and meet changing needs effectively.

DoD is now able to pay for degrees and increase the repayment of student loans to enhance recruitment. The Department is exploring ways to expedite the hiring process and provide additional pay flexibilities to help make DoD a more enticing place to work. We are

also exploring initiatives such as expanded childcare access for civilians as well as elder care assistance to enhance the Department as an employer of choice.

In the third part of the strategy, DoD created the Defense Leadership and Management Program (DLAMP) to prepare competitively selected individuals at the GS-13 level and higher for key leadership positions in ways that would enable them to function more effectively than their predecessors. Now in its fifth year, DLAMP has some 1,172 competitively selected participants, including 240 admitted in January 2001.

Additionally, DoD is taking concrete steps to improve the quality and cost-effectiveness of the education and professional development it provides to its civilian workforce. DOD is working towards obtaining accreditation for all DOD institutions teaching civilians. To measure our progress, we will develop and use standards and metrics and a data collection system. These will permit our institutions a mechanism for benchmarking and will give decision-makers accurate and timely information on the quality and cost-effectiveness of DoD educational and professional development institutions.

Managing the workforce transition humanely as well as efficiently has led DoD to create an exemplary workforce transition package. Less than 9 percent of the reduction in employment has come through layoffs. For example, the Voluntary Separation Incentive Payment (VSIP, or the "buyout") has enabled the Department to avoid approximately 158,000 layoffs since 1993; and use of the early retirement authority has helped avoid approximately 67,000 layoffs. Other transition programs provide payment for continuing health insurance and other benefits to ease the strain. In the FY 2001 National Defense Authorization Act, DoD received the authority to offer buyouts without eliminating positions. Though limited in scope, this authority permits reshaping the workforce where the number of positions might be right but the mix of skills poses

a problem. DoD is collecting data on the authority's use this year and has requested that Congress extend its use over the next two years.

Collectively, these steps will help the Department cope with the reality that it currently employs 76 percent fewer people in their 20s than it did in the 1980s, and 56 percent fewer in their 30s, but actually 6 percent more in their 50s. The median age has risen from 41 to 46 since the end of FY 1989. Workforce shaping actions are therefore a paramount consideration over the coming decade.

Quality of Life

Providing a high quality of life for our military members and their families is essential to our efforts to attract and retain a quality force. Considering changes in the composition of military families (such as the increasing number of dual income families), and realizing that continued service is a family decision (because how families feel affects their satisfaction with military life), force management and retention strategies must focus on the entire military family.

Young people have many choices in today's job market. To compete, the Department must create an environment where individuals and their families are encouraged to prosper and grow and participate in the fruits of the American society which they have sworn to defend. To assist them, we must maintain a strong and sustained commitment to quality of life. Last year's improvement in pay, revision of the retirement system and commitment to reducing out of pocket expenses for housing were important steps. We must provide quality of life programs and services that set the military apart as a career of choice.

Family Support and Spouse Employment

In the area of Family Support, we know that family is the foundation of success and family well-being is critical to the peace of mind of our Service members. With a force that is comprised primarily of families - only 40% of the force is single with no family responsibilities - we recognize the integral link between family readiness and total force readiness. An essential element of the quality of life framework is improving the financial stability of our military families, which includes improving their personal and family financial training.

We know, for instance, that spouse employment is an issue.

DoD intends to examine ways to improve employment opportunities and transportability of careers. We will continue to work with the private sector to develop relationships that provide training and employment opportunities for military spouses, focusing on the areas of information technology, education and health care. These areas continue to show a strong employment picture. To accomplish this the Department is partnering with the U.S. Chamber of Commerce and other chambers around the country to engage corporate America to provide military spouses with training and employment opportunities leading to careers.

Child Care

Quality, affordable, and available childcare is a vital quality of life issue for the Total Force and their families. We have child development programs at over 300 locations with over 800 child development centers and 9,000 family childcare homes. DoD centers have a much higher level of national accreditation (99 percent compared to an approximate 8 percent for civilian sector centers). The Department estimates that there is a total need for 270,000 childcare spaces. Though its current childcare programs, the Department provides 170,000 spaces and is working to meet the 215,000 space need. The remaining estimated childcare need of 55,000

spaces would be met with alternative work schedules and arrangements with neighbors and family members.

Educational Opportunities

This year the Department established a new Educational Opportunities Directorate to consolidate a number of congressionally mandated, education-related programs. These include impact aid, off-duty, voluntary education, Troops-to-Teachers, and ensuring compliance with laws related to the education of special needs children.

