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INCREASING PAY AND BENEFITS FOR MILITARY PERSONNEL

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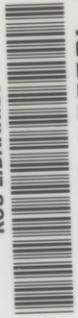
HEARING BEFORE THE SUBCOMMITTEE ON MANPOWER AND PERSONNEL OF THE COMMITTEE ON ARMED SERVICES UNITED STATES SENATE

NINETY-SIXTH CONGRESS
SECOND SESSION

SEPTEMBER 26, 1980

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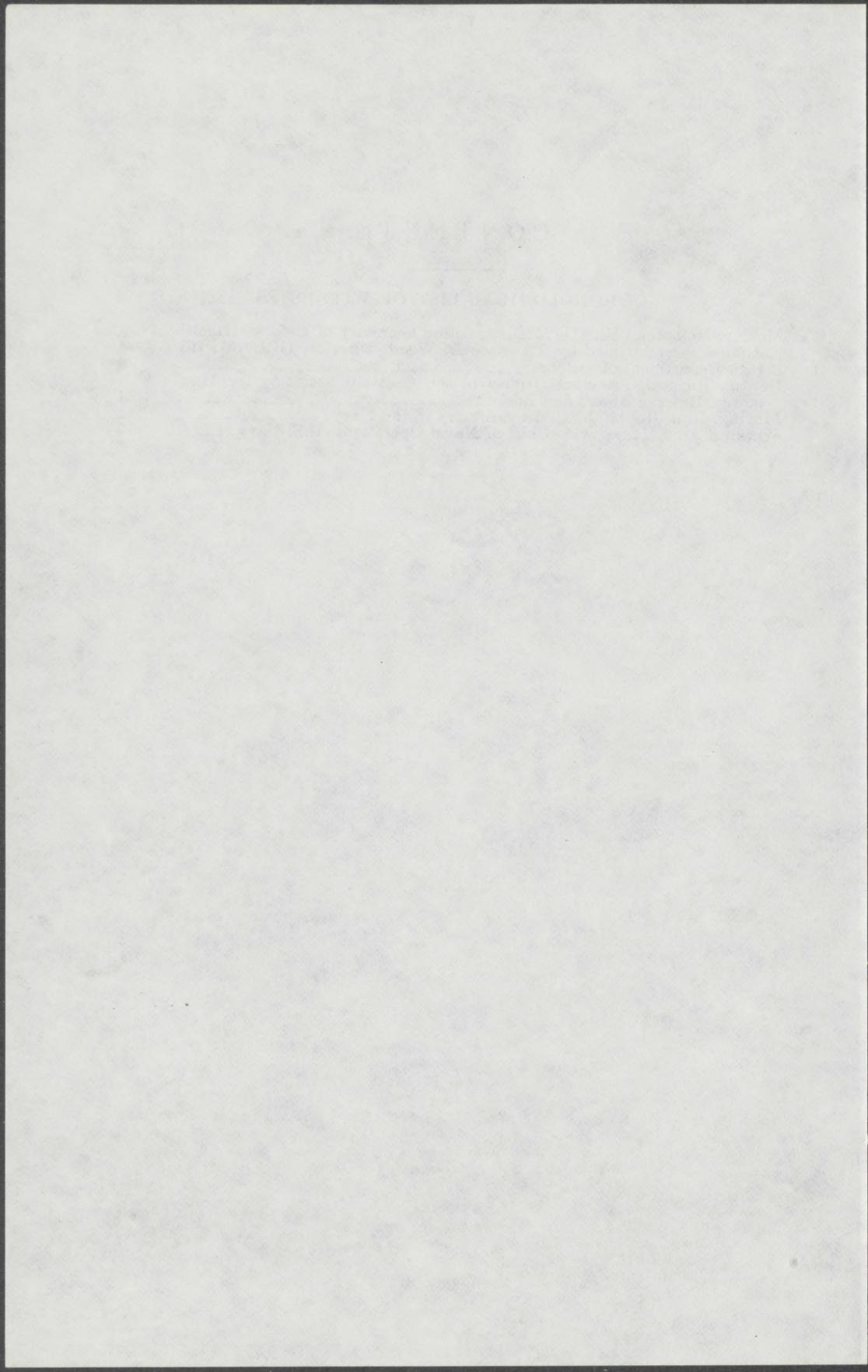
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INCREASING PAY AND BENEFITS FOR MILITARY PERSONNEL

FRIDAY, SEPTEMBER 26, 1980

U.S. SENATE,
SUBCOMMITTEE ON MANPOWER AND PERSONNEL,
COMMITTEE ON ARMED SERVICES,
Washington, D.C.

The subcommittee met at 10:10 a.m., pursuant to notice, in room 212, Russell Senate Office Building, Hon. Sam Nunn chairman, presiding.

Present: Senators Nunn, Jepsen, Warner, and Cohen.

Staff present: George F. Travers, professional staff member; Paul Besozzi, general counsel; Ronald F. Lehman, and Carl Smith, professional staff members; Ralph O. White, research assistant; and Mary A. Shields, clerical assistant.

Also present: Arnold Punaro, assistant to Senator Nunn; Greg Pallas, assistant to Senator Exon; and Christopher Lehman, assistant to Senator Warner.

OPENING STATEMENT BY SENATOR SAM NUNN, CHAIRMAN

Senator NUNN. The subcommittee will come to order.

The Subcommittee on Manpower and Personnel meets today to consider certain legislative proposals for increasing pay and benefits for military personnel.

DENTAL CHAMPUS

The administration has proposed legislation to add additional dental care benefits to the Civilian Health and Medical Program of the Uniformed Services, the CHAMPUS program. This proposal would provide routine dental care coverage for active-duty dependents at a cost of about \$110 million per year. The House Armed Services Committee has amended the program to provide for lower deductible amounts and lower cost sharing above the deductible amounts for most enlisted personnel. The cost of the House proposal would be \$180 million per year.

Although the full House has not yet acted on this bill, we are holding this hearing today because of the lateness in the session so that we will have needed information to consider the bill if it is acted upon by the House.

OTHER CHAMPUS CHANGES

Congress has already made some changes to the CHAMPUS program this year. The so-called Nunn/Warner amendment adds routine

baby medical care and immunizations as a new benefit under the CHAMPUS program and increases the monthly benefit for handicapped dependents from \$300 to \$1,000 per month.

There is another House-passed measure now pending before the Armed Services Committee to authorize dependents of active-duty members to use CHAMPUS inpatient cost sharing rates for certain surgery performed on an outpatient basis. This provision has a rather unique status, since it will add a benefit to the CHAMPUS program and save an estimated \$300,000 per year by discouraging hospitalization for surgery that can be performed on an outpatient basis.

Senator Inouye has introduced S. 3073, which is now before the committee, to add eye examination and vision care to authorized medical care to military dependents and retirees.

MILITARY PAY AND ALLOWANCE BENEFITS ACT OF 1980

The House passed H.R. 7626, the Military Pay and Allowances Benefits Act of 1980 on September 15. This bill originally contained several proposals that have now been enacted in the fiscal year 1981 authorization bill or in other legislation. The House amended the bill to delete provisions already enacted, so the measure before us now contains five provisions:

(a) Authorizing basic allowance for quarters for single members in pay grade E-7 and above.

(b) Authorizing a new special pay of up to \$50 per month for enlisted members in certain specialties who extend their overseas tour for at least 1 year. It would also provide that members could choose not to receive the \$50 per month and instead choose (1) an additional 30 days leave; (2) an additional 15 days leave and roundtrip transportation at Government expense to the United States; or (3) roundtrip transportation at Government expense for the member and his family to the United States.

(c) Permanent extension of existing authority to pay the Marine Corps platoon leaders class subsistence allowance of \$100 per month. Current authority will expire on September 30, 1982.

(d) Excluding trailer pads from the definition of quarters.

(e) Increasing enlisted submarine pay by 25 percent; increasing the nuclear accession bonus for nuclear-qualified officers from \$3,000 to \$5,000; increasing the nuclear continuation bonus payable for a 4-year extension following initial obligation from \$20,000 to \$25,000; and increasing the annual nuclear pay provided after 10 years of service from \$4,000 to \$5,000 per year. The authority for these officer bonuses would be extended to September 30, 1983.

SUBMARINE PAY AND SEA PAY

In addition, the Department of Defense and the Department of the Navy have been working on other proposals with regard to submarine pay and proposals on sea pay, and we will want to examine those proposals today as well.

Our first witness this morning is Dr. John H. Moxley III, Assistant Secretary of Defense for Health Affairs. Dr. Moxley changed his schedule to be here this morning, but will have to leave early, so we would like to hear him first on the CHAMPUS proposals.

Mr. Richard Danzig, Deputy Assistant Secretary of Defense for Manpower, Reserve Affairs, and Logistics, is prepared to discuss the other legislative proposals.

The subcommittee also asked that Under Secretary of the Navy, Robert Murray, testify this morning on these legislative proposals, specifically with regard to submarine pay and sea pay.

I understand that Secretary Murray is here and is accompanied by Admiral Watkins. We are glad to have both of you this morning. Senator Cohen, do you have any opening statement?

Senator COHEN. No, Mr. Chairman.

Senator NUNN. Dr. Moxley, we have a vote. I leave it up to you. We can either get started and get in a few remarks before we have to vote, or we can wait and begin when we return from voting.

STATEMENT OF HON. JOHN H. MOXLEY III, M.D., ASSISTANT SECRETARY OF DEFENSE, HEALTH AFFAIRS, ACCOMPANIED BY THEODORE D. WOOD, DIRECTOR, OCHAMPUS, U.S. DEPARTMENT OF DEFENSE

Dr. MOXLEY. I will make at least a start, Mr. Chairman.

I am pleased to respond to your request that I testify this morning on several subjects—the administration's proposal for a dental care program under CHAMPUS, H.R. 8143 on CHAMPUS dental care; H.R. 3351 on ambulatory surgery, health maintenance organizations, and S. 3073, Senator Inouye's CHAMPUS eye care bill.

I am accompanied by Mr. Theodore D. Wood, the Director of OCHAMPUS.

First let me address the administration's proposal for a comprehensive dental care program under CHAMPUS for the spouses and children of active duty members of the uniformed services.

As with all other types of benefits under the CHAMPUS, this proposal contains a cost-sharing arrangement, with both an annual deductible and copayment provisions. Active duty members whose dependents receive authorized dental benefits under the proposal would be required to pay an annual deductible depending upon their pay grade. Members in the lowest enlisted pay grade would be required to pay the first \$30, and members in the highest commissioned pay grade would pay the first \$200.

Similarly, the copayment provisions vary markedly, depending upon the categories of care obtained.

The proposal would not in any way change existing law with respect to dental care for dependents and retirees in uniformed services facilities.

The estimated first year cost of the administration's dental proposal is \$110 million.

H.R. 8143—the House-marked dental bill—provides full dental care benefits under CHAMPUS to dependents of members of the uniformed services on active duty. We can accept a deductible graduated by pay grade, since it reflects the members' ability to pay and is generally accepted by them. The copayment provisions, however, reflect a wide disparity in the value of benefit to the service member between grades E-7 and E-8.

We estimate that H.R. 8143 will cost approximately \$180 to \$190 million for the first full year following enactment.

Because of its cost, the Department of Defense prefers the administration's proposal to H.R. 8143 and recommends its enactment.

The enactment of H.R. 3351, a bill to amend chapter 55 of title 10, United States Code, to authorize dependents of members of the uniformed services serving on active duty to use CHAMPUS inpatient cost-sharing rates for certain surgery performed on an outpatient basis, would permit CHAMPUS to cost-share certain kinds of ambulatory surgery for dependents of active duty members at the inpatient rate, even though it is performed on an outpatient basis. Ambulatory surgery for this beneficiary category must, under present law, be cost-shared at the outpatient rate, which is higher.

When the present CHAMPUS law was enacted, the current practice of performing certain kinds of surgery on an outpatient basis did not exist. The current cost-sharing provisions of the law in effect encourage active duty dependents to undergo these procedures on an inpatient basis to greatly reduce their out-of-pocket costs.

Physicians tend to accommodate them, since their professional fees are not significantly different in either case. By performing the surgical procedure in question on an inpatient basis, the physician significantly reduces the beneficiary's share of the cost but greatly increases the Government's share.

For example, for a common procedure of the type in question, if it is performed on an inpatient basis, the beneficiary's share is \$25, as opposed to \$120 if it were performed on an outpatient basis under the current guidelines; and the Government's share would be approximately \$600.

Under the provisions of H.R. 3351, for the same procedure performed on an outpatient basis, the beneficiary would still pay the same \$25, but the Government's share would only be \$200 instead of \$600. This results from the fact that the total charge involved for inpatient care in a hospital is several times greater than it would be in an ambulatory surgical facility.

Do you want me to stop there?

Senator NUNN. I think that is probably a good place to stop. We will be back in about 10 minutes.

[Brief recess.]

Senator NUNN. Please continue, Dr. Moxley.

Dr. MOXLEY. Let me summarize the inpatient/outpatient surgery by underlining your opening statement that everyone gains from financial perspective by the passage of that bill.

Senator NUNN. In other words, this is the free lunch we have been looking for a long time?

Dr. MOXLEY. Believe it or not, it appears to be, sir, yes.

I have some other comments in my prepared statement that deal with some other questions that come up. I think I will skip over that.

Senator NUNN. We have time for you to finish your statement before we have to vote again.

Dr. MOXLEY. I will skip over to comment briefly on Senate bill 3073, which has to do with eye care, and state that it is the judgment of the Department of Defense that its provisions are too broad and would lead to excessive cost increases for the program.

For example, a recent study of what it would cost to provide a full eye program for active duty dependents only indicated about \$35 million the first year and \$175 million over 5 years. This estimate did not include retirees and their dependents, which would be included in Senator Inouye's bill.

Due to age alone, this group would be expected to be high users of an eye benefit, so the 5-year projection could be expected to increase substantially. Accordingly, we oppose enactment of S. 3073.

We are currently studying the desirability of providing eye care benefits under CHAMPUS. If this is deemed desirable within the administration, we will submit appropriate legislation to the next Congress.

Mr. Chairman, this concludes my statement. I will submit my prepared statement. We will be happy to answer any questions you may have.

[The prepared statement of Dr. Moxley follows:]

PREPARED STATEMENT OF HON. JOHN H. MOXLEY III, M.D., ASSISTANT
SECRETARY OF DEFENSE (HEALTH AFFAIRS)

Mr. Chairman and members of the subcommittee: I am pleased to respond to your request that I testify this morning on several subjects—the administration's proposal for a dental care program under CHAMPUS; H.R. 8143 on CHAMPUS dental care; H.R. 3351 on Ambulatory Surgery; Health Maintenance Organizations; and S. 3073—Senator Inouye's CHAMPUS eye care bill. I am accompanied by Mr. Theodore D. Wood, the Director of OCHAMPUS.

First, let me address the administration's proposal for a comprehensive dental care program under CHAMPUS for the spouses and children of active duty members of the Uniformed Services. As with all other types of benefits under the CHAMPUS, this proposal contains a cost-sharing arrangement, with both an annual deductible and co-payment provisions. Active duty members whose dependents receive authorized dental benefits under the proposal would be required to pay an annual deductible depending upon their pay grade. Members in the lowest enlisted pay grade would be required to pay the first \$30, and members in the highest commissioned pay grade would pay the first \$200. Similarly, the co-payment provisions vary markedly, depending upon the categories of care obtained.

The proposal would not in any way change existing law with respect to dental care for dependents and retirees in Uniformed Services facilities.

The estimated first-year cost of the administration's dental proposal is \$110 million.

H.R. 8143 (the House marked dental bill) provides full dental care benefits under CHAMPUS to dependents of members of the Uniformed Services on active duty. We can accept a deductible graduated by pay grade since it reflects the members' ability to pay and is generally accepted by them. The co-payment provisions, however, reflect a wide disparity in the value of benefit to the Service member between grades E-7 and E-8.

We estimate that H.R. 8143 will cost approximately \$180 to \$190 million for the first full year following enactment.

Because of its cost, the Department of Defense prefers the administration's proposal to H.R. 8143 and recommends its enactment.

The enactment of H.R. 3351, a bill "to amend Chapter 55 of title 10, United States Code, to authorize dependents of members of the Uniformed Services serving on active duty to use CHAMPUS inpatient cost-sharing rates for certain surgery performed on an outpatient basis," would permit CHAMPUS to cost-share certain kinds of ambulatory surgery for dependents of active duty members at the inpatient rate even though it is performed on an outpatient basis. Ambulatory surgery for this beneficiary category must, under present law, be cost-shared at the outpatient rate.

When the present CHAMPUS law was enacted, the current practice of performing certain kinds of surgery on an outpatient basis did not exist. The current cost-sharing provisions of the law, in effect, encourage active duty dependents to undergo these procedures on an inpatient basis to greatly reduce their out-of-pocket

costs. Physicians tend to accommodate them since their professional fees are not significantly different in either case. By performing the surgical procedure in question on an inpatient basis, the physician significantly reduces the beneficiary's share of the cost, but greatly increases the Government's share. For example, for a common procedure of the type in question, if it is performed on an inpatient basis, the beneficiary's share is \$25 (as opposed to \$120 if it were performed on an outpatient basis); and the Government's share would be approximately \$600. Under the provision of H.R. 3351, for the same procedure performed on an outpatient basis, the beneficiary would still pay the same \$25, but the Government's share would only be \$200 instead of \$600. This results from the fact that the total charge involved for inpatient care in a hospital is several times greater than it would be in an ambulatory surgical facility.

H.R. 3351 would remove the disincentive to choosing ambulatory surgery. Moreover, it would contribute to reducing the total cost of health care. For these reasons, the Department of Defense strongly supports its enactment.

We have made no progress in our efforts to convince the Military Departments of the desirability of obtaining legislation that would permit the Department of Defense to test the HMO concept on an experimental basis to determine its feasibility and cost effectiveness as a form of health care delivery for our military families. They continue to have serious reservations regarding the concept.

I plan to review this problem with the Deputy Secretary of Defense next month.

Regarding S. 3073, it is the judgment of the Department of Defense that its provisions are too broad and would lead to excessive cost increases for the program. For example, a recent study of what it would cost to provide a full eye care program for active duty dependents only indicated about \$35 million the first year and \$175 million over 5 years. This estimate did not include retirees and their dependents, which would be included in Senator Inouye's bill. Due to age alone, this group would be expected to be high users of an eye benefit—so the 5-year projection could be expected to increase substantially. Accordingly, we oppose enactment of S. 3073.

We are currently studying the desirability of providing eye care benefits under CHAMPUS. If this is deemed desirable within the administration, we will submit appropriate legislation to the next Congress.

Senator NUNN. Thank you, Dr. Moxley.

Do you have an opening statement you would like to make, Senator Warner?

Senator WARNER. Only that I strongly urge that we adopt the CHAMPUS program's additional benefits.