This new directorate is the focal point for administering financial assistance to local education agencies to supplement the Federal impact aid program for school districts heavily impacted by the enrollment of DoD-connected children. Congress has generally appropriated about \$35 million for this purpose. In addition, for both FY 2000 and 2001, DoD was appropriated \$10.5 million for making grants to eligible school districts for the maintenance, repair or renovation of school facilities which school districts operate on military installations. The Directorate coordinates the off-duty, voluntary education program for which Congress gives about \$250 million to the Services. Nearly, \$156 million of these funds are used for tuition assistance. The Troops-to-Teachers Program is now the responsibility of the Department of Education (ED). However, the DoD is administering the program as required by Congress.

The Department also recognizes that a significant need exists to deal with issues and problems related to the transition of military dependent students when they are forced to change schools because their military sponsor is reassigned. The directorate is collaborating with public schools that serve military dependent students to encourage practices that will ease such transitions.

Participation in the off-duty, voluntary education program remains strong, with about 600,000 enrollments in undergraduate and graduate courses and 33,000 degrees awarded annually. The Department has successfully completed two years under a uniform DoD-wide tuition assistance policy that ensures that all Service members regardless of Service have access to the same amount of tuition assistance. During FY 2000, 100 percent tuition assistance was extended to members serving in contingency areas. In the fall of 2000, Congress provided authority for Services to pay all of the costs of members enrolled in higher education programs during off-duty hours. It also provided for members to use Montgomery GI Bill (MGIB) benefits to pay for that portion of tuition and expenses not covered by DoD tuition assistance. The Department is currently coordinating the implementation of these new provisions.

Troops to Teachers

In October 2000, DoD transferred responsibility for the Troops-to-Teachers Program to the Department of Education (DEd) as required by law. Subsequently, DEd received a \$3 million appropriation for the program and requested that DoD manage the program for military personnel. DoD has agreed to do so and the Defense Activity for Non-Traditional Education Support (DANTES) will continue to operate the program. The Troops-to-Teachers program has successfully injected the talent, skills and experience of military service members into public school education. Over 3,400 participants have been hired in 49 states, and 24 states have Troops-to-Teachers Placement Assistance offices. The President's announcement to increase funding for this program to \$30M will increase the opportunities to place transitioning military members who are disciplined, trained and motivated into America's critical shortage teaching careers.

Department of Defense Dependent Schools

Our Dependent Schools comprise two distinct educational systems providing quality kindergarten through 12th grade programs: the DoD Domestic Dependents Elementary and Secondary Schools (DDESS) for dependents in locations within the United States and its territories, possessions, and commonwealths, and the DoD Dependents Schools (DoDDS) for dependents residing overseas. Today, Department of Defense Education Activity's (DoDEA) 6,840 teachers serve 112,206 students in 24 districts and 227 schools located in fourteen countries, seven states, Guam, and Puerto Rico. DDESS serves 34,294 students in 70 schools, while DoDDS serves 77,912 students in its 157 schools. DoDEA students include both military and civilian federal employee dependents.

The quality of the DoD schools is measured in many ways, but most importantly by student performance. DoD students take the same standardized tests as students in many other United States school systems and score above the national average every year, at every grade level tested, and in every subject area tested. DoD Students also participate in the National Assessment of Educational Progress (NAEP) test, the only nationally administered test of academic performance. DoD students consistently score extremely high, and our minority student performance is exceptional, with both our African American and Hispanic students placing at the top among their peers nationally.

A higher percentage of DoDDS high school graduates attend college than nationally (73 percent versus 66 percent). Of those attending college about 9 percent of DoDEA graduates and high school graduates nationally attend top tier universities or colleges in the United States as identified in the U.S. News & World Report "Best Colleges 2000".

The Department is proud of its school system and continues to address and support quality issues in the areas of curriculum, staffing, facilities, safety and security, and technology. To meet the challenge of the increasing competition for teachers, DoD has an aggressive U.S. recruitment program, with an emphasis on diversity and quality and a focus on placing eligible military family members as teachers in its schools.

Domestic Violence

I am pleased to report that with your help, the Department is making significant progress in dealing with the issue of domestic violence in our military communities. There is no more basic quality of life issue than providing a safe and secure home environment for our Service members and their families. Consequently, DoD has made a substantial commitment of manpower and dollars to its Family Advocacy Program. As the nation's largest "employer-based" domestic violence program, we believe we have the opportunity not only to improve our response, but to contribute substantively to the nation's overall effort in this matter. DoD is establishing a central database to track incidents of domestic violence and commander disciplinary actions.