Senator NUNN. Dr. Moxley, as I understand it, dental care is available to military dependents overseas and at certain locations in the United States where the civilian dental community is judged to be insufficient to handle demands of dependents. Is that the present status?

Dr. MOXLEY. That is correct, sir.

Senator NUNN. If this new proposal passes, will the choice between military and civilian dental care and CHAMPUS be left completely up to the dependents?

Dr. MOXLEY. No, sir. In the House bill, not in the administration's bill which is silent on that subject, in the House bill it really retracts or repeals an item that was introduced, I believe, about 24 or 25 years ago and which states that there were a series of criteria that had to be met before active duty dependents could be provided care in continental U.S. bases. Even if that were changed, however, it would be on a space available basis and there is a limited amount of space, so that there would be an increase of care to active duty dependents in military facilities, but it would not provide them with a free choice because there would not be that much space available.

Senator NUNN. What I am asking is this. Let us say we pass this bill and you have space available at a base or facility. Can the dependent then go to a civilian facility, even though there is still space available?

Dr. MOXLEY. Yes, they can.

Senator NUNN. They do have that choice then?

Dr. MOXLEY. Yes.

Senator NUNN. The only way they wouldn't have that choice is if the Government facility were full, then they would go to a civilian facility?

Dr. MOXLEY. Correct.

Senator NUNN. Are you worried about underutilization of the Government facilities in that case? Are you worried that everybody is going to abandon the Government's providing them with dental care?

Dr. MOXLEY. No, I am not, for two reasons: By and large whenever there is that option, it is usually more convenient and a significant number of people opt to use the military facility. At the present time, retirees are eligible on a space-available basis and they manage to keep it full. Since they are not included in the CHAMPUS benefit, they would presumably continue to use the active duty facilities for their care on a space available basis.

Senator NUNN. The administration proposal does not include an authorization for dependents' dental care in an ambulatory facility. Does this mean that at a location where dental care is not now authorized, CHAMPUS benefits would be available but direct dental care would not be authorized, even on a space-available basis?

Dr. MOXLEY. Yes, sir. The administration bill does not change the current ground rules for dependents' care in military installations, which is that retirees are eligible on a space-available basis, and within the continental United States, if it can be demonstrated that there are not enough services in the surrounding community to meet the need, then dependents can be cared for on a space available basis.

Senator NUNN. Did you support the provision in the House bill authorizing dental care for dependents at all military facilities on a space-available basis?

Dr. MOXLEY. I have no difficulty with that aspect of the bill, Mr. Chairman, no.

Senator NUNN. If routine dental care for dependents is authorized on a space-available basis, wouldn't that probably eliminate some dental care expected for retired personnel?

Dr. MOXLEY. Yes, sir, I believe it would, because active duty dependents would move into higher priority.

Senator NUNN. Do you expect that less dental care will then be available to retired personnel?

Dr. MOXLEY. Less dental care will be available to them at active duty facilities, yes.

Senator WARNER. All facilities, or certain ones? Will there be a variation?

Dr. MOXLEY. There will be some where they can still be seen. I do not, Senator, have precise figures on that. It would only be a projection; but there presumably would be overall significant reduction in the amount of dental care that could be provided for retirees at active duty facilities.

Senator NUNN. Do you have any kind of plan to include retired people under CHAMPUS?

Dr. MOXLEY. It has obviously been considered, and I am sure was considered when the House was looking at their bill, too. What

happens is that it becomes very expensive very quickly if retirees are included.

Senator NUNN. Historically in the early 1970's the pay and benefits were higher than they are now. Only during a couple of years in our history have pay and benefits been higher than active duty people are getting today. Do you agree with that?

Dr. MOXLEY. I don't feel that I can comment, Mr. Chairman.

Senator NUNN. That is accurate. There are hundreds of thousands of retired people out there who never in their entire career have seen anything even approaching the pay and benefits that today's active duty people are getting.

What we have here is a proposal according to your testimony that is going to make it more difficult for retired people to get the dental care that they are now getting. I don't understand that rationale.

Dr. MOXLEY. I will only point out, once again, that the administration bill does not change the ground rules for care in active duty facilities; it is the House bill that has that change in it.

Senator NUNN. You just endorsed it. I am sure that is the administration's position.

Dr. MOXLEY. I said I did not have any difficulty with it. If in the wisdom of the Congress they would like to make that change, I have no reason to argue against it.

I can state that it would lead to a reduction in dental care available for retirees at active duty facilities. I make that statement with confidence.

Senator NUNN. What is the implicit agreement that we have with the retired community? Did most people who are now retired, in various areas of the country, have some understanding that after retirement, they would continue to get dental care?

Dr. MOXLEY. The current ground rule has been in effect, I believe, for 24 years, so that anybody retiring in the last 24 years would have had the expectation that on a space available basis they would be able to get care.

Senator WARNER. Mr. Chairman, could we have made as part of the record what is the legal statement that the retirees have had shown them with respect to their entitlement to dental care? In other words, what is this contract? I want to make clear that we know about that.

Could the witness supply us with the added cost for including the retirees? I am concerned, as is the chairman, about the retirees.

Senator NUNN. We will ask both those questions for the record, if you would like.

Dr. MOXLEY. We will be happy to supply it.

[The information follows:]

DENTAL CARE FOR RETIREES

Before June 7, 1956, there were no statutes dealing specifically with health care benefits for retired members. In the absence of such statutes, the matters in question were governed by the regulations of the military departments. These regulations authorized medical and dental care for retired members on a space-available basis.

On June 7, 1956, Public Law 84-569 was enacted with an effective date of December 7, 1956. Section 301(b) of that act (now codified as section 1074(b) of title 10, United States Code) provided as follows:

"Medical and dental care in any medical facility of the uniformed services may, under regulations prescribed jointly by the Secretaries of Defense and Health, Education, and Welfare, be furnished upon request and subject to the availability of space, facilities, and capabilities of the medical staff, to retired members of the uniformed services."

Notwithstanding the clarity of the law (and previously, the regulations), the military departments commonly issued personnel recruiting and retention literature which made no reference to the "space-available" concept and which clearly led the reader to conclude that retirees would be provided medical and dental care in military facilities following retirement. All of the literature of this type of which we are aware was issued before 1964.

The added cost of including retirees (excluding dependents) in the administration's proposal is estimated at \$61 million, for a total annual cost of \$171 million in fiscal year 1981 dollars. The annual cost in fiscal year 1981 will depend on the effective date of implementation.

Senator NUNN. Dr. Moxley, the administration's proposal would provide for a deductible amount to be paid by the military member of \$30 to \$200 a year, depending on grade and cost sharing, 15 percent to 75 percent, depending on the kind of dental service. The House will have the Government pay more of the cost. The member's deductible amount would be zero—for most enlisted personnel—to \$200, depending on grade and member's cost sharing would be zero to 75 percent depending on grade and type of service.

If it is intended to be a retention incentive, why do you propose to charge careerists more than first-term personnel? In other words, you have escalation on the deductions. but this is a package aimed at retention, is it not?

Dr. MOXLEY. Yes, sir, in one sense it certainly is. You know, there are several ways that one can approach the problem of developing a program such as this. Our approach was to try to make a gradual increase in the cost to the patient over time.

The House bill has no cost and then between E-7 and E-8 the costs go up. As a matter of fact, for the commissioned grades for, I think, everything above warrant officer-1, they are the same.

The problem that we have is that when you have the Government picking up the full cost up to E-7, it raises the cost of the bill, and for that reason we favor the administration's position; and I think there is the rationale obviously, the one you pointed out, that you do tend to make more over time and therefore can presumably absorb more of the burden yourself.

Senator NUNN. Wouldn't that principle also be true under medical coverage under CHAMPUS? There is no escalation there. If the principle is valid for dental service, why is it not valid for medical coverage and vice versa?

Dr. MOXLEY. I think that the principle could apply there. The basic CHAMPUS program, when it was written, that principle was not incorporated and quite honestly I can't answer specifically why it was not.

Senator NUNN. The administration bill has a different deductible amount based on grade, but has the same cost sharing regardless of grade. For example, an E-1 would have a deductible of \$30, while a general would have a deductible of \$200, but both would have to pay 75 percent of the cost of braces for their children's teeth.

The House bill carries this distinction by grade further. The general would still have a \$200 deductible and would still have to pay 75 percent of the cost of braces, while a new recruit would have no

deductible amount and would have to pay only 50 percent of the cost of braces.

Do you agree with that concept?

DENTAL BENEFITS

Dr. MOXLEY. I agree with the facts as you have given them between the two bills. I think on all of the dental bills that are available through commercial insurance carriers, this sort of gradation that you see by type of service exists. The reason is that the carrier pays more for emergency care than for orthodontics because emergency care is an immediate sort of thing that needs to be met and is obviously not controversial in that sense; whereas, there are some who view a significant amount of the orthodontia work in the country is done for other than specific dental need, is done for cosmetic reasons and so forth, and therefore the rationale is that they should pay more for that.

We have simply followed that format in developing the administration's proposal.

Senator NUNN. The difference I was getting at was not the difference in service but difference in cost sharing based on grade. Do you think there ought to be a difference in cost share based on grade? What is the administration's view on that?

Dr. MOXLEY. No; we would favor having the deductible increase with grade, but to keep the cost sharing as in the administration bill the same across the board.

Senator NUNN. You would not agree with the House approach on that?

Dr. MOXLEY. No, sir.

Senator NUNN. Hasn't there been CHAMPUS benefits for teeth and braces before? Have you had experience with that program?

Dr. MOXLEY. The only dental care provided under CHAMPUS now is that which is directly adjunctive to the medical care provided under the basic medical program.

I think you are correct, that a portion of that would probably involve some sort of orthodontia work after trauma or after part of the immediate correction of trauma, but I do not have the specifics on what our experience has been.

Senator NUNN. As I understand it, braces had been covered at one point and discontinued. Do you know if that is true?

Dr. MOXLEY. That is probably before my time. Mr. Wood may be able to answer that.

Mr. WOOD. That is correct. About 10 or 15 years ago, Senator, orthodontia care was covered under the program for the handicapped. The program for the handicapped has a graduated deductible by grade and, as you are aware, a \$350 per month Government cost share. Orthodontia was in fact covered under that aspect of the program. It was discontinued, to the best of my recollection, in 1974.

The cost of orthodontia care at the time it was discontinued was approximating \$20 million a year.

Senator NUNN. Just for the handicapped?

Mr. WOOD. Yes, sir.

Senator NUNN. What are your cost estimates?

Mr. WOOD. For the orthodontia?

Senator NUNN. Yes.

Mr. WOOD. I don't have the specifics. We did not anticipate a large orthodontia cost under our bill because of the 75 percent cost sharing. That will deter a lot of people from overutilizing it.

Senator NUNN. Do you have a cost estimate on orthodontia in the House bill?

Mr. WOOD. Not on orthodontia alone.

Senator NUNN. That is part of your overall cost estimate on the House bill?

Mr. WOOD. Yes.

ORTHODONTIA CARE

Senator NUNN. It was \$30 million just for the handicapped. That was the old program alone. Now the difference between the House bill and the administration bill overall is \$79 million?

Mr. WOOD. Yes, sir. But please keep in mind that under the program for the handicapped the Government's cost share of \$350 covers almost all of the orthodontia cost.

Senator NUNN. So that it is almost 100 percent?

Mr. WOOD. Yes, sir.

Senator NUNN. Under the House bill it would be 50 percent?

Mr. WOOD. Fifty percent for grades E-1 and E-7.

Senator NUNN. The difference between handicapped and overall dependents is staggering in its proportion?

Mr. WOOD. Both programs were applicable to just dependents of active duty.

Senator NUNN. I thought you said the old program was just for those who are handicapped?

Mr. WOOD. Orthodontia was considered a handicapped condition.

Senator NUNN. So everybody was included then that needed orthodontia?

Mr. WOOD. Dependents of active duty.

Senator NUNN. I misunderstood that. So there would be comparable numbers involved in the old program and new program?

Mr. WOOD. Yes, sir.

Senator NUNN. But the cost sharing would be substantially different under either the House bill or the administration bill?

Mr. WOOD. That is right.

Senator NUNN. Dr. Moxley, the President's budget does not include any funds for the dental CHAMPUS program, is that right?

Dr. MOXLEY. I believe that is correct, yes.

Senator NUNN. Can you assure the committee that if this proposal is approved, the President will request an additional \$110 million or \$180 million, whatever the case may be, for the fiscal year 1981 budget, rather than simply absorbing this amount by decreases in operations and maintenance activities?

Dr. MOXLEY. I cannot specifically answer that question, Mr. Chairman. I am certain that the President is committed to funding the program, but I have not been involved in the discussion of the specifics of how the funding would be made available.

Senator NUNN. You realize that historically in the last several years that is what has been done. You increase the benefits in one area and take it out of operations and maintenance, and then wonder why readiness goes down, most of your divisions aren't ready, and many of the ships have problems, etc.

I think the administration ought to tell us how they are going to fund this. This is about the fourth time this year that we have had the administration advocating a program that costs a good bit of money that is not in their budget.

Dr. MOXLEY. I will be happy to provide an answer for the record. Senator NUNN. Has OMB approved this program?

Dr. MOXLEY. Yes, sir.

Senator NUNN. Is there anyone from OMB here today? I will ask this question of OMB and ask that you direct it to them: How will they fund this program? If they are not going to ask for an increase in their budget, then where will the money come from? If it is going to come from the operations and maintenance account, and it usually does, I would like to know how it will impact readiness.

Dr. MOXLEY. Yes, sir.

[The information follows:]

FUNDING A CHAMPUS DENTAL PROGRAM

If a dental bill is enacted in fiscal year 1981 and the Congress does not increase the fiscal year 1981 appropriation to finance it, the administration proposes to finance it by requesting reprogramming or by including the requirement in a supplemental request. A more definitive response cannot be offered at this time for several reasons: (1) The scope and cost of the bill that may be enacted is not known at this time, (2) since the Congress has not completed action on the fiscal year 1981 budget, the degree of flexibility within the budget is not known, and (3) the date of enactment will determine the actual cost for fiscal year 1981. At such time as enactment appears to be imminent, the situation will be carefully evaluated to determine an appropriate course of action. However, the Department does not intend to finance a dental program at the expense of readiness.

Senator NUNN. Dr. Moxley, in fiscal year 1979 Congress adopted an amendment to the authorization bill to establish a ceiling for payments to physicians under CHAMPUS at the 90th percentile of customary charges made for similar services at the same locality, instead of the 75th percentile. Currently, although the 90th percentile is authorized, funding levels have restricted payment to lower levels. Would an increase in the funded ceiling under the CHAMPUS medical program provide more benefits to most military personnel rather than the dental proposal you are making?

It was a fervent plea, and I don't think it was the administration requesting that authorization. There were a lot of military people who thought going from 75th percentile to the 90th percentile would be of great assistance to families under CHAMPUS. Of course, we did that, but there has never been funding to match it. Have you evaluated that?

Dr. MOXLEY. I have not evaluated that specific comparison, Mr. Chairman, since, as you know, the 1979 Appropriations Act restricts us to the 80th percentile.

The calculations of how payments are made under any of the insurance programs are quite complex. One of them is the percentage level that you are talking about. We have looked at what would be the benefit to the basic program of increasing from 70 to 80 or 70 to 85 percent. What you find out is that that jump is not as significant in terms of the payments made to providers which thereby make the providers more eager to participate than are other changes that can be made.

Some of them have been made which is to allow us to develop our own data base instead of being tied to the medicare data base.

No. 2, to allow us to upgrade and relook at our payments structure every 6 months instead of every year, which is what it has been in the past, of the factors that go into calculated payments to providers, the jump from 70 to 80 percent or 79 percent makes a difference, but it is not a dramatic difference that can be made by some of the other types of changes.

We have not compared the jump when we increase from 70 to 90, what it would do in direct comparison with the dental bill. That has not been done.

Senator NUNN. Dr. Moxley, you have a plane to catch at 11:50.

Dr. MOXLEY. I would like to catch it if I can.

Senator NUNN. Is that when the plane leaves?

Dr. MOXLEY. That is when the plane leaves.

Senator NUNN. We have a good many more questions. Can Mr. Wood answer questions for the administration?

Dr. MOXLEY. Surely. The plane leaves from National. I can stay for another 10 or 15 minutes and still make it. I am all checked in. I can get there.

INSURANCE PAYMENT HASSLES

Senator NUNN. Senator McGovern sent a letter from retired Air Force Col. James Walsh to the committee. The subject of this letter is the difficulties he encountered in receiving insurance payments for outpatient care under the CHAMPUS program. Of course, this is a colonel who I am sure in his experience in the military has run into redtape and paperwork on occasion, who was astounded by the treatment he received at the CHAMPUS office near his home. He endured a paper mountain of requests for 6 months before receiving partial reimbursement for outpatient treatment for his wife's illness.

Senator Stennis sent a letter to you Dr. Moxley, and Mr. Wood provided a report to the committee.

On September 29, 1979, Colonel Walsh sent two claims to the CHAMPUS office. In November, the claims were returned requesting more information. Colonel Walsh said the forms indicated that the information they were requesting was already on the form but he sent the information again.

More than a month later, in December 1979, the first claim was disallowed because of supporting information had not been received.

A few days later, Colonel Walsh wrote he had sent everything they had requested. On January 16, 1980, Colonel Walsh received a letter from CHAMPUS requesting all prescription receipts and doctors' receipts on the second claim.

Attached to this letter was xeroxed copies of the original claim and all of the requested supporting information that CHAMPUS had told him twice before had not been received and was the basis for disallowing his claim. Colonel Walsh again wrote to CHAMPUS with the receipts and pointed out that they had all the required information.

Then he received another letter from CHAMPUS indicating that all processing of his claims had been stopped and no further steps could be taken because he had not provided his social security number.

All the claim forms included the social security number. All of his letters except the most recent letter in January had included his social security number.

Colonel Walsh wrote back again with the social security number and finally, in February, he received three checks totaling \$65.40.

Colonel Walsh comments:

I believe I am a person of reasonable intelligence, a retired U.S. Air Force colonel, and have not one but two college degrees. If I cannot complete the forms and provide the information you require, then there is something wrong with the system or your office.

Dr. Moxley, the proposed dental CHAMPUS provisions will add about 20 percent to the CHAMPUS workload. If Colonel Walsh's case is typical, CHAMPUS is already having huge problems with the current workload. You have already provided a report on the Walsh case. My question is not about the details of that, but can CHAMPUS handle a 20-percent additional workload when all of us in Congress already are getting frequent, very vigorous complaints about the current administration incapacities of CHAMPUS?

Dr. MOXLEY. The answer to your specific question is, yes, it can. I would like to comment on that, because it is something that comes up frequently.

ADMINISTRATIVE PROBLEMS AT CHAMPUS

There is no question that CHAMPUS has had administrative problems in the past and some of those carry over to today. About 2 years ago now, Mr. Wood went to Denver to run that office, and there has been—and I personally have assessed this—a rather dramatic increase in efficiency in that office, by the “complaints” mail that comes to us and to the Office of CHAMPUS, has dropped dramatically.

One of the reasons for that is one of the issues that you address here, the issue of the claim forms which have been simplified. We have now gone to the same claim forms that everybody else uses. One of the things that has been done is that we have been able to speed up the payment process. We have been able to reduce from something like 80 fiscal intermediaries down to about 9, that we can keep better control of.

We are putting into the new contracts performance standards which have to be met, so that I do believe that CHAMPUS is becoming a more efficient operation.

There is no question that in something that is as large as it is, there will be cases like Colonel Walsh's. I might add, it is not only CHAMPUS. I spent the first 8 months of being Assistant Secretary of Defense trying to convince the fiscal intermediary who handles my insurance under the Federal employees program that I had children, and that they should be included in my program. So I know specifically about writing letters back and forth. I will use that as an example that I have fresh in my mind to indicate that there are other organizations that have the same problem.

Senator NUNN. You are confident that CHAMPUS can handle this additional workload?

Dr. MOXLEY. Yes; they can.

Senator NUNN. I don't want you to miss your plane. I have several other questions, but there is no need to put you in a mad rush. I will address the rest of my questions to Mr. Wood.

Dr. MOXLEY. Thank you, Mr. Chairman.

Senator NUNN. Thank you, Dr. Moxley. Have a good trip.

The committee has before it the House-passed bill, H.R. 3351, that authorizes dependents of active duty members to use CHAMPUS inpatient cost sharing rates for certain surgery performed on an outpatient basis. The estimate is that it will save approximately \$300,000 a year. Do you agree with that estimate?

Mr. WOOD. Yes, sir.

Senator NUNN. If that saves \$300,000, why are we restricting this bill to active duty dependents? Why not expand it to include retired personnel and their dependents?

Mr. WOOD. Sir, the cost share for the retired member for inpatient is 25 percent of the bill, the same as it is for outpatient. So it would make no difference to shift or permit the retired personnel and their dependents to be included.

The dramatic difference between the two co-pays exists only with dependents of active duty, where they are paying the inpatient charge for the direct care system, which is \$5 a day or \$25, whichever is larger, and under the outpatient co-pay they have a 20-percent charge.

Senator NUNN. You are saying there is no incentive for retired people to use inpatient when outpatient would work now?

Mr. WOOD. That is correct, because the co-pay is identical, 25 percent.

Senator NUNN. In the statement Dr. Moxley had, he referred to S. 3073, the Senate bill on the eye program. You also say that you are going to submit a piece of legislation on that next year.

EYE CARE BENEFIT PROGRAM

How does the eye care benefit program you are studying differ from that proposed in S. 3073, not the details but the major difference? If one is much more expensive, what is it that you are doing that is fundamentally different?

Mr. WOOD. The proposed legislation that we are currently coordinating provides benefits only to dependents of active duty, not to the retired community, and our proposal does not provide for the purchase of lenses or frames.

Senator NUNN. It is narrow in its coverage?

Mr. WOOD. Yes; specifically, the examination, refraction and prescription is what we would be paying for.

Senator NUNN. Mr. Wood, in March 1978, this subcommittee held a hearing on a bill introduced by Senator Jackson to allow the Defense Department to contract with so-called HMO's on an experimental basis. Dr. Moxley's deputy, Vernon McKenzie, testified that the Department of Defense was generally in favor of the proposal and promised a report within a few days. I asked at that time that some of the abuses in HMO's that had been uncovered in our investigations by the Subcommittee on Investigation of the Government Affairs Committee be considered and that that be part of the report as to how these possible abuses would be handled.

It has been 2½ years, and we have not received that report yet. Do you know anything about that?

Mr. WOOD. Senator, the services continue to have grave reservations about our testing HMO concepts. We have been unable to get a report, a coordinated report, out.

Senator NUNN. Out of the services?

Mr. WOOD. Yes, sir.

Senator NUNN. You have requested that?

Mr. WOOD. Yes.

Senator NUNN. When the services oppose something, you can't even get them to give you a report saying they are opposed to it? I don't care what the report says. I would just like to have a report.

Mr. WOOD. We will certainly get a report. We have included the authority for conducting an HMO demonstration or test as part of the legislative package which is out now for formal coordination, and that can be used as a basis, I am sure.

Senator NUNN. We would like to have your views and the military departments' views, so that we can go through this in the next Congress.

We also would like to have the views of the Surgeons General. I do not know whether I favor this approach or not, but I would like to have this information.

Thank you very much, Mr. Wood.

[The information follows:]

USE OF HEALTH MAINTENANCE ORGANIZATIONS

The views of the Department of Defense on S. 1903, 95th Congress, a bill "To amend chapter 55 of title 10, United States Code, to authorize the use of health maintenance organizations in providing health care under such chapter, and for other purposes," as well as those of the military departments and the military surgeons general, are attached.

In essence, the Department of Defense supports the granting of authority to the Secretary of Defense to offer an HMO option under CHAMPUS, but because of the many difficulties we foresee in successfully offering such an option we would prefer to approach the matter on an experimental or test basis rather than under the broad authority contained in S. 1903.

The Department of the Air Force is in basic agreement with our position, but the Departments of the Army and Navy disagree, as do the military surgeons general. In general, the Army, Navy and the surgeons general fear that the inclusion of an HMO option under CHAMPUS may adversely affect the military direct care system. We can understand their concerns but believe that our alternative approach, i.e., testing the concept in a few areas on a limited basis, will enable us to monitor and control the situation, so that it will not adversely impact on the direct care system.

DEPARTMENT OF THE NAVY,
OFFICE OF THE CHIEF OF NAVAL OPERATIONS,
Washington, D.C., October 3, 1980.

Memorandum for the Assistant Secretary of Defense for Health Affairs.

Subject: S. 1903, 95th Congress, a bill "To amend chapter 55 of title 10, United States Code, to authorize the use of health maintenance organizations in providing health care under such chapter, for other purposes."

1. I concur without reservation in the Navy position as expressed in the Navy Office of Legislative Affairs memorandum of 10 September 1980 to the General Counsel, Department of Defense.

J. WILLIAM COX,
Vice Admiral, Medical Corps,
U.S. Navy, Surgeon General.

DEPARTMENT OF THE ARMY,
OFFICE OF THE SURGEON GENERAL,
Washington, D.C., October 3, 1980.

Memorandum for Assistant Secretary of Defense (Health Affairs).
Subject: Health Maintenance Organizations.

In response to your telephone call of last evening, we have once again reviewed the question of utilizing Health Maintenance Organizations as sources of CHAMPUS-funded care for Defense beneficiaries. As a result of that review, we reaffirm the general position stated in our memorandum to you of 19 February 1980 (TAB A). This position is consistent with other Army responses to proposed pieces of legislation (TABs B, C, D).

CHARLES C. PIXLEY,
Lieutenant General, The Surgeon General.

FEBRUARY 19, 1980.

Memorandum for Assistant Secretary of Defense (Health Affairs).
Subject: Health Maintenance Organizations.

Pursuant to our discussion of 5 February 1980, I would like to enumerate a few of my concerns regarding contracting with Health Maintenance Organizations (HMO) to provide care for Defense beneficiaries.

As you know, the Army has never disagreed with the concept of HMO's. Indeed, the Military Health Service System exhibits many of the properties that are commonly attributed to HMO's. But we believe that there are some specific obstacles to be overcome before such a concept could be fruitfully tested within the military environment.

(a) HMO's are based on serving the total health needs of a relatively localized population. While those health needs may depend somewhat upon the locale itself, they are much more so the product of the size and the demographic make-up of the population. For an HMO to be effective, it must know in considerable detail what those population characteristics are, and the population which yields them must be reasonably stable. In the vicinity of their health treatment facilities, the military Services cannot guarantee either condition. If the DEERS enrollment system proves to be effective, the lack of definitive demographic data may be eventually overcome. However, there does not appear to be any immediate solution to the question of population mobility. And the dynamics of that mobility can be dramatic: The final report of the capitation budgeting rendered by McKenzie and Company, noted that in a single year, catchment area population changes ranged from a decrease of 10.7 percent in one instance to an increase of 9.1 percent in another. In the face of such frequent and sizeable variation, it would be unreasonable to expect that an HMO could abide by the contractual terms that would bind it to DOD and to the beneficiary population.

(b) Under applicable portions of Title 10 of the U.S. Code, nonactive duty beneficiaries enjoy a statutory entitlement to receive care from a military facility provided that staff and space capabilities permit. Enrolling such beneficiaries in a pre-paid contractual health care plan would not sever that entitlement. The Federal government could well find itself paying twice for some care for these beneficiaries—once through its share of the prepayment and again through incurring costs in the direct care system for care demanded under that entitlement.

(c) Another dimension of costliness could arise if legislative revision were proffered to preclude enrollees in pre-paid plans from presenting their health care demands to military medical treatment facilities (MTF). As a mission-essential entity, the direct care system exists as a necessary element in the military preparedness posture. In peacetime, consideration of economy demands that the system be used in the most efficient and cost-effective manner possible. Indeed, Congress has repeatedly signalled its intent that the private sector be utilized only when direct care system capabilities are fully employed. To bar access by otherwise-entitled beneficiaries could result in an MTF being operated at other than full efficiency and cost-effectiveness.

(d) We have traditionally viewed the rich mix of patients in Army MTF's as a necessary element of military medical training and readiness. Siphoning off a segment of that case mix into another care system will impair both elements of readiness. I further believe that the absence of this rich mix of patients and their

associated medical care needs would have a negative effect on the retention of medical officers.

Having said all that, I believe that there may nevertheless be a way to explore the utility of pre-paid plans in a fashion which would not conflict with the mandates of military readiness. It is asserted that some 30 percent of the CHAMPUS-eligible population resides outside of 40-mile catchment areas. While some of this population may be widely distributed there are doubtless some concentrations where it might be informative to test the use of contractual HMO services. I am not certain whether current statutes permit such a test. It might be necessary to obtain a legal opinion on the matter.

ENRIQUE MENDEZ, Jr.,
Major General, MC,
Deputy Surgeon General.

DEPARTMENT OF THE ARMY,
OFFICE OF THE SECRETARY OF THE ARMY,
Washington, D.C., November 9, 1977.

Memorandum for: General Counsel, Department of Defense; Attention: Director, Legislative Reference Service.

Information to: Chief of Legislative Affairs, Department of the Navy, and Director Legislative Liaison, Department of the Air Force.

Subject: S. 1903, 95th Congress, a bill "To amend chapter 55 of title 10, United States Code, to authorize the use of health maintenance organizations in providing health care under such chapter, and for other purposes."

1. Reference is made to your memorandum dated 8 September 1977, forwarding for coordination proposed report on subject bill.

2. The Department of the Army does not concur in the proposed report for the reasons set forth in the following paragraphs.

3. In regard to section 1089 of the proposed legislation, the Department of the Army has long questioned the cost-effectiveness of an enrollment system. In a memorandum of 15 March 1974, which forwarded to ASD (H&E) a rebuttal to PBD 180 (fiscal year 1975), the following statement was included: "An enrollment system would be extremely expensive to implement. Estimates range as high as \$60 million for start-up costs for the Services and \$5 to \$10 million annually for maintenance costs. It must be realized that the degree of mobility of the military population would require as many as 500,000 changes to an enrollment system in a given month or 3 million such changes a year." A Deputy Secretary of Defense memorandum of 19 May 1977, subject: Moratorium on the Establishment of DOD Information Collection and Processing Systems and Data Bases, deferred further development of information systems pending a cost versus need analysis. Since the proposed report on subject bill states that the Department of Defense is currently contracting with a private firm to develop an enrollment system, it is presumed that the system is expected to be cost-effective. The Department of the Army recommends, however, that the report be revised to oppose the section 1089 of the proposed legislation pending analysis of the cost-effectiveness of an enrollment system.

4. In regard to section 1090 of the proposed legislation, the Department of the Army believes that the use of health maintenance organizations for the classes of beneficiaries involved is questionable. For example:

(a) By their nature, health maintenance organizations tend to operate in a localized jurisdiction and determine their rate or prepayment according to the size and needs of the population to be served. This requires a reasonably stable local population, which the military services cannot guarantee.

(b) Participation in a prepaid plan may preclude a beneficiary from seeking care in a military facility, even though the military facility may have available capacity.

(c) The proposed legislation permits departure from existing provisions regarding care authorized and cost-sharing arrangements, but does not preclude loss of benefit through decrease in authorized services or increase in beneficiary cost.

In view of these uncertainties, the Department of the Army believes that the proposed legislation is premature. If health maintenance organizations are thought

to be a potentially viable means of providing care to nonactive duty beneficiaries, their suitability should be demonstrated under limited authorization allowing for test only. In addition, such authorization should be contingent upon the existence of a cost-effective enrollment system, if required, and other necessary administrative mechanisms.

5. In view of the foregoing, the Department of the Army recommends that enactment of S. 1903 be opposed.

For the Chief of Legislative Liaison:

JOHN L. NALER
Chief, Investigations and Legislative Division, OCLL.

DEPARTMENT OF THE ARMY,
OFFICE OF THE SECRETARY OF THE ARMY,
Washington, D.C., November 9, 1977.

Memorandum for: General Counsel, Department of Defense. Attention, Director, Legislative Reference Service.

Information to: Chief of Legislative Affairs, Department of the Navy, and Director, Legislative Liaison, Department of the Air Force.

Subject: H.R. 7113 and H.R. 5129, 95th Congress, bills "To amend title 10, United States Code, to authorize the use of health maintenance organizations in providing health care."

1. Reference is made to your memorandums of 28 September 1977, forwarding for coordination proposed reports on subject bills.

2. The Department of the Army is not opposed to use of health maintenance organizations in providing care under the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS); however, the Army does not concur in the proposed reports for the reasons set forth in the following paragraphs:

(a) Provisions of these bills do not limit use of health maintenance organizations to selected areas where uniformed services medical facilities are overburdened. Regardless, participation in a prepaid plan may tend to cause a beneficiary to seek care in a civilian facility, even though a military facility may have available capacity.

(b) The legislation permits departure from existing provisions regarding care authorized and cost-sharing arrangements, but does not preclude loss of benefit through decrease in authorized services or, in the case of H.R. 7113, increase in beneficiary cost.

(c) Authority to vary from presently authorized means of CHAMPUS care should not be limited to health maintenance organizations, but also include other care systems.

(d) Under standard health maintenance organization procedures, a set premium is paid which covers all necessary medical care, whether inpatient or outpatient. Therefore, the statement in both reports that "costs could be expected to stabilize or in many cases be reduced because high-cost, inhospital services would be avoided" is questioned.

(e) The proposed reports give the erroneous impression that CHAMPUS payments are made only to beneficiaries and not providers of care.

3. With reference to S. 1903, referred to in the proposed reports as a more desirable bill, the Army questions the cost-effectiveness of an enrollment system, and is opposed to the mandatory imposition of such a system in the absence of evidence indicating cost-effectiveness.

4. It should be noted that by their nature, health maintenance organizations tend to operate in a localized jurisdiction and determine their rate of prepayment according to the size and needs of the population to be served. This requires a reasonably stable local population, which the military services cannot guarantee.

5. In view of the above, the suitability of health maintenance organizations to provide care to non-active duty beneficiaries should be demonstrated under limited authorization allowing for test only. OASD(HA) and the services should draft legislation to fit DOD requirements.

For the Chief of Legislative Liaison:

JOHN L. NALER,
Chief, Investigations and Legislative Division, OCLL.

DEPARTMENT OF THE ARMY,
OFFICE OF THE SECRETARY OF THE ARMY,
Washington, D.C., April 12, 1978.

Memorandum for: General Counsel, Department of Defense. Attn: Director, Legislative Reference Service.

Information to: Chief of Legislative Affairs, Department of the Navy, and Director, Legislative Liaison, Department of the Air Force.

Subject: S. 1903, 95th Congress, a bill "To amend Chapter 55 of title 10, United States Code, to authorize the use of health maintenance organizations in providing health care under such chapter, and for other purposes."

1. Reference is made to your memorandum, dated 14 March 1978, forwarding for coordination a revised proposed report on subject bill.

2. The Department of the Army does not concur in the proposed report for the reasons set forth in the following paragraphs.

3. In our memorandum of 9 November 1977, regarding the original report on subject legislation, we questioned certain provisions of the bill. The revised report satisfactorily addresses the potential erosion of health care benefits by increased cost sharing, but does not resolve our concern regarding possible underutilization of military treatment facilities. Under the provisions of S. 1903, use of a health maintenance organization (HMO) in the vicinity of a military treatment facility would be authorized only after a determination that the facility is fully utilized and that care furnished by the HMO could not be furnished by the facility without overburdening the facility. Such a determination would not be simple and an unanticipated migration of beneficiaries to the HMO could result in underutilization of the facility. Congress continues to direct utilization of the military direct care system at its constructed capacity. It is also apparent that Congress considers the CHAMPUS as a supplement to, not a replacement for, the military direct care system. Use of HMO's within the proximity of military treatment facilities would be contrary to such direction and policy. Accordingly, the Department of the Army believes that the bill, if further considered, should be modified to prohibit the use of HMO's within the service area of a military treatment facility.

4. In view of the above, and other comments provided in our memorandum of 9 November 1977, the Department of the Army reiterates its belief that the proposed legislation is premature and recommends that its enactment be opposed. In particular, the Department of the Army reemphasizes its earlier position that use of HMO's within the DOD health care system should be demonstrated under limited authorization allowing for test only, rather than through the establishment of broad statutory authorizations.

For the Chief of Legislative Liaison:

JOHN L. NALER,
Chief, Investigations and Legislative Division, OCLL.

DEPARTMENT OF THE ARMY,
OFFICE OF THE SECRETARY OF THE ARMY,
Washington, D.C., July 16, 1980.

Memorandum for: General Counsel, Department of Defense. Attn: Director, Legislative Reference Service.

Information to: Chief of Legislative Affairs, Department of the Navy, and Director, Legislative Liaison, Department of the Air Force.

Subject: S. 1903, 95th Congress, a bill "To amend chapter 55 of title 10, United States Code, to authorize the use of health maintenance organizations in providing health care under such chapter, and for other purposes."

1. Reference is made to your memorandum dated 19 June 1980 forwarding for coordination a proposed report on subject bill.

2. The Department of the Army position concerning S. 1903 was furnished your office by our memorandums dated 9 November 1977, 12 April 1978 and 3 August 1978.

3. It should be noted that there already is a section 1089 in title 10, United States Code, and that the proposed Department of Defense bill fails to include the section heading "Maintenance of list of certain persons eligible for health care under this chapter" in the section amending the chapter analysis. In addition, the section establishing the effective date is unclear. It should be changed to read "The effective date of this Act is October 1, 1981. No contract entered

into under the provisions of this Act shall extend past September 30, 1984, and the final report to Congress shall be made before September 30, 1985," or similar language depending on the intent of the chapter.