The Defense Task Force on Domestic Violence was established last year in accordance with the requirements of Section 591 of the Fiscal Year 2000 NDAA (P.L. 106-65). Task force members have been hard at work for more than a year and have completed their first annual report and strategic plan. When the review is complete, the Secretary will forward the task force report to you with an evaluation and comments. We are confident that, working together with the task force, we can and will continue to make significant progress in our prevention of and response to domestic violence in the military.

Morale, Welfare, and Recreation

Morale, Welfare and Recreation (MWR) programs offer “hometown” support for those separated from extended families and familiar settings in over 300 military communities. MWR programs include gymnasiums, recreation centers, libraries, sports, outdoor recreation, hobby shops, bowling, golf, parks, and other programs normally found in civilian communities. Those programs that are most often used are fitness, outdoor recreation and libraries.

Commissaries and Military Exchanges

Military members and their families consider their commissary privilege to be one of their top two non-cash benefits, second only to health care. The Defense Commissary Agency (DeCA) operates the worldwide system of 283 commissaries. By selling grocery items at cost plus five percent surcharge, DeCA provides a minimum 29 percent saving on comparable market baskets. Beginning in Fiscal Year 2002, legislative authority will permit funding of most DeCA operations from appropriations, thereby leaving the Surcharge Trust Fund available for capital investment. The Fiscal Year 2002 major construction program, in a significant increase from prior years, contains 10 commissary projects at a total surcharge cost of \$98 million.

As you know, Secretary Rumsfeld has asked us to consider those services that may be performed more efficiently. He has suggested that commissaries be considered in that effort. Let me state clearly that this is a proposal to improve how the benefit is delivered with the objective being to obtain the same benefit at reduced cost to the defense department. We will work closely with the congressional oversight committees in exploring this issue.

Currently, the private sector is operating the distribution system, performing shelf stocking, and operating some bakery, deli, and seafood concessions. These services are transparent to the customer in terms of service and savings; assure consistent delivery of the commissary benefit at less cost to the taxpayer and with no increase in the surcharge rate; and

continue employment opportunities for our family members. Let me reiterate: as we explore additional opportunities to capitalize on private sector competencies, there is no intent to decrease the value of the benefit or population served.

Military exchanges also form a significant portion of the community support program. They are the “home town store” for our service members overseas, in remote locations and deployment sites all over the world. It is important to troops and families stationed around the world to have American goods and service. Being a long way from home should not mean giving up what is familiar and what adds comfort to sometimes difficult lifestyles. Today’s exchanges operate at 694 locations worldwide, with annual sales of nearly \$9 billion.

Exchanges offer quality goods at significant savings, and then pass the majority of their profits back to the MWR program to support essential, morale building programs and make capital improvements. Our practice of using exchange earnings to support MWR programs is well established; the exchanges provide over \$300 million annually.

The Department has recently taken a very close look at the exchange business practices and organizations to maximize efficiencies and improve customer service and savings. I will look closely at the study results and the service implementation plans to ensure that the alternatives pursued reduce costs while improving customer service, ensuring competitive pricing, and continue support for MWR.

Military Funeral Honors

The rendering of a final tribute and recognition to our Nation’s veterans is an important tradition in the Department of Defense. Since the signing of the National Defense Authorization Act for FY 2000, the Department has worked diligently to ensure that our Nation’s veterans receive dignified military funeral honors. Given the significant increase in veterans’ deaths and

the downsizing of the active and reserve forces, this has been a challenging mission, but one to which we are totally committed. We now have a DoD policy directive in place that clearly delineates the Military Services' responsibility in the provision of military funeral honors upon request, the requirement to provide a ceremonial flag, folding and presentation of the flag, and the playing of "Taps." The funeral honors detail consists of two uniformed personnel with at least one from the parent Service of the deceased veteran who presents the flag to the family.

We have devised a system that coordinates Military Funeral Honors requests and it is working well. Additionally, the Military Funeral Honors kit that was sent to funeral directors around the country has significantly enhanced the ability of the military Services to respond to requests. During this first year of full implementation of the law, we have seen significant increases in the numbers of military funeral honors requests provided by the military. We are currently working on our program to partner with members of veterans service and other appropriate organizations to augment the two-person detail. This is called the Authorized Provider Partnership Program (AP³). The AP³ will enhance our ability to provide additional elements to the funeral ceremony. Our overall goal is to render appropriate tribute to our Nation's veterans and to provide support to the families of these patriots who defended our country in times of war and peace.

Total Force Integration

This statement would be sadly incomplete without my highlighting the contributions made by the National Guard and Reserve to the Total Force. The Reserve components continued to support U.S. military operations worldwide, providing over 12 million duty days of effort in the areas of contingency support in Bosnia, Kosovo and Southwest Asia; counter-drug operations; domestic emergency support; exercises; and operational support to combatant

commands and military services. This high level of effort has remained relatively stable over the past five years, even as the Reserve component force has continued to draw down in size.