For the Chief of Legislative Liaison:

JOHN L. NALER,
Chief, Investigations and Legislative Division, OCLL.

DEPARTMENT OF THE ARMY,
OFFICE OF THE SECRETARY,
Washington, D.C., November 9, 1977.

Memorandum for: General Counsel, Department of Defense. Attention: Director, Legislative Reference Service.

Information to: Chief of Legislative Affairs Department of the Navy, and Director, Legislative Liaison, Department of the Air Force.

Subject: S. 1903, 95th Congress, a bill "To amend chapter 55 of title 10, United States Code, to authorize the use of health maintenance organizations in providing health care under such chapter, and for other purposes."

1. Reference is made to your memorandum dated 8 September 1977, forwarding for coordination proposed report on subject bill.

2. The Department of the Army does not concur in the proposed report for the reasons set forth in the following paragraphs.

3. In regard to section 1089 of the proposed legislation, the Department of the Army has long questioned the cost-effectiveness of an enrollment system. In a memorandum of 15 March 1974, which forwarded to ASD(H&E) a rebuttal to PBD 180 (fiscal year 1975), the following statement was included: "An enrollment system would be extremely expensive to implement. Estimates range as high as \$60 million for start-up costs for the Services and \$5 to \$10 million annually for maintenance costs. It must be realized that the degree of mobility of the military population would require as many as 500,000 changes to an enrollment system in a given month or 3 million such changes a year." A Deputy Secretary of Defense memorandum of 19 May 1977, subject: Moratorium on the Establishment of DOD Information Collection and Processing Systems and Data Bases, deferred further development of information systems pending a cost versus need analysis. Since the proposed report on subject bill states that the Department of Defense is currently contracting with a private firm to develop an enrollment system, it is presumed that the system is expected to be cost-effective. The Department of the Army recommends, however, that the report be revised to oppose the section 1089 of the proposed legislation pending analysis of the cost-effectiveness of an enrollment system.

4. In regard to section 1090 of the proposed legislation, the Department of the Army believes that the use of health maintenance organizations for the classes of beneficiaries involved is questionable. For example:

(a) By their nature, health maintenance organizations tend to operate in a localized jurisdiction and determine their rate of prepayment according to the size and needs of the population, which the military services cannot guarantee.

(b) Participation in a prepaid plan may preclude a beneficiary from seeking care in a military facility, even though the military facility may have available capacity.

(c) The proposed legislation permits departure from existing provisions regarding care authorized and cost-sharing arrangements, but does not preclude loss of benefit through decrease in authorized services or increase in beneficiary cost.

In view of these uncertainties, the Department of the Army believes that the proposed legislation is premature. If health maintenance organizations are thought to be a potentially viable means of providing care to non-active duty beneficiaries, their suitability should be demonstrated under limited authorization allowing for test only. In addition, such authorization should be contingent upon the existence of a cost-effective enrollment system, if required, and other necessary administrative mechanisms.

5. In view of the foregoing, the Department of the Army recommends that enactment of S. 1903 be opposed.

For the Chief of Legislative Liaison:

JOHN L. NALER,
Chief, Investigations and Legislative Division, OCLL.

DEPARTMENT OF THE NAVY,
OFFICE OF LEGISLATIVE AFFAIRS,
Washington D.C., September 10, 1980.

Memorandum for the General Counsel, Department of Defense, Attention, Director, Legislative Reference Service.

Subject: S. 1903,, 95th Congress, a bill "To amend chapter 55 of title 10, United States Code, to authorize the use of health maintenance organizations in providing health care under such chapter, and for other purposes."

Enclosure: (1) Position Paper—HMO: Alternative to the Direct Care System(?)

1. The Department of the Navy does not concur in the proposed report on the subject bill enclosed with the General Counsel, Department of Defense memorandum of 19 June 1980 and recommends nonconcurrence with the proposed legislation for the following reasons:

(a) The Navy is required to maintain fixed facilities, equipment, and a mix of trained professionals in constant readiness to provide active duty care and to maintain contingency capabilities. The greater the number of patients seen in these facilities, the more cost effective these assets become. Therefore, the Navy desires to provide health care from the direct care system to the maximum extent possible. CHAMPUS supplements this direct care system by providing services which may be temporarily not available. The HMO, however, contract for full-service health care, thereby losing the individual to other services which may be available in the direct care system.

(b) If the experiment is successful in a controlled study not impacting upon the direct care system, pressure may be exerted in other areas for an HMO option where the direct care system will be adversely affected.

(c) Other federally-related programs should not be used as comparison with the direct care system, since these other programs do not maintain fixed assets.

(d) There is no assurance that the HMO experiment will not cost the Department of Defense more than the present CHAMPUS system for existing benefits.

(e) There is no built-in safeguard to prevent an increase in beneficiary cost-sharing.

(f) The subject bill would further exacerbate the perceived loss of benefits by eligible beneficiaries which could impact upon future recruiting and retention of personnel.

(g) Continued improvement of the present system of direct care coupled with CHAMPUS is preferable to introduction of another competing HMO that could adversely affect the Navy medical department's ability to respond to military contingencies.

2. Enclosure (1) contains previous comments prepared on the subject proposed legislation. It was forwarded to the Assistant Secretary of Defense (Health Affairs) on 12 February 1980 in response to his request for information regarding the use of HMOs in the military health care system.

3. Finally, the following technical corrections are submitted for consideration: (a) The Act of October 8, 1976, Public Law 94-464, 90 Stat. 1985, was codified as 10 U.S.C. 1089. Accordingly, the sections that subject bill would add to chapter 55 of title 10, United States Code, should now be designated "1090" and "1091" in place of "1089" and "1090", respectively.

(b) The provision of the bill which would amend the chapter analysis of chapter 55 of title 10, United States Code, should be amended to read:

"1090. Maintenance of list of certain persons eligible for health care under this chapter."

"1091. Use of certain organizations."

(c) It is recommended that the bill amend the references to "sections 1071-1087" in 10 U.S.C. 1071, 1072, and 1073 (1976) to read "chapter 55."

(d) In addition, the letter to the Chairman, Committee on Armed Services, should be revised to note that the references to sections "1089" and "1090" should be to sections "1090" and "1091", respectively.

L. C. LAITSCH,
Captain, JAGC, U.S. Navy,
Director, Legislation.

HMO: ALTERNATIVE TO THE DIRECT CARE SYSTEM (?)

ISSUE

The Congress has, over the past several years, initiated actions to provide HMO services to beneficiaries of the Uniformed Services Health Care Systems. ASD-(HA) has requested position statements on this issue from the three Services.

BACKGROUND

S. 1903 was introduced by Senator Henry Jackson in July, 1977. The purpose of the bill was to "amend Chapter 55 of title 10, United States Code, to authorize the use of health maintenance organizations in providing health care under such Chapter, and for other purposes." The bill addresses the enrollment concept, capitation budgeting, and the use of HMO's in the military health care systems.

DISCUSSION

The bills which have been proposed in the past have been intended to offer an alternative to the CHAMPUS program. There are two populations to which such a program could apply; those who reside within the 40 mile radius of a military facility who use CHAMPUS only when a service is temporarily not available, and those who live outside the 40 mile radius who use CHAMPUS for all health care services. The CHAMPUS program acts as a supplement to the direct care system. Within the 40 mile radius, it acts as a temporary relief system when specific services are curtailed. This dynamic relationship between the direct care system and CHAMPUS is absolutely essential to the maintenance of the contingency response base of the Navy Medical Department for its allows the direct care system to retain eligible beneficiaries for all other health care service needs. The patient is referred to CHAMPUS only when a specific requirement cannot be met by the direct care system. Because of this dynamic relationship, beneficiaries residing within the 40 mile radius flow into and out of the direct care system as a function of available resources and the health professional manpower mix. If an alternative health care system was made available to those persons residing within the 40 mile radius, and caused them to disengage from the direct care system, the effects of that system would be serious. In order to maintain a trained manpower base for response to contingencies, it is necessary to have a diverse beneficiary population receiving care in our facilities. Wholesale disengagement from the direct care system would seriously dilute the mix of patients treated and therefore degrade the training of the health care team. Additionally, as beneficiaries disengage from the system, the cost per patient treated begins to rise. Since the fixed costs cannot be avoided (i.e. the facilities must be in place to receive contingency casualties), the operating cost per patient may become prohibitive, eventually forcing SER actions and closures.

Beneficiaries who reside outside the 40 mile radius, for all practical purposes, receive all of their health services through the CHAMPUS program. These beneficiaries are considered disengaged for the period that they reside in a place remote from a direct care facility.

ALTERNATIVE

For reasons outlined above, it is not feasible, at this time, to test this concept for a group of beneficiaries residing outside the 40 mile radius of Uniformed Service Health Care Facility. It must be recognized that such a test, if successful, could prove to be a "foot-in-the-door" with subsequent system-wide expansion difficult to avert. The military health care system, the direct care system supplemented by CHAMPUS, is structured to serve both the benefit and contingency missions. The emphasis should be placed on improvements in this system prior to introducing a third element which could have the impact of diluting and reducing mission and cost effectiveness of the current system. In summary, the direct care system and CHAMPUS complement each other. Improvement in this system is vastly preferable to the introduction of an alternative that adversely affects the necessary military medical readiness and training required to be prepared for contingencies.

RECOMMENDATION

Nonconcur with the proposed legislation.

DEPARTMENT OF THE AIR FORCE,
HEADQUARTERS, U.S. AIR FORCE,
Bolling AFB, D.C., October 3, 1980.

Memorandum for Assistant Secretary of Defense (Health Affairs).
Subject: Your Request for Air Force Surgeon General's Position Concerning Health Maintenance Organizations (HMO)—Information Memorandum.
Per your request, the following direct reply concerning the Air Force Surgeon General's position on Health Maintenance Organizations is provided.

The Air Force Surgeon General nonconcurs in the overall Air Force position concerning Health Maintenance Organizations. Under any prescribed format, the HMO concept will divert resources of all nature away from the readiness mission and subsequently the direct care system. Although we recognize the value of health maintenance organizations as an important component of a national health system, military readiness requirements dictate that we maintain the integrity and capability of the Uniformed Services health care system. Furthermore, there is a pressing need for formal recognition of the peacetime Uniformed Services health benefits mission. The peacetime health care benefit is viewed by our beneficiaries as a form of compensation for past or present military service.

In the past several months significant strides have been taken to improve the overall CHAMPUS program. Many other improvements are still needed. Contracting with a Health Maintenance Organizations, even on an experimental test basis, can only serve to both undermine recent management initiatives to improve CHAMPUS and to further confuse our beneficiaries. As previously stated, we continue to have reservations concerning the following areas:

(a) The concept of involving DOD beneficiaries in HMO, even on a voluntary basis, may disrupt care in the military medical treatment facilities and under CHAMPUS to such a degree that irreparable repercussions could arise. Ramifications of testing HMOs may prove disruptive to workload estimates and budget determinations, and create another payment plan under CHAMPUS for HMOs, all of which could cause havoc to our present system.

(b) Participation in a prepaid plan may preclude a beneficiary from seeking care in a military facility, even though the military facility may have the available capability. It would also degrade the efficiency of the aeromedical evacuation system.

(c) By their nature, health maintenance organizations tend to operate in a localized jurisdiction and determine their rate of prepayment according to the size and needs of the population to be served. This requires a reasonably stable local population which the military services cannot guarantee.

MURPHY A. CHESNEY,
Maj. General, USAF, MC,
Deputy Surgeon General.

DEPARTMENT OF THE AIR FORCE,
OFFICE OF THE SECRETARY,
Washington, D.C., October 3, 1980.

Memorandum for the General Counsel, Department of Defense. Attention: Director, Legislative Reference Service.

Information to Chief of Legislative Liaison, Department of the Army, and Chief of Legislative Affairs, Department of the Navy.

Subject: S. 1903, 95th Congress, a bill "To amend chapter 55 of title 10, United States Code, to authorize the use of health maintenance organizations in providing health care under such chapter, and for other purposes."

Reference: Department of Defense memorandum dated June 19, 1980, same subject.

The Department of the Air Force has reviewed the proposed DOD report to the Chairman, Committee on Armed Services, U.S. House of Representatives and concurs in the concept of a limited test approach under carefully prescribed conditions, rather than the broad statutory mandate that is contained in S. 1903. We recognize the value of health maintenance organizations as an important component of a national health care system. However, military readiness requirements dictate that we maintain the integrity and capability of the Uniformed Services health care system. The HMO alternative must be viewed as an alternative to CHAMPUS and not the direct care system.

(a) While the DOD report specifically addresses the loss of beneficiaries from the Uniformed Services health care system both the proposed DOD alternative legislation and S. 1903 fail to provide for the protection of these facilities from intrusion by an HMO. Recommend that language be added to the proposed alternative legislation to specifically prohibit the use of the HMO alternative within 80 miles of any Uniformed Services medical facility.

(b) The report states that the Department of Defense would only contract with an HMO which would "guarantee equal or greater medical benefits than presently provided for in the existing CHAMPUS law." However, the proposed legislative alternative provided for restrictions against "prosthetic devices, spectacles etc." Recommend these restrictions on the level of benefits be provided under the

HMO alternative be removed. There already exist statutory provisions for the basic level of benefits that all federally recognized HMO's must provide.

(c) The report and the alternative legislative proposal both fail to address the very sensitive subject of voluntary vs involuntary beneficiary enrollment. It is essential that any demonstration of the HMO alternative must be on a strictly voluntary basis. The beneficiary should be allowed the choice between remaining with CHAMPUS and selecting the HMO alternative. Furthermore, this "dual choice" protection should be provided for in the proposed alternative legislation.

The report addresses the two primary problems associated with the concept of offering our beneficiaries the alternative of enrolling in a HMO: (a) possible decrease in the level of benefits, and (b) loss of beneficiaries from the direct care system. However, neither S. 1903 or the DOD alternative legislative proposal provide adequate protection against these two major problem areas.

Lieutenant Colonel Phil O'Neill, SAFLLL, extension 74738, is the action officer for this agency. The Air Staff action officer is Captain Stephen H. Noble, AF/SGHA, extension 767-5066, who should be contacted to discuss technical aspects of this legislation.

LARRY W. SHREVE, Colonel, USAF,
Chief, Legislation Division,
Office of Legislative Liaison.

GENERAL COUNSEL OF THE DEPARTMENT OF DEFENSE,
Washington, D.C., October 9, 1980.

HON. JOHN C. STENNIS,
Chairman, Committee on Armed Services,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Reference is made to your request for the views of the Department of Defense on S. 1903, 95th Congress, a bill "To amend chapter 55 of title 10, United States Code, to authorize the use of health maintenance organizations in providing health care under such chapter, and for other purposes."

The bill establishes two new sections in chapter 55 of title 10, United States Code.

Section 1089 would require the Secretary of Defense to maintain a list of all persons (other than active duty members of the uniformed services) who are currently eligible for medical or dental care under the provisions of chapter 55. In order for a person to be furnished medical or dental care under that chapter his or her name must appear on this list of eligibles. Any person otherwise eligible for care could have his or her name added to the list at any time that person applies for or is furnished care.

We have no objection to this provision and are currently taking steps to implement such a mechanism within the Department. The system is called the Defense Enrollment/Eligibility Reporting System; and it is currently operational in the Tidewater area of Virginia and will be operating in California, Nevada, Oregon, North Carolina, South Carolina, Mississippi, Louisiana and parts of Alabama. By the end of Fiscal Year 1982, we hope to be fully operational in all of the continental United States; and by the beginning of Fiscal Year 1984 worldwide operation should commence.

Section 1090 would authorize the Secretary of Defense, after consulting with the Secretary of Health and Human Services, to contract with one or more health maintenance organizations to provide health care services to persons eligible for medical or dental care under sections 1079 and 1086 of title 10. The bill establishes certain conditions that must be met before contracts can be entered into with selected health maintenance organizations.

(1) The Secretary of Defense must develop a system of monitoring that will make an accurate assessment of the per capita cost to the Government of providing health benefits to eligible persons under the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) in the area to be served under the contract; and

(2) The Secretary of Defense must survey the capability of existing military medical facilities in the area to be served under the health maintenance organization contract to determine that the medical facilities do not have the capacity to provide health care.

The provisions of a contract with a health maintenance organization could deviate from other normally required cost-sharing arrangements and the types of health care authorized under CHAMPUS.

Under the current provisions of Public Law 89-614 (Chapter 55 of title 10, United States Code), the spouses and children of active duty members of the uniformed services, retired members and their spouses and children, and the surviving dependents of deceased active duty and retired members may obtain health care from the uniformed services medical facilities subject to the availability of space and resources or they may be provided financial assistance to defray the expense of health care obtained from civilian sources. This latter function has been carried out under CHAMPUS, which reimburses the eligible person or health care provider on a post-care basis. That is to say, the services must have been delivered before financial assistance can be extended.

Health maintenance organizations are health care delivery systems whereby individuals enroll for a specified period and pay set fees in advance. This prepayment entitles the enrollees to a comprehensive package of medical services which includes both ambulatory and inpatient care. This prepayment of fees fixes the revenue of the health maintenance organization and creates an incentive to promote the health of enrolled members and thereby avoid expensive services that result when illnesses occur.

Other Federally-funded programs have already recognized the value of the health maintenance organization concept. Medicare and Medicaid are authorized under Public Law 93-603 to reimburse health maintenance organizations for services provided to their beneficiaries. The Office of Personnel Management has also been authorized by Public Law 94-460 to contract with health maintenance organizations for the purpose of offering Federal employees the option of enrolling in a health maintenance organization if they so desire.

Further, in 1973, there was a considered decision on the part of Congress to provide financial assistance and encouragement for the establishment and expansion of health maintenance organizations when Public Law 93-222 was enacted to amend the Public Health Service Act. In 1976 Public Law 94-460 was enacted to further amend the Public Health Service Act in order to further stimulate the development of health maintenance organizations throughout the United States.

The enactment of this bill would permit CHAMPUS to do several things; first, it would be able to offer its beneficiaries the opportunity to choose—on a voluntary basis—the health maintenance organization as a source of their medical care in selected areas where the uniformed services medical facilities are completely overburdened or nonexistent and thereby might be expected to produce some cost savings as compared to the available fee-for-service civilian medical care. Secondly, it would afford CHAMPUS the opportunity to initiate contracts with health maintenance organizations as have other Federal-sponsored health care programs.

Because of their fundamental operational design and method of providing continuing health care, health maintenance organizations operate within a localized jurisdiction and determine their rate of prepayment according to the size and needs of the population to be served. This requires a reasonably stable local population. Such a population is not consistently available when active duty dependents are included as a major portion of the potential CHAMPUS-sponsored health maintenance organization enrollee group. Similarly, military hospital treatment capabilities for patients may vary with respect to areas of diagnostic specialties and the seasons of the year. Couple this to the existing 40-mile radius requirement to seek non-emergency inpatient care at the uniformed services hospital as required by the Defense Appropriations Act and it becomes most difficult to establish a stabilized health maintenance organization population, since uniformed services facilities must for the sake of economy be utilized to the fullest possible extent.

CHAMPUS payments to civilian fee-for-service providers now serve to handle the overflow of patients from uniformed services hospitals in their surrounding areas for both active duty dependents and the retired members and their families. The Department of Defense plans to contract only with health maintenance organizations which guarantee equal or greater medical benefits than are presently provided for in the existing CHAMPUS law.

The health maintenance organization concept under CHAMPUS may be advantageous in those specific locations within the United States where uniformed services medical facilities are beyond a reasonable driving distance and where the eligible population is composed of relatively stable and community-established, retired Service families. Several entire states would fall under these criteria. Selection of an effectively operating health maintenance organization, approved under Department of Health and Human Services criteria, at a considerable distance from any major military health care facility would provide a reasonable

test program site for the evaluation of this mode of delivering health care to Service families. However, prior to negotiation with any selected operating health maintenance organization, all military families living in the catchment area would have to be enrolled and surveyed as to their desires regarding participation in such a plan. It will necessarily take time to establish and to accomplish a well-controlled health maintenance organization test program. Because of these considerations, a broad statutory authorization as provided in this bill seem premature. A more limited experimental approach to establish feasibility is enclosed in the attached legislative proposal prepared by the Department of Defense for your consideration. Enactment of this proposed substitute legislation would enable the Department of Defense to determine the economic efficiency and efficacy of this form of health care delivery to our military families.

It should also be noted that the report of the President's Commission on Military Compensation has recommended that a thorough study of cost-effective ways to deliver adequate health care and fair benefit levels to members of the uniformed services and their dependents be conducted. The proposed legislation for a health maintenance organization test program advocated in the preceding paragraphs would appear to be in consonance with these recommendations, and would provide actual beneficiary experience data and operating cost comparisons to other health care delivery systems.

COST AND BUDGET DATA

The enactment of this bill would cause an increase in that portion of the program's expenditures for administration. However, there would be offsetting reductions in the amount of money spent for health services as duplications, abuses, etc., were eliminated from beneficiary payments.

There would also be some cost reductions expected through the health maintenance organizations provisions. As beneficiaries chose to enroll in a health maintenance organization, costs could be expected to stabilize or in other cases be reduced because high-cost, in-hospital services would be avoided. Therefore, the overall budgetary impact of the enactment of this bill cannot be accurately predicted until limited health maintenance organization field tests are completed in conjunction with an operating enrollment system.

The Department of Defense favors limited implementation on a test basis of a few health maintenance organization contracts to prove feasibility as provided under the attached alternative legislative proposal.

The Office of Management and Budget advises that, from the standpoint of the Administration's program, there is no objection to the presentation of this report for the consideration of the Committee.

Sincerely,

TOGO D. WEST, JR.

Enclosure.

A BILL To amend title 10, United States Code, to authorize experiments and demonstration projects under certain insurance, medical service, or health plans

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That chapter 55 of title 10, United States Code, is amended as follows:

(1) By adding the following new section at the end thereof:

"§ 1090. *Use of certain organizations*

"(a) In carrying out the provisions of sections 1079 and 1086 of this title, the Secretary of Defense, after consulting with the Secretary of Health and Human Services, may contract, under the authority of this section, with organizations that assume responsibility for the maintenance of health of a defined population, for the purpose of carrying out experiments and demonstration projects designed to determine the relative advantages and disadvantages of various alternative methods of providing health benefits under this chapter. Such experiments and demonstration projects may also be designed to determine methods of reducing the costs of health benefits provided under this title without adversely affecting the quality of care. Except as provided otherwise in subsection (b) the provisions of such a contract may deviate from the cost-sharing arrangements prescribed and the types of health care authorized under sections 1079 and 1086 of this title when the Secretary of Defense determines that such a deviation would serve the purpose of this section.

"(b) No contract shall be entered into pursuant to this section under which the Government's share of the cost of benefits to be provided would exceed 85 per centum of the total cost of such benefits.

"(c) No more than five thousand families covered by sections 1079 or 1086 of this title may be covered at any one time by contracts entered into pursuant to this section.

"(d) Experiments and demonstration projects carried out under this section shall not exceed three years in duration.

"(e) The Secretary of Defense shall report to the Committees on Armed Services of the Senate and House of Representatives his conclusions and recommendations, if any, regarding each experiment and demonstration project carried out under this section. Such reports shall be submitted not later than one year following the completion of the experiment or demonstration project."

(2) The analysis is amended by adding the following item:

"1090. Use of certain organizations."

SEC. 2. This Act takes effect on October 1, 1981, and shall terminate on October 1, 1985.

Senator NUNN. Do you have any penetrating questions that should have been asked that you would like to answer?

Mr. WOOD. No. I would like to assure you that I am as concerned as you are about the administration of CHAMPUS and we are working on straightening it out. I think we are making significant progress.

Senator NUNN. I am glad to hear that. I know in any kind of massive program, whether it is an insurance company or in the Government like this, it is difficult. I don't minimize the difficulty. I am glad you are optimistic about the progress being made. Thank you.

Mr. WOOD. Thank you.

Senator NUNN. Our next witness is Richard Danzig, Principal Deputy Assistant Secretary of Defense for Manpower, Reserve Affairs and Logistics.

Mr. Murray, do you want to testify with Mr. Danzig or do you want to appear separately?

Mr. MURRAY. Separately.

[The bill H.R. 7626 follows:]

[H.R. 7626, 96th Congress, 2d session]

AN ACT To amend title 37, United States Code, to improve certain special pay and allowance benefits for members of the uniformed services, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SHORT TITLE

SECTION 1. This Act may be cited as the "Military Pay and Allowances Benefits Act of 1980".

SPECIAL PAY FOR SUBMARINE OR NUCLEAR DUTY

SEC. 2. (a)(1) Subsection (a) of section 312 of title 37, United States Code, is amended by striking out "5,000" and "4,000" and inserting in lieu thereof "\$6,250" and "\$5,000", respectively.

(2) Subsection (e) of such section is amended by striking out "September 30, 1981" and inserting in lieu thereof "September 30, 1983".

(b)(1) Subsection (a) of section 312b of such title is amended by striking out "\$3,000" and inserting in lieu thereof "\$5,000".

(2) Subsection (c) of such section is amended by striking out "September 30, 1981" and inserting in lieu thereof "September 30, 1983".

(c)(1) Subsection (a) of section 312c of such title is amended by striking out "\$4,000 for each nuclear service year beginning after September 30, 1975, and ending before October 1, 1981" and inserting in lieu thereof "\$5,000 for each nuclear service year ending before October 1, 1983".

(2) Subsection (b) of such section is amended by striking out "\$2,400 for each nuclear service year beginning after September 30, 1978, and ending before October 1, 1981" and inserting in lieu thereof "\$3,000 for each nuclear service year ending before October 1, 1983".

- (3) Subsection (e) of such section is amended to read as follows:
 "(e) For the purposes of this section, a 'nuclear service year' is any fiscal year beginning before October 1, 1983."
- (d)(1) Paragraph (1) of section 301(b) of such title is amended—
 (A) by inserting "or (2)" after "clause (1)";
 (B) by striking out "a member" and inserting in lieu thereof "an enlisted member"; and
 (C) by striking out the center heading "ENLISTED MEMBERS" before the table in such paragraph. (2) Paragraph (2) of such section is amended—
 (A) by inserting "as an officer" after "For the performance";
 (B) by striking out "or (3)"; and
 (C) by striking out "section", and inserting in lieu thereof "section or for the performance of the hazardous duty described in clause (3) of such subsection."
- (e)(1) The amendments made by subsection (a)(1) shall apply only with respect to active-duty agreements under section 312 of title 37, United States Code, executed after September 30, 1980.
 (2) The amendment made by subsection (b)(1) shall apply only with respect to training completed after September 30, 1980.
 (3) The amendments made by subsections (a)(2), (b)(2), and (c) shall take effect on October 1, 1980.
 (4) The amendments made by subsection (d) shall apply only to payment of monthly incentive pay for months after September 1980.

INCENTIVES FOR ENLISTED MEMBERS TO EXTEND TOURS OF DUTY OVERSEAS

SEC. 3. (a)(1) Chapter 5 of title 37, United States Code, is amended by adding at the end thereof the following new section:

"§ 314. Special pay: qualified enlisted members extending duty at designated locations overseas

"(a) Under regulations prescribed by the Secretary concerned, an enlisted member of an armed force who—

"(1) is entitled to basic pay;

"(2) has a specialty that is designated by the Secretary concerned for the purposes of this section;

"(3) has completed a tour of duty (as defined in accordance with regulations prescribed by the Secretary concerned) at a location outside the 48 contiguous States and the District of Columbia that is designated by the Secretary concerned for the purposes of this section; and

"(4) at the end of that tour of duty executes an agreement to extend that tour for a period of not less than one year;
 is entitled, upon acceptance of the agreement providing for such extension by the Secretary concerned, to special pay for duty performed during the period of the extension at a rate of not more than \$50 per month, as prescribed by the Secretary concerned.

"(b) A member who elects to receive rest and recuperative absence or transportation at Government expense, or any combination thereof, under section 705 of title 10 is not entitled to the special pay authorized by this section for the period of extension of duty for which the rest and recuperative absence or transportation is authorized."

(2) The table of sections at the beginning of such chapter is amended by adding at the end thereof the following new item:

"314. Special pay: qualified enlisted members extending duty at designated locations overseas."

(b)(1) Chapter 40 of title 10, United States Code, is amended by adding at the end thereof the following new section:

"§ 705. Rest and recuperative absence for qualified enlisted members extending duty at designated locations overseas

"(a) Under regulations prescribed by the Secretary concerned, an enlisted member of an armed force who—

"(1) is entitled to basic pay;

"(2) has a specialty that is designated by the Secretary concerned for the purposes of this section;

"(3) has completed a tour of duty (as defined in accordance with regulations prescribed by the Secretary concerned) at a location outside the 48 contiguous

States and the District of Columbia that is designated by the Secretary concerned for the purposes of this section; and

"(4) at the end of that tour of duty executes an agreement to extend that tour for a period of not less than one year; may, in lieu of receiving special pay under section 314 of title 37 for duty performed during such extension of duty, elect to receive one of the benefits specified in subsection (b). Receipt of any such benefit is in addition to any other leave or transportation to which the member may be entitled.

"(b) The benefits authorized by subsection (a) are—

"(1) a period of rest and recuperative absence for not more than 30 days;

"(2) a period of rest and recuperative absence for not more than 15 days and round-trip transportation at Government expense from the location of the extended tour of duty to the nearest port in the 48 contiguous States and return; or

"(3) round-trip transportation at Government expense of the member and the member's dependents from the location of the extended tour of duty to the nearest port in the 48 contiguous States and return."

(2) The table of sections at the beginning of such chapter is amended by adding at the end thereof the following new item:

"705. Rest and recuperative absence for qualified enlisted members extending duty at designated locations overseas."

(c) Section 314 of title 37, United States Code, as added by subsection (a), shall take effect on October 1, 1980, and shall apply to periods of extended duty overseas beginning before, on, or after such date, but no payment may be made under such section for any month before October 1980. Section 705 of title 10, United States Code, as added by subsection (b), shall take effect on October 1, 1980, and shall apply only with respect to periods of extended duty overseas beginning after September 30, 1980.

BASIC ALLOWANCE FOR QUARTERS IN LIEU OF ASSIGNED QUARTERS FOR CERTAIN MEMBERS WITHOUT DEPENDENTS

SEC. 4. (a) The second sentence of subsection (b) of section 403 of title 37, United States Code, is amended by striking out "commissioned officer" and "O-3" and inserting in lieu thereof "member" and "E-6", respectively.

(b) Subsection (c) of such section is amended to read as follows:

"(c)(1) A member of a uniformed service without dependents is not entitled to a basic allowance for quarters while he is on filed duty unless his commanding officer certifies that the member was necessarily required to procure quarters at his expense.

"(2) A member of a uniformed service without dependents who is in a pay grade below pay grade E-7 is not entitled to a basic allowance for quarters while he is on sea duty. A member of a uniformed service without dependents who is in a pay grade above E-6 and who is on sea duty is not entitled to a basic allowance for quarters while the unit to which he is assigned is deployed for a period in excess of 90 days.

"(3) For the purposes of this subsection, duty for a period of less than three months is not considered to be field duty or sea duty."

(c) The amendments made by this section shall only apply to payment of basic allowance for quarters for months after September 1980.

CHARGES FOR PARKING FACILITIES FOR HOUSE TRAILERS AND MOBILE HOMES

SEC. 5. Section 403 of title 37, United States Code, is amended by adding at the end the following new subsection:

"(k) Parking facilities (including utility connections) provided members of the uniformed services for house trailers and mobile homes not owned by the Government shall not be considered to be quarters for the purposes of this section or any other provision of law. Any fee established by the Government for the use of such a facility shall be established in an amount sufficient to cover the cost of maintenance, services, and utilities and to amortize the cost of construction of the facility over the 15-year period beginning with the completion of such construction."

PERMANENT AUTHORITY FOR SUBSISTENCE ALLOWANCES FOR MEMBERS OF MARINE
OFFICER CANDIDATE PROGRAMS

Sec. 6. Section 209(d) of title 37, United States Code, relating to members of precommissioning programs, is amended—

- (1) by striking out "(1)" before "Except when"; and
- (2) by striking out paragraph (2).

Passed the House of Representatives September 15, 1980.

Attest:

EDMUND L. HENSHAW, JR.,
Clerk.

By W. RAYMOND COLLEY,
Deputy Clerk.

Senator NUNN. Mr. Danzig, we will be glad to receive your opening statement.

**STATEMENT OF RICHARD DANZIG, PRINCIPAL DEPUTY TO THE
ASSISTANT SECRETARY OF DEFENSE FOR MANPOWER, RE-
SERVE AFFAIRS AND LOGISTICS**

Mr. DANZIG. If you prefer, I will submit my opening statement for the record and just make a couple of brief observations.

Senator NUNN. That will be fine.

[Information follows:]

PREPARED STATEMENT OF MR. RICHARD DANZIG, PRINCIPAL DEPUTY TO THE
ASSISTANT SECRETARY OF DEFENSE FOR MANPOWER, RESERVE AFFAIRS AND
LOGISTICS

Dear Mr. Chairman and Members of the committee, I am Mr. Richard Danzig, the Principal Deputy to the Assistant Secretary of Defense for Manpower, Reserve Affairs and Logistics. I am pleased to appear before you today to discuss Military Compensation initiatives that have been included in H.R. 7626 or that may otherwise be a part of the President's Fair Benefits Program.

Mr. Chairman, H.R. 7626 is, in our judgment, a commendable contribution to our continuing efforts to bring military benefits to their proper level. I will comment this morning on each of the particulars associated with the Bill and shall, with some relatively minor provisos, endorse it as a whole. Before doing that, however, Mr. Chairman, I must signal one serious concern. The Administration's only major concern with H.R. 7626 is that in its treatment of submarine and nuclear officer pay, this Bill ought not to preempt other more substantial initiatives in sea and submarine pay that the Administration will soon be presenting in Congress.

We appreciate, Mr. Chairman, the efforts of members on this committee, the House Armed Services Committee, and elsewhere in the Congress to enact the President's Fair Benefits Package and other proposals that enhance the pay and benefits of members of the Armed Services. We are, however, so concerned with the circumstances of sailors at sea, and particularly submariners, that we do not believe that the proposals in the Fair Benefits Package, in the Nunn-Warner Bill, and even in H.R. 7626 are in and of themselves sufficient to assure adequate manning and suitable compensation for this very special subset of servicemembers.

For this reason, the Administration will be proposing in this area major initiatives involving annual expenditures in the range of \$150 million or more. We recognize that the Congress will not have an opportunity to address the President's proposals on this subject before it recesses next week, but we would hope, Mr. Chairman, to work with your staff so as to develop these particulars before Congress meets again. Our primary concern today is to be sure that the commendable steps in H.R. 7626 not be mistaken as sufficient—that the beginning of efforts in this area not be thought of as the end of the President's program. To highlight our concern, I have with me Mr. Robert Murray, Undersecretary of the Navy, and Admiral James Watkins, Vice Chief of Naval Operations, and after I have concluded my comments on H.R. 7626, I will, with your permission, ask them to

provide you with a description of those Navy problems which in our judgment warrant a larger effort.

With respect to the bill immediately before us, I will address each of the seven proposals in turn.

First, the bill contains a provision to increase the level of nuclear-qualified officer continuation pay, the nuclear career accession bonus, and the nuclear career annual incentive bonus by 25 percent. We estimate that this will cost \$2.5 million for fiscal year 1981. This will assist the Navy in retaining adequate numbers of officers for our nuclear ships.

We are experiencing an unanticipated drop in retention for these officers. The projected figure for fiscal year 1980 is 34 percent, down from the 42 percent experienced for fiscal year 1979. One consequence of this is that an officer now entering the nuclear field can expect to spend 15 of the next 18 years at sea. The manning situation is further exacerbated by difficulties in obtaining volunteers for nuclear duty. We believe that the proposal contained in H.R. 7626 will be of significant assistance to the Navy in stabilizing the nuclear-trained officer community. We support this provision because it is a clear signal to our nuclear officers that we are taking positive action to retain them.

The second issue that I would like to discuss is the provision to increase enlisted submarine pay by 25 percent. The level of this pay has not been increased since 1955, when it was established at dollar levels that then approximated 45 percent of basic pay. These levels now represent about 12 percent of basic pay. As a result, hazardous duty incentive pay has lost most of its inducement value for duty aboard submarines. Presently, the submarine force is approximately 9 percent short of its career enlisted submariner requirements. Additionally, highly trained servicemembers most sought after by industry. We believe that it is imperative that we take immediate action to improve retention in this area, and urge enactment of this provision for this reason. The cost approximates \$5 million.

The third provision that I would like to discuss concerns eligibility for a basic allowance for quarters (BAQ) for servicemembers who have no dependents. Recognizing considerable imprecision in these figures, we estimate the cost of this to be \$26 million in BAQ and an additional \$7 million in VHA. Currently, if government quarters are available, all enlisted men without dependents and officers below the grade of O-4 are not entitled to a BAQ. This situation generates real inequities and frustrations for single servicemembers who seek more privacy or the economic advantages of home ownership. Therefore, we support the initiative to extend the BAQ option that now accrues to O-4 and above to E-7 and above.