Despite maintaining this consistent level of activity, the process for employing Reserve component members, given the wide array of different duty categories and statuses in which they can serve, is unnecessarily complex and confusing. We are undertaking a comprehensive review to determine if greater efficiencies and increased flexibilities are possible in the process of employing Reserve units and individuals. Associated compensation and benefits are also being addressed to identify and eliminate any disparities between the Active and Reserve components.

The Fiscal Year 2002 budget request includes important increases for the Reserve components. Increases go to personnel accounts for a 5.0% across-the-board pay raise, pay table reform to further increase pay for certain personnel grade levels, and additional full time support personnel needed to improve readiness management. Additions to operating accounts are designed to improve personnel training and readiness by increases in flying hours, base operations support, depot maintenance.

Additionally, Military construction (MILCON) investment for the Reserve components represents an increase of 280% over last year's request, and the largest request in the last two decades. The facility investment of \$615 million represents a first step in the Department's commitment to address a failing infrastructure. A 6.5% procurement increase will fund new Reserve component equipment, helping to ease the affects of old equipment on readiness.

Although the Reserve components normally do not rely on housing, barracks, and fitness centers for their quality of life, the issue of quality of life is equally important for the Guardsmen or Reservist whose quality of life is measured by where they work and train. The President's budget begins to address the neglected facility infrastructure of the past.

Health Care

Another critical quality of life issue facing our service men and women and their families is health care. It is a recruiting and retention tool and it is the means by which we retain a fit and healthy force. The Military Health System (MHS) consists of 78 hospitals and more than 500 clinics worldwide serving an eligible population of 8.3 million. In addition, we have seven TRICARE Contracts that supplement our military medical facilities with a network of civilian healthcare providers. We emphasize the prevention of illness. We identify hazardous exposures, and record immunizations and health encounters in a computerized fashion for patient safety and any needed patient care events. We deliver the health care benefit as defined by the Congress and ensure high quality health care to all eligible beneficiaries.

The passage of the generous new health benefit by Congress last year provides additional challenges in our efforts to ensure quality health care for our deserving beneficiaries. Our great success to date in implementing this broad array of new entitlements reflects the support and work of our DoD leadership, the Surgeons General, the beneficiary associations and your staffs. The outreach to our beneficiaries has been comprehensive, and I greatly appreciate the assistance you and your staffs have provided to ensure successful implementation.

Military Health System Funding

Health care costs in this country continue to rise and the military health system is not immune from these escalating costs. This is the first time in recent years that the President's budget request identifies a realistic estimate of our military health care costs. The budget increase funds for the direct care system to sustain military treatment facilities (MTFs). It increases funds for pharmacy operations by 15 percent, reflecting our own recent experience, as

well as what is anticipated in the private sector in the coming year. It provides for a 12 percent increase over the FY 2001 budget for the managed care support contracts, which is again consistent with the overall cost increases in the private sector. Sufficient funds are also provided to implement the FY 2001 NDAA requirements, including TRICARE For Life.

The President's Budget request also reflects requested legislation directing the Department to implement prospective payments for some health services not currently paid on a prospective basis. The general provision would expedite reform of TRICARE payment methods and allow the Department to expedite adopting prospective payment rates for some civilian institutional services (e.g., skilled nursing facilities (SNF) and hospital outpatient services) and for non-institutional providers (e.g., ambulance services). We do not expect this change in reimbursement method to create barriers for access to SNFs or to cost-shift payment liability to the beneficiary by balance billing. We do expect it to save \$315 million in FY 2002.

In our FY 2002 budget request, you will see an Administration proposal to eliminate the duplication in funding and services that exists between DoD and the Department of Veterans Affairs (VA). Reportedly, there are about 700,000 dual eligible retirees, who currently can use both DoD and VA systems. At present, both agencies must prepare to care for them, without knowing how many will actually use the DoD or VA systems. As a result, the allocation of federal government resources is not accomplished as efficiently as possible, and beneficiaries may not receive the most coordinated healthcare. This proposal would require military retirees to select either DoD or VA as their source of care. The Administration believes this proposal will enable DoD and VA to budget and plan more appropriately for their beneficiaries. It will also provide beneficiaries greater continuity of care.