We do, however, request a change in this provision to make this privilege discretionary rather than an entitlement. We originally proposed this provision before the Variable Housing Allowance was enacted. That allowance will diminish the pool of those choosing to live in quarters. Further, it will compound costs for the government to the extent that any of the approximately 60,000 eligible E-7's to O-3's take advantage of the provision in H.R. 7626. Given the uncertainty of the financial impact of this provision and to ensure that the Department can best manage its overall housing program, we request that H.R. 6726 be revised to make this provision discretionary on the decision of the Secretary of Defense. Additionally, the Department of Defense would benefit from the flexibility to invoke this authority, since there are situations involving a military necessity to house personnel on base to accomplish the Defense mission. Should you agree and revise the wording accordingly, and if this provision is subsequently enacted, our intention is to grant it liberally.

The fourth provision which we also support is a sub-issue of the "BAQ option for E-7 and above", and it deals with personnel who are assigned to sea duty. Currently, the law precludes a servicemember without dependents from receiving a BAQ while assigned to sea duty—even if his ship may be coming and in out of the port where he has housing on land. This provision of law is a significant disincentive for sea duty and ought to be corrected. A Navy lieutenant, for instance, who is attached to a naval base and receives a BAQ because quarters are not available would suffer a reduction in compensation of approximately \$3,000 per year by going on sea duty.

The provision in H.R. 7626 that addresses this problem would extend to service members E-7 and above who are on sea duty the same BAQ entitlement option that accrues to members who are not on sea duty. We estimate that approximately 3,600 service members (3200 officers and 400 enlisted) would be affected at an estimated cost of \$6 million for fiscal year 1981. This entitlement would terminate for these recipients if the ship to which they were attached was out of its home port for more than 90 days.

The fifth item in this bill is a provision to establish incentives for certain designated personnel who would extend their tours overseas. The Services, particularly the Army, have observed that there are certain job codes for which there are more requirements overseas than in the contiguous United States. For all the Services, this affects about 30,000 oversea enlisted positions. This causes some undesirable effects among the service members affected. For instance, the time between overseas tours is shortened considerably (12 to 24 months compared to 30 months for a person not in such an occupational specialty). The instant proposal would ameliorate this situation by inducing service members in these positions to extend their tours overseas in exchange for a special pay of \$50 per month, or some agreed upon combination of rest and recuperative absence and transportation at Government expense. Survey data collected by the Army during 1978-79 indicated that the short turnaround time was a principal concern with more than 50 percent of Army personnel. The Services estimate that the proposed incentives could induce over 6,000 tour extensions during FY 1981. An attractive feature of this proposal is that the relatively small amount invested in incentives (\$4.3 million) would result in much great-PCS cost Avoidance Savings (\$23.2 million). Accordingly, we support enactment of this provision.

The sixth item deals with the rental fees charged to service members for mobile home spaces. The DOD provides trailer pads only when adequate facilities are not available on the local economy. The Congress initially authorized the present method of rental rate computation which amortizes the construction costs of the trailer facilities over a 15-year period (taking account of pro rata costs of operations, maintenance, and utilities). Thus, Government costs are covered and appear to comply with the intent of Congress. However, a Department of Justice opinion has indicated that the definition of "quarters" should be extended to include trailer pads. The implication of this opinion is that the DOD should charge service members a rental fee comparable with those that would be charged by a private concern rather than by the above formula. This almost certainly would result in significant increases in the rental fees being paid by approximately 6,000 service members who park their trailers on military property. We believe that this would constitute a major change in prior practice and would be an effective reduction in the pay of the majority of trailer owners. This issue has remained unresolved since 1977. In enacting this provision, mobile home spaces would be removed from the definition of quarters, and thus allow the Services to continue charging trailer pad rentals in the present manner. No additional costs would result from this proposal. We support this provision.

The final item concerns the \$100 per month subsistence allowance for Marine Corps Platoon Leaders Class (PLC) members, who are the equivalent of Reserve Officer Training Corps members in the other Services. In enacting the DOD Authorization Bill for fiscal year 1981, the Congress has already approved the entitlement to the \$100 subsistence allowance for PLC's, but for fiscal year 1981 only. The provision that you are now considering would make this entitlement permanent for PLC members, the same as it is for ROTC members. We believe that this provision promotes equity and otherwise makes good sense, and we support its enactment. No additional cost would result from this provision.

This concludes my remarks. I would like to again express my appreciation for the opportunity to comment on these provisions, and on behalf of the Secretary of Defense, I would like to express my sincere appreciation for the time and effort you have already dedicated to the improvement of Military Compensation thus far this session. After Mr. Murray and Admiral Watkins have testified. I will be pleased to answer any questions that you might have.

Mr. DANZIG. Mr. Chairman, the major subject at the moment is H.R. 7626, with a series of seven provisions in it which my detailed statement for the record will address.

SEA PAY AND SUBMARINE PAY

I would like only to note as the main theme that our principal concern at the moment is not with the particulars of H.R. 7626. To the contrary, from the administration's standpoint, with one or two minor exceptions, they are quite congenial as written. It is rather that we be very clear, in taking this quite useful step, and that the administration

is also now developing and will shortly be coming to you with a proposal that speaks directly to the issue of sea pay and submarine pay that are of central importance.

Senator NUNN. You will be coming with a proposal?

Mr. DANZIG. Yes, sir. I think that the case for that proposal will be spoken to by both Mr. Murray and Admiral Watkins.

Senator Nunn. What is the status of that proposal now? Has it gone to OMB?

Mr. DANZIG. Yes; we have sent it over to OMB. We are negotiating with them as to particulars. I can tell you, Mr. Chairman, we have agreement from OMB in principle to the submission of that proposal at a level of about \$150 million.

We would like to work with your staff over the weeks ahead to try to work out the particulars of that.

The point I would like to emphasize, Mr. Chairman, if I may, and then I will simply submit my statement for the record, is that we are concerned that in our endorsement of H.R. 7626 we underscore that we would not like that to be preemptive of the further kinds of steps that we think are necessary. H.R. 7626 is a step definitely in the right direction, but we think of it as the beginning, not the end, of the program with respect to submarine and sea pay.

With that, Mr. Chairman, if it is agreeable with you, I would suggest perhaps it might be helpful to put that in context. If Mr. Murray and Admiral Watkins make their statements, then we can all speak to the general issue, if you like.

Senator COHEN. Mr. Chairman, on page 1 of the statement, Mr. Danzig states, "This bill ought not to preempt other more substantial initiatives in sea and submarine pay." I would like more specific information in terms of how substantive you intend to be.

Mr. DANZIG. In the submission?

Senator COHEN. Yes, by this statement here you seem to minimize the initiative taken by the House. You say the administration will provide more substantial initiatives in sea and submarine pay.

I would like to know how much more substantive they intend to be.

Senator NUNN. I understand Mr. Murray and Admiral Watkins will detail what is being proposed.

Mr. DANZIG. I think it will be clarified by the comments of Mr. Murray and Admiral Watkins.

Senator COHEN. Will you address what you mean by minor exceptions to the bill? I recall on the Nunn-Warner bill, for example, the administration rather belatedly supported it after opposing a number of its provisions before this committee. As a matter of fact, even after it passed the Senate and the House there was still considerable disagreement over the variable housing allowance the administration would use in endorsing the provisions of the variable housing allowance.

That may be a minor exception to Nunn-Warner. I don't think so.

I would like to know what the minor exceptions will be here.

Mr. DANZIG. Actually, the administration's position with respect to variable housing allowance was that we would favor the variable housing allowance.

Senator COHEN. This year?

Mr. DANZIG. No, whether it would be entitlement or discretionary.

Senator COHEN. Mandatory this year or discretionary with the Secretary of Defense?

Mr. DANZIG. That is right. Our position was that because its costs were uncertain, the magnitude of the implementation problem was uncertain, we favored it being discretionary rather than mandatory.

I think the only reference to H.R. 7626 that would be of concern to you is that the proposals there with respect to making BAQ available for E-7's and above who are single are mandatory in H.R. 7626. We would propose, again, that they be discretionary. I say it is related to the variable housing allowance because the main reason why we would propose that is that with the variable housing allowance on top of the BAQ, something which had not existed when the proposals first developed, it is unclear how many people will draw it and what its cost will be.

Our feeling is that it would probably be wiser to advance with discretionary authority. Our intention would be to liberally administer it, but then to see, in fact, as we develop more information, what it costs and whether, in fact, we ought to not be extending it as liberally as what we had originally proposed.

Senator COHEN. I would like to know exactly how soon the administration will be presenting it. How soon do you anticipate the administration will submit this plan?

Mr. DANZIG. Our intention is to discuss very intensely with OMB over the next week to 2 weeks the particulars of it and then to come immediately while Congress is out of session.

Senator COHEN. They have already endorsed the \$150 million?

Mr. DANZIG. Yes.

Senator COHEN. How can they endorse \$150 million without knowing what the particulars are?

Mr. DANZIG. The issue of particulars is, for example, in awarding increased payments to people at sea, are they graduated according to years of service or time at sea or are they better offered at a flat rate, so that the effect is greater on more junior people, or graduated according to seniority so that the effect is greater on more senior people?

Senator COHEN. I don't understand how OMB can give a clearance for a figure without knowing at least the answers to the questions you are raising now.

Mr. DANZIG. I would say, for example, in the discussion between Senator Nunn and Dr. Moxley, the chairman raised questions about just what the rate of level of deduction was. What tends to happen in these proposals is that one makes the case of a need and a case showing the general retention impact associated, or cure, if you will with a particular proposal.

When OMB sees that, it makes an evaluation about whether this is an appropriate area in which we are spending. Obviously the high level officials in OMB make that valuation but don't get into the details of the program, what the particular allowance ought to be for E-6.

Senator COHEN. In other words, you have approval which is not simply tentative in the commitment of \$150 million?

Mr. DANZIG. That is right.

Senator COHEN. They will leave the details up to DOD to work out exactly how they are going to spend that money?

Mr. DANZIG. Yes. The way I would put it is that the architecture of the program in general has been agreed upon. The general size of this building we are constructing has been agreed upon, in the range of \$150 million. The particulars remain at issue.

As I understand it, OMB is producing a letter—they may already have done so.

Senator COHEN. It will also produce a written endorsement of the general cost of the building we are going to construct and general parameters and design of the building, leaving the specific plumbing arrangements up to DOD? Will that be in writing?

Mr. DANZIG. We will secure that in writing, but I would not be saying it today were it not a formal endorsement. It is the administration's position that we will be coming forward. I will only say it is not a case of the plumbing being simply left to us, but we and OMB will have to go over the details and arrive at agreement on it; it is the level of details.

Senator COHEN. You are going to be joined up here with Mr. Murray and Admiral Watkins?

Mr. DANZIG. If I may be.

Senator COHEN. I have some questions I would like to address, if I can.

Mr. NUNN. Did you want to discuss other sections of the bill, Mr. Danzig?

Mr. DANZIG. I am content, Mr. Chairman, if you think it is an appropriate use of the time, to simply submit my statement for the record.

We are enthusiastic about H.R. 7626; except for that proviso, that is, the discretionary versus entitlement issue, there are no major points that I would raise.

Senator NUNN. Senator Cohen, why don't you go ahead and continue with your questions until we have the 5-minute vote bell.

Senator COHEN. I was not clear when you said how soon you will be coming back.

Mr. DANZIG. Our intention will be to have it to the Congress before Congress comes back from whatever recess it takes.

Senator COHEN. It will be after the November election?

Mr. DANZIG. If Congress does not return until after the November election, we will have it after that.

Senator COHEN. You do not intend to present it prior to November 4?

Mr. DANZIG. We don't have a vehicle to present.

Senator COHEN. Will a formal adoption of the proposal with the plumbing and the design be coming up before or after November 4?

Mr. DANZIG. I can't say with certainty. If it is a source of concern to you to get it sooner, as I think maybe it is, I think we could accommodate that. The timing has not been generated from our end by anything electoral.

NAVY READINESS

Senator COHEN. In terms of readiness, is the Navy in better or worse shape than it was a year ago, in your judgment?

Mr. DANZIG. I would defer to the judgment of Admiral Watkins and Mr. Murray on that, because they are much closer to that subject, particularly when you put it in terms of now versus a year ago.

If it is agreeable to you, I would solicit their comments first.

Senator COHEN. Before we have their presence at the table, let me be clear about this. I assume that there will be statements emanat-

ing from DOD endorsing the essence of H.R. 7626, namely, significant increases in sea and submarine pay?

Mr. DANZIG. I am hereby making those statements. We do endorse them.

Senator COHEN. I assume the wires will be burning fairly soon with that announcement; is that correct?

Mr. DANZIG. I would hope so.

Senator COHEN. I assume that the release of that information will do a great deal to boost the morale of the Navy personnel, which is in need of boosting, in my judgment.

Mr. DANZIG. I would hope so.

Senator COHEN. I would also assume from a commonsense rationale that the effect on Navy's morale will be quite devastating were we to fail to deliver on that promise which is being made. Would you agree with that?

Mr. DANZIG. Yes.

Senator COHEN. So we are all clear, this is a firm, solid, irreversible commitment on the part of this administration to substantially increase sea and sub pay?

Mr. DANZIG. Yes.

Senator COHEN. I would like to reserve my questions specifically on personnel.

Senator NUNN. Senator Warner?

Senator WARNER. Mr. Chairman, I can recall in 1969 when Admiral Watkins was a Navy captain, the two of us worked on that submarine additional pay issue. We used statistics that had been developed over a period of time.

My question is, why in this 11th hour and 59th minute do we come in here, 3 days before the Senate goes out, with such a proposal which should have been addressed earlier? Certainly, the statistics pointed to this problem. I ask, why did we wait this long to address it?

Mr. DANZIG. Senator Warner, that is a question that the other witnesses as well will want to comment on. Let me say from my end that when these proposals were advanced to us by the Navy over these last months, the critical issue that came up for us was whether to wait until the fiscal 1982 budget was presented by the President and make proposals for expenditures at that time.

There was a fair amount of controversy over that. As your question rightly points out, it is unusual for us to come forward with a proposal at this stage in the congressional process.

Let me say that Secretary Brown at that point made a decision, and I think it was a good decision, that in fact he wanted to move ahead with all possible speed, because he was concerned with the issue. So that the phenomenon of its coming up at the 11th hour is largely because we decided not to wait for a new day; that is, we accelerated it forward from fiscal 1982.

You fairly ask, why didn't we raise it a year ago or 2 years ago. I can say for myself what has happened within the Office of the Secretary of Defense has been that we saw a general problem across the board for military servicemen which you know as well as or better than I, we have spent a good deal of energy over the last year and a half or so in working through.

The fair benefits package, the President's acceptance of the amendment that bears your name, all speak of that, the pay issues. We have a large number of such things. The room on the docket for dealing with a special class of people tends to get limited in that circumstance. There is only just so much legislation you can push through and can process.

I add to that that the impact of these other pieces of legislation, their exact magnitude, tends to be unclear. You get more information about retention, you get more information about what those costs will be. I agree with you that in a better world we would be anticipating these problems more successfully than we have been, and I think that we are here now in part because we are not willing to wait for fiscal 1982 and get deeper in a box with respect to that.

ACTION ON FAIR BENEFITS PACKAGE

Senator Warner. That is a fair answer, Mr. Chairman. I intend to support the proposal and I hope we can address it very quickly.

Senator COHEN. What would preclude us from moving on it now? We have 7626. Why should not the Senate move on it now as an addition to the fair benefits package? What is so objectionable in the bill that we couldn't pass it now, in view of the fact—and I was looking at yesterday's New York Times: they have been doing a series on the state of our readiness or lack of it; we have always relied upon the Navy to be our margin of superiority, and according to reports that I have read, that margin has become thinner and thinner; it is almost Twiggy-like now if it exists at all—so why wait longer? Why not take these actions embodied in 7626 and move forward with the fair benefits package now, with those minor exceptions you might have omitted?

Mr. DANZIG. Senator, I agree with you. I think it is appropriate and desirable, for just the reasons that you say, to move ahead with 7626 now, with the minor exceptions I have indicated.

All I am indicating is that in doing that we ought to recognize that we want to be careful not to preempt the larger step that we think ought to be taken and we ought to be recommending to you in some detail.

Senator COHEN. Assuming we are able to do that with an introductory statement by any one of the members and the chairman of the subcommittee saying that is just the beginning of steps that have to be taken that are long overdue, but we are going to move now because the situation is so desperate that we cannot afford to delay any longer, we are putting everybody on notice that there is more to come—what would be wrong with that?

Mr. DANZIG. I would take a slightly different tone in terms of the magnitude of the situation. I agree that would be desirable to do.

Senator COHEN. The administration would support that and have the bill before us on Monday and move forward with that?

Mr. DANZIG. Yes, the administration would be delighted with that, and indeed urges it.

Senator NUNN. We will be back.

[Brief recess.]

Senator NUNN. Senator Cohen?

Senator COHEN. Mr. Chairman, I just want to clarify the line of questioning that I was engaged in with Dr. Danzig.

As I understand it, Doctor, H.R. 7626 does not contain anything for submarine pay; is that correct; it has to do with special pay?

Mr. DANZIG. That is right.

Senator COHEN. Waiting until after November does trouble me. What is of concern to me is that action will be delayed until after Congress comes back. I have no way of predicting what will take place with a lame duck session, but I can assure you it will not run smoothly, no matter who wins. If we have a new President at that time, I am sure there will be less enthusiasm on the majority side to support Republican initiatives or vice versa.

So, we are going to end up coming back in January viewing this proposal, a month or two in reorganization as far as the committee structure is concerned, more hearings, more delay and the situation is going to continue to deteriorate.

MOVING H.R. 7626 AHEAD

What I really wanted to ask you is this assuming H.R. 7626 is brought before this committee and we add an amendment that would go no further than \$150 million that we have talked about, given the solid commitment by OMB, to both sea and sub pay, would that action have the support of the administration? If I proposed we hear that next week, and an amendment be offered, would you support an initiative to add to H.R. 7626 the sea and sub pay that we have discussed here preliminarily?

Mr. DANZIG. The first question is H.R. 7626, and we are in complete agreement that we would urge you to move forward with it. The administration would very much like that. There are several reasons I would not urge you to go on with respect to the amendment of the sort you described and trying to go beyond H.R. 7626.

One is simply practicalities of the situation, that is, that Congress is likely to go out of session, as you know better than I, sometime next week. The probability that any bill could be seriously considered in that interim time and get the kind of scrutiny that this amount of money requires, would seem to be so low that I think it would be an exercise that would be most frustrating. You would get hopes up and we have to come back and start all over again for the same kinds of reasons you have indicated.

I have to say further that I think that though you and I are both clear that the administration does support this, I will be happy to give you a letter or whatever that will make it as firm as you would like. The particulars do matter. I don't think we should be overly hasty in spending that \$150 million. It is a rare and wonderful thing to be able to do.

Senator COHEN. Where are we in essential disagreement in terms of spending that money? I am not clear on that. I have looked at some of the statistics and even with the Nunn-Warner initiatives if you look at an E-6 who is married, 12 years in the service, he loses \$66.20 a month when he reports for sea duty. It gets much worse for a single individual.

Senator NUNN. That is one of the big problems. There is a reverse incentive. People going out to sea lose money. I think that is what we are trying to address.