Military Health System Challenges

We face many challenges within the DHP. These can be summarized into four major areas:

1. Creating a stable business environment for the direct care system by ensuring that it is funded properly and recapturing workload through optimization initiatives;
2. Developing a new generation of simplified managed care support contracts, which have greater financial predictability, create more competition, and reduce administrative costs.
3. Strengthening our ties to other federal health care systems, including the VA and Centers for Medicare and Medicaid Services to optimize the utilization of all federal healthcare resources.
4. Implementing the new TRICARE benefits for those age 65 and over and establishing the accrual fund mechanisms for FY 2003.

TRICARE Senior Pharmacy

I would like to take just a moment to describe the successful implementation of the pharmacy program for our senior beneficiaries. We implemented this benefit just about five months after enactment of the law. Although the start-up of TRICARE Senior Pharmacy (TSRx) went smoothly, many issues had to be resolved because the new program had to be explained to a large number of beneficiaries in a very short time. We achieved this tremendous effort through the cooperation of our military and civilian staff, our contractors, the beneficiary associations, our beneficiaries, and with great support from the Congress. During the first few months of the program, approximately 1.5 million prescriptions have been processed, totaling about \$80 million in health care costs (excluding start-up and ongoing administrative costs). We anticipate that healthcare costs will increase as more beneficiaries drop other health insurance with

pharmacy coverage and come to rely on us for their pharmacy needs, particularly after TRICARE For Life begins on October 1.

Expanding TRICARE to Medicare Eligibles.

Congress established October 1, 2001, as the date on which our age 65 and over beneficiary population will become eligible for TRICARE benefits. On that date TRICARE will become a secondary payer to Medicare for care received outside military medical facilities. The law requires that all Medicare-eligible beneficiaries be enrolled in Medicare Part B to receive the new TRICARE benefits. DoD has worked with the Centers for Medicare and Medicaid Services (CMS, formerly HCFA) in establishing the mechanisms to conduct data exchanges that will assist in determining those of our beneficiaries who have purchased Medicare Part B, thus verifying eligibility to participate in the program.

Under the new law, Medicare-eligible retirees can continue to use military medical facilities for their care. For several reasons, Medicare-eligible beneficiaries will not fit into the current structure of the triple option benefit when they attain TRICARE eligibility. In order to provide beneficiaries an alternative option for using TRICARE providers without the need to lock in to a HMO-like program, we issued a policy authorizing the establishment of TRICARE Plus, an MTF primary care enrollment program.

Under TRICARE Plus, all beneficiaries who use MTFs but who are not enrolled in TRICARE Prime will be offered the opportunity to enroll for MTF primary care, to the extent capacity exists. There is no lock-in and no enrollment fee. This will facilitate primary care appointments when needed. MTF capacity will limit the number of persons accommodated at each MTF to assure that their primary care needs and TRICARE access standards are met. For care from civilian providers, TRICARE Standard or TRICARE Extra rules will apply. If the

enrollee is Medicare-eligible, for services payable by Medicare, Medicare rules will apply, with TRICARE as second payer.

Accrual Funding

The Medicare-eligible Retiree Health Care Fund will begin operation in fiscal year 2003. At present, discussions are under way with the Office of Management and Budget (OMB), and within the Department to define the parameters for establishing and implementing the fund. OMB has established the fund at the Department of Treasury and placed it in the OMB budget database. The Board of Actuaries meets on July 17 to determine the major assumptions and methodologies for calculating the liability. Within the Department we are developing the procedures to implement the fund. Shortly we will forward a report to the Congress on the concept of operation for how the fund will work, as well as the periodicity and amounts for the accrual fund.

Reserve Component Health Care

The Department has made great strides in health care for family members but nearly 70% of Reserve families live outside the catchment area of a military treatment facility, which may limit them to TRICARE Standard and Extra, thus requiring cost shares and an annual deductible. We are exploring alternatives for ensuring continuity of health care for the families of Reserve component members, when those members are called to active duty for more than 30 days. These Reserve families are eligible for military health care under TRICARE, but this requires a change in health care systems and possibly health care providers for short periods of time, only to return to a civilian health care plan when the Reservist is released from active duty. While the Reservist has the option to continue his or her employer-sponsored health care plan, the

employer may require the Reservist-employee to pay the full premium cost of the plan plus an administrative fee.

It may be possible for the Department to provide a certain amount of assistance so that Reserve families remain under their employer-sponsored health care plan during periods of service greater than 30 days but less than 18 months. Under this situation, these families would not be eligible for TRICARE and thus there could be some savings associated with this limited reduction in TRICARE workload costs. Such a program would provide an affordable alternative, which would relieve the stress on the family of changing health care systems when the Reservist is called to active duty.

Conclusion

Mr. Chairman, this concludes my statement. I thank you and the members of this Subcommittee for your outstanding and continuing support for the men and women of the Department of Defense. I look forward to working with you closely during the coming year.