Mr. DANZIG. That is right; H.R. 7626 does address some of that difference between the single people and married people with dependents in that respect.

TOO LONG AT SEA

Senator COHEN. There is still a net loss in moving out. One of the problems we have is that people are staying too long at sea. The impact of extended deployments when you look at the retention rate for the second and third term sailors, is staggering. We understand there is a problem with too many people spending too much time at sea and as a result of the economic disincentives for going to sea there is a consequently a high dropout rate. We know that now.

I don't understand why we can't move forward on the basic issues of sea pay and sub pay. The recommendation, as I recall, had Navy recommending sea pay for officers with an additional cost of some \$45 million, and DOD objected to that. Aside from that particular issue, which I think has to be addressed also, why can't we agree on the basic need for the sea and sub pay?

Mr. DANZIG. I think we are both greatly concerned about the morale and the retention of people at sea and particularly on submarines. I would ask you to follow through on the perspective you just described, the perspective of the seaman out there who is, we both feel, under considerable strain.

From the standpoint of those people, think of the really remarkable series of events that have come to pass and what we are providing. After a long period of drought, there is a Nunn-Warner bill. On top of that we are providing next week a 11.7 percent pay raise, larger than was expected. On top of that we are proposing an enactment of 7626.

Senator COHEN. When you say, "we," those are both congressional initiatives.

Mr. Danzig. I think they critically involved the administration.

Senator Cohen. Screaming and kicking all the way. I have been here a year and a half, nearly 2 years now, and I have watched what the administration's position was. I am not trying to be partisan on this, but I have seen what was trying to be done within this committee. Again, I can recall the *Nimitz* and I recall the President saying \$1 billion, and I recall Senator Nunn sitting over there during a hearing in which he said, "That is interesting, the President got on the deck of the *Nimitz* and said \$1 billion for your woes, except there is only \$300 million in his budget." When the Congress provided \$700 million in that budget, the President, when the House and the Senate conferees were meeting, said too much money was being spent for defense—those are the signals that have been sent to the people in the services. Those are the signals that really, quite frankly, frustrate—and to some degree I try to minimize it—but anger us when we see that kind of inconsistency.

I believe it was Senator Hollings who said it was hypocrisy that was being practiced by the White House. So, it is not a partisan issue. There is a legitimate concern not only on the part of us but

also by people in the service saying, "We are not sure what the commitment is here?"

I don't understand the delay. Why don't we go forward? Why wait until the next session of Congress, which in all practicality will be another Congress, to deal with this issue?

Mr. DANZIG. I don't believe you could as a practical matter enact the kind of legislation you are talking about over the period of 2 or 3 days. Do you think that there is a realistic alternative to what we are talking about? You have rightly said we ought not to be hypocritical.

Senator COHEN. If the administration were not to oppose it, I believe the matter could be passed by this committee. I believe if it went to the floor and was not opposed by the administration it would pass.

Mr. DANZIG. I can only tell you that I believe that to rush it along at that rate of speed without working out the details, without any real possibility of its being passed by this Congress, and there is, as well, as you know, another Chamber involved, seems to me to in fact sacrifice the integrity of the program for no practical gain.

Senator COHEN. There is no practical gain as opposed to starting another year with another 6-month delay on this?

Mr. DANZIG. We are not in favor of this. We will do our part. We will get the proposal over quickly and we will urge strongly that it go through insofar as there is a session.

Senator COHEN. Prior to the end of this Congress you will do that?

Mr. DANZIG. Yes. We will get a proposal over in a period of time measurable in weeks, not months.

\$150 MILLION PLEDGE

Senator COHEN. Do we have a commitment on the part of the administration that as soon as Congress reconvenes that this is one of your top priority items as far as the Defense Department is concerned, to move through the Halls of Congress, both Chambers, to see that it is passed before the end of this session, \$150 million, is that the pledge that is being made right now?

Mr. DANZIG. I will go a step further. That pledge not only will be a top priority of the Department of Defense, but also it is a priority of the President.

Senator NUNN. When we come back, we will hear from Secretary Murray and Admiral Watkins.

Admiral WATKINS. I have an oral statement following the Secretary.

Senator NUNN. We will proceed with Secretary Murray's statement after we vote.

[Brief recess.]

Senator NUNN. Mr. Murray?

STATEMENT OF HON. ROBERT J. MURRAY, UNDER SECRETARY OF THE NAVY; ACCOMPANIED BY VICE ADM. JAMES WATKINS, U.S. NAVY, VICE CHIEF OF NAVAL OPERATIONS

Mr. MURRAY. My statement is relatively brief. I can read it for the record if you wish.

Senator NUNN. If you would like to summarize your statement, we will submit your entire written statement for the record. You can give

us the highlights. I have read the statement, and I am sure Senator Cohen has also.

Mr. MURRAY. Very good, sir.

[Secretary Murray's prepared statement follows:]

PREPARED STATEMENT OF ROBERT J. MURRAY, UNDER SECRETARY OF THE NAVY

Mr. Chairman and distinguished members, the Vice Chief of Naval Operations, Admiral James Watkins, and I are pleased to appear before this Subcommittee today. We would like to give our views and to submit to whatever questions you would put of us on the matter of Navy retention of career people, and on proposed legislation which is important to the future of the Navy.

I will set out for you the general situation with respect to career commissioned officers and petty officers as it now exists: How many we need; how many we have; how many we are losing, and why; the implications of shortages; what we are doing about it; and what additional measures we believe are needed, and what these measures will accomplish. Admiral Watkins will discuss the implications of personnel retention for Navy combat readiness. He is also in a unique position, as a former Chief of Naval Personnel and former fleet commander, to describe to you the measures taken by the Navy on its own to increase retention. Navy readiness is a matter of great importance to the Administration, and our additional proposals to improve retention will, in our judgment, lead to the improved readiness of our fleet.

Before turning to the subject immediately at hand, however, I wish to tell you how much we in the Navy appreciate the efforts of this Subcommittee to help improve the life of sailors and marines and their families—and thereby improve the combat readiness of our forces—by enactment of the Nunn-Warner amendment to the National Emergencies Act. This important amendment will make a significant contribution toward improved retention of career commissioned officers and petty officers and non-commissioned officers in the Navy and Marine Corps, and of course in the other Services. We are very grateful for this legislation.

Retaining commissioned officers and petty officers for a full Navy career is the Navy's most compelling task. No issue is more important, no issue is more urgent, to the readiness of the Fleet than is this issue.

The Navy this fiscal year has an estimated total end strength of 524,000 people. Of these, 64,000 are commissioned and warrant officers and 460,000 are enlisted men and women. Of the enlisted people, 190,000 are career petty officers (E-5 to E-9). We need, however, approximately 210,000 petty officers, and thus are short, in round numbers, 20,000 career petty officers. Furthermore, our need for petty officers is growing, and by 1986, as we bring new ships on the line, we will need an additional 10,000 petty officers. As we look ahead, therefore, we see no slackening of demand, but on the contrary an increasing need and urgency to encourage people to choose Navy careers in order to assure a Navy ready and able to carry out its missions in this decade.

Why is it we are no longer able to retain Navy people in sufficient numbers? The answers are complicated. Two reasons stand out starkly:

First, Navy life is exceptionally arduous. Unique demands are made on sailors and their families that exist neither in civilian life nor, for the most part, in other Services. A sailor is needed mainly at sea, where 70-hour work weeks are the rule and many additional hours of work are common; and where the pressures to do the job swiftly and without error are intense because mistakes may cost lives. Sea duty involves continuous, unrelenting exposure to the work environment. It has no parallel. Sea duty involves long family separations which places uncommon burdens on the families and adds to the pressures of Navy life. The separations have become longer as our overseas commitments have expanded while our forces have not. Fortunately, Navy families help one another, and the Navy leadership has tried—and is now trying harder—to help families, and this essential self-help is proving worthwhile. Still, long separations are one of the principal factors impelling people to leave the Navy.

Life in port is demanding also. The need to maintain fleet ships and air squadrons in a high state of readiness, to ensure the safety of the ships, especially nuclear ships, and to accomplish necessary training, usually occupies many more hours than the normal 40 hour work week. Furthermore, life at sea and ashore is made still more difficult, and the work week made correspondingly longer, when there are, as at present, too few experienced people. These adverse working conditions are another of the reasons why sailors leave the Navy.

These circumstances of Navy life are obviously not new. A sailor's life has always been, in these respects, a harsh life, by no means without its rewards, but always with its rigorous demands. All other things being equal, these circumstances are tolerable, simply part of the job.

However, second, Navy pay has been inadequate. It has been inadequate in several ways: it doesn't satisfactorily provide for family living expenses, especially for enlisted men, (although current legislation will help considerably in this regard); it is eroding year by year in purchasing power; and it isn't competitive, often, with civilian alternatives. Pay has not compensated for the special hardships of Navy life. Inadequate pay and civilian alternatives are major reasons why people leave the Navy.

These are the principal reasons most apparent from surveys and from talking to sailors. Less easy to judge or to measure is the impact of more general circumstances; economic conditions in the country, the attitude of the country toward the military after Vietnam, the shrinking size of the Navy, only just recently starting to grow after many years of reduction. Of one thing we can be certain: there is no diminution of concern for the country or commitment to the Navy on the part of sailors. The men and women of the Navy are as patriotic as they ever were. Moreover, there are daily more visible signs of explicit support for the Navy around the country. These welcome signs are going to be important for retention and for recruitment.

The difficulties caused by retaining too few people are more acute in certain areas than in others. In particular, personnel shortages at sea are far more burdensome than shortages ashore. The majority of our petty officer shortage—14,400 billets out of the 20,000 total—are at sea. There are financial disincentives to sea duty. In the case of single personnel, allowance for quarters is lost, married personnel (and many of their single shipmates) lose subsistence allowance, personnel who work second jobs to make ends meet must give them up when going to sea. While the amount of financial disincentive varies with individuals' circumstances, it is clear sea duty is more difficult than shore assignments and the monetary reward should run in the other direction.

The submarine community is a second area of enormous concern. A crisis is upon us in this community. We give priority to manning our submarines—priority over all other ships. Yet we are failing to meet our quotas in enlisted or officer manning. In fiscal year 1976, the E-6 to E-9 manning of nuclear submarines was 118 percent—which is to say, we had very experienced crews. Today this figure is only 71 percent, and getting worse. Officer manning is worse still. Experienced officers (O-3 to O-5) in the submarine community are now so scarce that career officers will spend 15 of their first 18 years in the Navy at sea, including 12 consecutive years of sea duty. This is far too long.

The implications of petty officer and commissioned officer shortages are considerable. First and foremost is the impact on readiness—qualified people are needed to have ready ships. Next is the matter of safety—significantly greater care is now needed to avoid accidents caused by inexperience. Third, is the question of sound management and good economy—it does not make sense to place responsibility for valuable weapons and equipment in the hands of people with too little experience. Finally, there is the impact on the people themselves. If there are not ample supervisors, the work is done less well and training of junior men is less thorough. Chief petty officers, and junior officers, instead of supervising and training, have to do the work themselves when there is a shortage of E-5 and E-6 ratings. As E-3 and E-4 ratings are assigned to billets intended for E-5 and E-6 level people, the work takes longer and is less well done. The cumulative effect is a less efficient ship or squadron and frustrated crews, a greater number of whom choose to leave the Navy rather than remain for a career.

We are doing everything we can think of to improve retention on our own and within our own resources. We can do a great deal to assure that the atmosphere within the Navy is a positive, constructive one, and to that end we are working quite hard. For example, the Chief of Naval Operations has significantly expanded Navy leadership training programs at all leadership levels. We are tightening up on discipline. We are improving working conditions in port by reducing the numbers of inspections, and by contracting with civilian firms to do certain time-consuming but less critical functions formerly done by sailors. We have limited sea duty tours to no more than 5 continuous years for enlisted men; after 5 years we now guarantee a 2-year shore assignment before a sailor is required to return again to sea. Not good enough, but the best we can do. We are doing more to help families. An ombudsman program, staffed by volunteer

wives, has been established for each ship and squadron, to whom families may turn for help. Family Service Centers are being established as funds allow to provide specialist services for families with particular needs. We are slowly improving bachelor and family housing. These are examples of the steps we are taking to improve living and working conditions and to mitigate the harsher features of naval service. Admiral Watkins will speak at greater length on this subject.

The recent Nunn-Warner Amendment, and the additional Fair Benefits package, are of great value in meeting pay deficiencies. It is our estimate that this important legislation will, by the end of 1986, result in a career force of an additional 13,500 petty officers. This is a critical step forward.

Nevertheless, it will not be enough to overcome the present shortage as well as growing need for petty officers and commissioned officers. We will still be, if these projections are accurate, nearly 16,500 petty officers below the number required at that time. We have examined various pay alternatives to help overcome these considerable deficiencies. We concluded that the most economical alternative and the one that meets our most urgent needs would be one aimed with precision at our unique problems of sea duty, where the financial incentives are running against us, and submarine duty, where in addition to all other factors the competition from private industry is intense. Accordingly, we developed two special pay proposals, both of which have been approved by the Secretary of Defense, and in principle although not in detail by the Office of Management and Budget. These proposals are:

Enhanced Sea Pay for career petty officers (E-4 over 4 and above), consisting of 22-25 percent of base pay, to be paid while on sea duty only. We estimate this would cost under \$140 million and produce an additional 12,000 careerists by fiscal year 1986.

Submarine Duty Incentive Pay, for career commissioned officers and petty officers (E-4 over 4 and above), consisting of 13-30 percent of base pay, to be paid whether at sea or ashore while in the submarine service (similar to aviation career incentive pay). The cost is estimated at about \$30 million and would produce, in company with the foregoing sea pay proposal, more than 400 officers and 3,500 petty officers by 1983. This is a very considerable improvement.

It is our judgment that, with continuing support from the country, continuing efforts by the Navy leadership to improve working and living conditions for career people, and continuing leadership by the Administration and the Congress to achieve adequate compensation for career people, we will overcome our most serious deficiencies and continue to have the first-class Navy we need. This is our task.

Thank you.

RETAINING COMMISSIONED AND PETTY OFFICERS

Mr. MURRAY. I will say that retaining commissioned officers and petty officers for a full Navy career is the Navy's most compelling task. This is our first priority and no issue is more important, no issue is more urgent, to the readiness of the fleet than is the issue of retention.

The Navy this fiscal year has an estimated total end strength of 524,000 people. Of these, 64,000 are commissioned and warrant officers and 460,000 are enlisted men and women. Of the enlisted people, 190,000 are career petty officers—E-5 to E-9. We need, however, approximately 210,000 petty officers, and thus are short, in round numbers, 20,000 career petty officers. Furthermore, our need for petty officers is growing and by 1986, as we bring new ships on the line, we will need an additional 10,000 petty officers.

As we look ahead, therefore, we see no slackening of demand but, on the contrary, an increasing need and urgency to encourage people to choose Navy careers in order to assure a Navy ready and able to carry out its missions in this decade.

Why is it we are no longer able to retain Navy people in sufficient numbers? The answers are complicated. Two reasons stand out starkly:

First, Navy life is exceptionally arduous. Unique demands are made on sailors and their families that exist neither in civilian life nor, for the most part, in other services. A sailor is needed mainly at sea, where 70-hour work weeks are the rule and many additional hours of work are common, and where the pressures to do the job swiftly and without error are intense because mistakes may cost lives.

Sea duty involves continuous, unrelenting exposure to the work environment. It has no parallel. Sea duty involves long family separations which place uncommon burdens on the families and adds to the pressures of Navy life. The separations have become longer as our overseas commitments have expanded, while our forces have not. Fortunately, Navy families help one another and the Navy leadership has tried—and is now trying harder—to help families, and this essential self-help is proving worthwhile. Still, long separations are one of the principal factors impelling people to leave the Navy.

Life in port is demanding also. The need to maintain fleet ships and air squadrons in a high state of readiness, to insure the safety of the ships, especially nuclear ships, and to accomplish necessary training, usually occupies many more hours than the normal 40-hour workweek. Furthermore, life at sea and ashore is made still more difficult and the workweek made correspondingly longer when there are, as at present, too few experienced people. These adverse working conditions are another of the reasons why sailors leave the Navy.

These circumstances of Navy life, long separations and hard work, are obviously not new. A sailor's life has always been, in these respects, a harsh life, by no means without its rewards, but always with its rigorous demands. All other things being equal, these circumstances are tolerable, simply part of the job.

However, second, Navy pay has been inadequate. It has been inadequate in several ways: It doesn't satisfactorily provide for family living expenses, especially for enlisted men, although current legislation will help considerably in this regard; it is eroding year by year in purchasing power, and it isn't competitive, often, with civilian alternatives. Pay has not compensated for the special hardships of Navy life. Inadequate pay and civilian alternatives are major reasons why people leave the Navy.

Senator NUNN. It would be helpful if you could go back two decades and trace the pay and benefits for Navy personnel showing how it has decreased in recent years, where it was in 1973, 1974, 1975, where it is now, and where it was compared to 1970 each year.

Please provide that in chart form for the record.

Mr. MURRAY. I will be pleased to do that, Mr. Chairman.

[See table, p. 48.]

Senator NUNN. Mr. Danzig, please undertake a similar mission for the other services, so that we will have a real flow chart.

Mr. DANZIG. Certainly, Mr. Chairman.

Senator NUNN. The thing that is so depressing now is that it is definitely true that the benefits and pay have eroded in the last 3 or 4 years; but if you look at it historically, in the last 20 or 30 there

are very few years where pay or benefits or both have ever been this high. I know everything is relative to how long you have been in the service.

I understand the severe problems that inflation has caused. My only point is not directed to what we should do now, because we certainly have to take some steps, but the question is that there is something wrong besides pay and benefits. There has to be. There is no historical explanation otherwise, because the Navy life, the number of years at sea, and separation from families all of these— are nothing unique in 1980. They have always been a factor.

There is something definitely wrong in the U.S. Navy, and I don't pretend to know what it is. Pay is a significant part of it, but not all of it. Do you have any other thoughts, Mr. Murray?

Mr. MURRAY. I would add two or three thoughts, Mr. Chairman:

One is that pay has been eroding for more than 3 years. It has been eroding for a number of years.

Senator NUNN. Since about 1973?

Mr. MURRAY. It reached its high in 1972 and 1973 and it has been going down ever since.

LIFE IN THE MILITARY

Second, there is a question of atmosphere and the atmosphere in in the country about life in the military service. Service in the military has not been as highly regarded in this last decade as it was before Vietnam. Also, there has been throughout the 1970s the appearance or perception on the part of military people that things are being cut, that they themselves are less appreciated, that benefits are being eroded and that military service is not quite as important as it used to be to the country. I think these perceptions are changing now.

Senator NUNN. That would have reached its peak somewhere in the 1973-1974-1975 time frame, or is it worse now?

Mr. MURRAY. I don't think it is worse today; I think things have been getting better in the last year or so. In that particular regard, I think the country's attitude about the Armed Forces is changing; the country is becoming more concerned. I think it has lingered on longer than some of us would like, or think was necessarily probable, given the time of the Vietnam war. It took a long while to change.

Third, when you go out and talk to the enlisted men and their families, pay is an exceedingly important thing. Many of them feel that they just can't make it. You can talk to the chaplains, as I do, talk to the wives, talk to the enlisted men, talk to some of the junior officers—pay is very important to them. They need to feel when they go to sea, when they are off wherever they are off to, that the family is OK, that they are not leaving behind problems of a financial kind.

Senator NUNN. Do you have any trends in the Navy of more married personnel as the Army does? Do you have a higher percentage of married people with families in the Navy now than you have had historically?

Admiral WATKINS. Mr. Chairman, we have about 75 percent or 76 percent of our enlisted career force married. That is higher than it has been in prior years. About 70 percent of our officers are married.

Senator NUNN. Can you compare statistics now to the last 20 years of personnel who are married with families?

Admiral WATKINS. I believe so.

Senator NUNN. I know the Army's percentage of married personnel is running substantially above that of the general population. I would like to know how Navy figures compare with the Army and also how they compare with the general population trends. On that previous request, I would like you to plug in the Nunn-Warner amendment regarding comparable pay and benefits, the pay raise, and the increase in the cost-of-living—the inflation effect, too—so that we get a comparison of what it will be after that.

Mr. DANZIG. Mr. Chairman, to assure consistency, it is probably best if our office collects the information from the Navy and from the other services and we will give it to you in a consistent form.

Senator NUNN. Fine.

[The information follows:]

SERVICE MARRIAGE STATISTICS

The last year for which we have comprehensive marriage statistics is 1979. At that time the Bureau of the Census indicated that 62.2 percent of all males over 14 years of age were married. The overall percentage of married males in the Army in 1979 was 64.0 (Officers: 92.2 percent; Enlisted: 59.7 percent). Thus, the percentage of Army personnel who are married roughly approximates that of the civilian population. As noted previously, the marriage rate for the civilian population has been decreasing, whereas it has been increasing for the Army since the Viet Nam era. On the other hand, the statistics for the Navy show a steady decrease in marriages in the enlisted force since 1977. As of 1980, only 44.5 percent of the Navy enlisted force was married.

REGULAR MILITARY COMPENSATION

The attached Table 1 displays the year-to-year and cumulative change in average RMC for officers and enlisted personnel for the period 1960 to 1980. The average RMC figures have been adjusted for increases in the Consumer Price Index (CPI) to show real changes. The table shows that average RMC steadily increased from 1960 to 1972, and has been on the decline since 1972. For comparison purposes, earnings trends for the same period are shown for private sector workers (Table 2). The broadest measure of private sector wages is the Bureau of Labor Statistics (BLS) series of average weekly earnings of production or nonsupervisory workers on private nonagricultural payrolls. Two series are displayed for the private sector—one for total private sector workers one for manufacturing workers. The average workweek for total private sector employees declined from about 39 hours per week to about 36 hours per week between 1960 and 1980. The average workweek for the manufacturing sector remained steady at about 40 hours per week during that same period.

Caution should be used in drawing conclusions from the data shown. Because the tables do not include the special and incentive pays received by military personnel, they do not capture how the earnings of specific military specialties have changed in real terms or in comparison to comparable private sector occupations. Further, the tables are not meant to draw a judgment that average RMC for officers or enlisted personnel should have increased more or less than the private sector workers shown. For example, professional and administrative workers, which are more analogous to the officer community, may have increased more or less than the broad measure of production or nonsupervisory workers.

TABLE 1.—CHANGE IN AVERAGE REAL REGULAR MILITARY COMPENSATION (RMC)¹ 1960-80

Calendar year	Average CPI	Average annual RMC					
		Officers	Percent change from preceding year	Cumulative percent change	Enlisted	Percent change from preceding year	Cumulative percent change
1960	88.7	\$8,375			\$3,466		
1961	89.6	8,375	-1.0	-1.0	3,466	-1.0	-1.0
1962	90.6	8,375	-1.1	-2.1	3,466	-1.1	-2.1
1963	91.7	8,851	4.4	2.2	3,632	3.5	1.4
1964	92.9	9,712	8.3	10.7	3,835	4.2	5.6
1965	94.5	9,941	.6	11.4	3,948	1.2	6.9
1966	97.2	10,322	.9	12.5	4,141	2.0	9.0
1967	100.0	10,455	-1.5	10.7	4,221	- .9	8.0
1968	104.2	10,882	- .1	10.6	4,515	2.7	10.9
1969	109.8	11,678	1.8	12.6	4,774	.3	11.3
1970	116.3	12,999	5.1	18.5	5,474	8.3	20.6
1971	121.3	14,159	4.4	23.6	6,029	5.6	27.2
1972	125.3	16,358	11.8	38.3	7,455	19.7	52.3
1973	133.1	17,238	- .8	37.2	7,889	- .4	51.7
1974	147.7	18,238	-4.7	30.8	8,314	-5.0	44.1
1975	161.2	19,359	-2.7	27.2	8,991	- .9	42.7
1976	170.5	20,466	0	27.1	9,417	-1.0	41.3
1977	181.5	21,790	0	27.2	9,935	- .9	40.1
1978	195.3	23,302	- .6	26.4	10,582	-1.0	38.7
1979	217.7	24,593	-5.3	19.6	11,249	-4.6	32.2
1980	247.8	26,623	-5.2	13.3	12,265	-4.2	26.7

¹ RMC is the sum of basic pay, basic allowance for quarters (BAQ), basic allowance for subsistence (BAS), and the tax advantage attributable to the nontaxable nature of the allowances. Average RMC figures are not available prior to 1963. However, because military pay was not changed between 1960 and 1963 (except for adjustments in enlisted BAS rates) a constant figure is used for 1960, 1961, and 1962.

TABLE 2.—CHANGE IN AVERAGE REAL WEEKLY EARNINGS PRODUCTION OR NONSUPERVISORY WORKERS ON PRIVATE NONAGRICULTURAL PAYROLLS, 1960-80

Calendar year	Average CPI	Average weekly earnings					
		Total private	Percent change from preceding year	Cumulative percent change	Manufacturing	Percent change from preceding year	Cumulative percent change
1960	88.7	\$80.67			\$89.72		
1961	89.6	82.60	1.4	1.4	92.34	1.9	1.9
1962	90.6	85.91	2.9	4.3	96.56	3.4	5.4
1963	91.7	88.46	1.7	6.1	99.23	1.5	7.0
1964	92.9	91.33	1.9	8.1	102.97	2.4	9.6
1965	94.5	95.45	2.8	11.1	107.53	2.7	12.5
1966	97.2	98.82	.7	11.8	112.19	1.4	14.1
1967	100.0	101.84	.2	12.0	114.49	- .8	13.2
1968	104.2	107.73	1.5	13.7	122.51	2.7	16.2
1969	109.8	114.61	1.0	14.8	129.51	.3	16.6
1970	116.3	119.83	-1.3	13.4	133.33	-2.8	13.4
1971	121.3	127.31	1.9	15.4	142.44	2.4	16.1
1972	125.3	136.90	4.1	20.1	154.71	5.1	22.1
1973	133.1	145.39	0	20.1	166.46	1.3	23.6
1974	147.7	154.76	-4.1	15.2	176.80	-4.3	18.4
1975	161.2	163.53	-3.2	11.5	190.79	-1.1	17.0
1976	170.5	175.45	1.4	13.1	209.32	3.7	21.4
1977	181.5	189.00	1.2	14.5	228.90	2.7	24.7
1978	195.3	203.70	.2	14.7	249.27	1.2	26.4
1979	217.7	219.30	-3.4	10.8	268.94	-3.2	22.1
1980	247.8	233.33	-6.5	3.5	283.68	-7.3	13.2

Mr. MURRAY. Shall I continue, Mr. Chairman?
 Senator NUNN. Yes.

PERSONNEL SHORTAGES CREATE HARDSHIPS

Mr. MURRAY. The difficulties caused by retaining too few people are more acute in certain areas than in others. In particular, personnel shortages at sea are far more burdensome than shortages ashore. The

majority of our petty officer shortage—14,000 billets out of the 20,000 total—are at sea. That is one major problem for our people at sea, that there are distinct financial disincentives to sea duty.

In the case of single personnel, allowance for quarters is lost, while married personnel—and many of their single shipmates—lose subsistence allowance. Also personnel who work second jobs to make ends meet—and it is surprising how many there are who do so, and some work third jobs as well—have to give them up when they go to sea.

While the amount of financial disincentive varies with individuals' circumstances, it is clear sea duty is more difficult than shore assignments and the monetary reward should run in favor of sea duty not in the other direction.

The submarine community is a second area of enormous concern. A crisis is upon us in this community. We give priority to manning our submarines, priority over all other ships, yet we are failing to meet our quotas in enlisted or officer manning. In fiscal year 1976 the E-6 to E-9 manning of nuclear submarines was 118 percent, which is to say we had very experienced crews. Today, this figure is only 71 percent, and getting worse.

Officer manning is worse still. Experienced officers, O-3 to O-5, in the submarine community are now so scarce that career officers will spend 15 of their first 18 years in the Navy at sea, including 12 consecutive years of sea duty. This is far too long.

Senator COHEN. Mr. Secretary, is that a healthy ratio to have, to have a nuclear sub officer spending 15 out of the first 18 years in the service at sea?

Mr. MURRAY. Senator Cohen, it is a very unhealthy circumstance; they spend 12 of those years consecutively at sea in many cases and they move from department head to executive officer to commanding officer and that is frankly too long at sea.

Senator COHEN. It would be interesting. Mr. Chariman, in connection with your question about the married versus single, as to how many married submarine officers we have with those kinds of rates, 15 out of 18 years at sea.

I don't know that you have the divorce rate factor but I am sure there is a lot of pressure on that particular marriage.

Senator NUNN. I would also like you to furnish for the record a chart on submarine and regular Navy duty at sea, on a historical basis, how it compares now with what it has been over the last two decades.

Mr. Murray. Yes, sir.

[The information follows:]

SEA TOUR LENGTHS

Records are not available to compare representative lengths of sea duty over a twenty year career for individuals in the submarine force and surface Navy. Prior to 1971, sea duty tour lengths were entirely dependent upon inventory since all sea duty billets were kept filled, and sea duty intensive ratings remained at sea for periods for ten or more straight years. Recognizing the adverse effect such practice was having on the individuals, and as a part of the continuing effort to reduce family separation and provide greater shore opportunity for Navy enlisted personnel, a six year maximum sea tour length was implemented in 1971.

Furthering the effort to provide equity for enlisted personnel, Navy established maximum 5 year sea tours and minimum 2 year shore tours in 1973 with a goal of eventually reaching 3 year maximum sea tours and minimum 3 year shore

tours to stabilize the personal lives of Navy people. Despite the reduction in the length of sea tours in 1973, the retention of second and third term personnel has continued to decline. Consequently, due to poor retention, Navy has not been able to achieve the 3/3 sea/shore rotation goal. Based on current sea/shore tour lengths for enlisted personnel and normal career paths for officers, the number of years for an average individual during the first 20 years of service would be as follows;

Officer:	<i>Years</i>
Submarine.....	15. 0
Surface.....	13. 0
Enlisted:	
Submarine.....	13. 1
Surface.....	13. 4

Mr. MURRAY. The implications of petty officer and commissioned officer shortages are considerable. First and foremost is the impact on readiness; qualified people are needed to have ready ships.

Next is the matter of safety. Significantly greater care is now needed to avoid accidents caused by inexperience.

Third is the question of sound management and good economy. It does not make sense to place responsibility for valuable weapons and equipment in the hands of people with too little experience.

Finally, there is the impact on the people themselves. If there are not ample supervisors, the work is done less well and training of junior men is less thorough. Chief petty officers and junior officers, instead of supervising and training, have to do the work themselves when there is a shortage of E-5 and E-6 ratings. As E-3 and E-4 ratings are assigned to billets intended for E-5 and E-6 level people the work takes longer and is less well done. The cumulative effect is a less efficient ship or squadron and frustrated crews, a greater number of whom choose to leave the Navy rather than remain for a career.

IMPROVING RETENTION

We are doing everything we can think of to improve retention on our own and within our own resources. We can do a great deal to assure that the atmosphere within the Navy is a positive, constructive one, and to that end we are working quite hard. For example, the Chief of Naval Operations has significantly expanded Navy leadership training programs at all leadership levels. We are tightening up on discipline. We are improving working conditions in port by reducing the numbers of inspections and therefore the amount of time necessary to prepare for them, and by contracting with civilian firms to do certain time-consuming but less critical functions formerly done by sailors.

We have limited sea duty tours to no more than 5 continuous years for enlisted men. After 5 years we now guarantee a 2-year shore assignment before a sailor is required to return again to sea. The 3 years at sea and 3 years ashore would be a preferable rotation pattern, but 5 and 2 is the best we can do now, for many ratings.

We are doing more to help families. An ombudsman program, staffed by volunteer wives, has been established for each ship and squadron, to which families may turn for help. Family Service Centers are being established as funds allow to provide specialized services for families with particular needs.

We are slowly improving bachelor and family housing. Admiral Watkins will speak at great length on this subject.

These are examples of the steps we are taking to improve living and working conditions and to mitigate the harsher features of naval service.

The recent Nunn-Warner amendment and the additional fair benefits package are of great value in meeting pay deficiencies. It is our estimate that this important legislation will, by the end of 1986, result in a career force of an additional 13,500 petty officers. This is a critical step forward.

Nevertheless, it will not be enough to overcome the present shortage as well as the growing need for petty officers and commissioned officers. We will still be, if these projections are accurate, nearly 16,500 petty officers below the number required at that time.

We have examined various pay alternatives to help overcome these considerable deficiencies. We concluded that the most economical alternative and the one that meets our most urgent needs would be one aimed with precision at our unique problems of sea duty, where the financial incentives are running against us, and submarine duty, where in addition to all other factors the competition from private industry is intense.

SPECIAL PAY PROPOSALS

Accordingly, we developed two special pay proposals, both of which have been approved by the Secretary of Defense, and in principle although not in detail by the Office of Management and Budget. These proposals are:

(1) Enhanced sea pay for career petty officers, E-4 over four and above, consisting of 22 to 25 percent of base pay, to be paid while on sea duty only. We estimate this would cost under \$140 million—how much less depends on the detail to be worked out—and would produce an additional 12,000 careerists by fiscal year 1986.

(2) Submarine duty incentive pay, for career commissioned officers and petty officers E-4 over four and above, consisting of 13 to 30 percent of base pay, to be paid whether at sea or ashore while in the submarine service—similar to aviation career incentive pay. The cost is estimated at about \$30 million and would produce, in company with the foregoing sea pay proposal, more than 400 officers and 3,500 petty officers by 1983. This is a very considerable improvement.

It is our judgment that with continuing support from the—

Senator NUNN. You say they will be paid that whether they are on the submarine or on shore? Wouldn't this be a disincentive if you get paid the same thing whether you are on shore or at sea? What is the reason for that?

Mr. MURRAY. It is to keep them in the submarine service, people in whom we have invested a substantial amount of money to train for submarine service. Of course, we require so much time at sea in any case, and in shore billets that are very sea related.

Even with this initiative there is no way in the near term that we can retain enough people in the submarine service to expand the community to the place it ought to be, as other naval officers particularly are: that is to say, submarine officers have an extraordinarily hard time getting billets at schools or on higher staffs, things that would broaden their horizon.

Senator COHEN. Why keep it equal? Why not give them more to go to sea, rather than keeping it equal?

Mr. MURRAY. They would be receiving sea pay also, when at sea. So that when you add them together, although they will still be below the level of competition on the outside, they will have an incentive to go to sea.

Finally, sir, it is our judgment that with continuing support from the country, continuing efforts by the Navy leadership to improve working and living conditions for career people, and continuing leadership by the administration and the Congress to achieve adequate compensation for career people, we will overcome our most serious deficiencies, and continue to have the first-class Navy we need. This is our task.

That ends my statement. I would like to ask Admiral Watkins, the Vice Chief of Staff for Naval Operation, if he would proceed.

Senator NUNN. Admiral Watkins, we are glad to have you appear before the Subcommittee today.

STATEMENT OF ADM. JAMES WATKINS, U.S. NAVY, VICE CHIEF OF NAVAL OPERATIONS, U.S. NAVY

Admiral WATKINS. Thank you, Mr. Chairman.

The net result of the reduced manning, both in quantity and quality, due to the poor career retention to which, the Under Secretary has just referred is lowered combat readiness. In fact, it is the only element of the combat readiness equation today that is declining. I consider it to be the most serious personnel readiness situation that I have seen in over 31 years in the Navy.

Let us examine the, specific impact on readiness of career enlisted trends. We first began to notice this about 5 years ago. We then decided that we had the management flexibility within the Navy to shorten shore tours and lengthen sea tours and adjust, within the body of the entire enlisted corps, the assignment of sufficient numbers of skilled individuals to fill the billets at sea properly and to maintain readiness at normal levels.

We provided large infusions of petty officers at that time. As I recall, close to 8,000 were sent back to sea over a period of time by the techniques that I have just mentioned. These personnel are now approaching the end of their 4 or 5 year tour at sea.

In the interim, we have continued to shorten shore tours and to lengthen sea tours. By so doing, we have kept the base when needed, all eligible and available skilled personnel go to sea. But in so doing we do not impose unreasonably short shore tours for some nor do we allow luxuriously short tours at sea for others.

The optimum would be a 3 year at sea and 3 year ashore rotation; the average today is closer to 4½ at sea and about 2½ ashore, with one-third of all Navy ratings spending 5 years at sea and 2 years ashore. The latter are in predominantly the most critical ratings, for the most part in what we call the mobility ratings, in engineering, for example, and weapons ratings, such as fire controlmen, gunners mates, radar technicians and the like.

That is why you are seeing the problem today, because we do depend heavily on skills which simply are in woefully short supply at the experienced level. This necessitates driving more youngsters in at the bottom, thus demanding more training out of the supervisors who are now dwindling in supply. Consequently, their burden increases. We tend to be in a negative spiral under this arrangement.

BURDEN GREATEST PROBLEM

Senator NUNN. The greater the problem is, the more the burden. The more the burden is, the greater the problem gets. It is a circle.

Admiral WATKINS. We think that circle is rapidly closing in on us at this particular time. On the other hand, we think we can curb its intensity through the initiatives you have passed in the Congress, both Houses, plus the sea and sub pay initiatives we have here. We will try to explain the latter in more detail in a minute.

Senator NUNN. What is it in the Navy personnel system that perhaps has not predicted this? It seems to me we have already arrived at this point; we have a personnel shortage of 20,000; it will take 5 or 6 years to catch up, no matter what we do. How is it that we don't have in our system some factors that allow this to be predicted in advance and avoided? Perhaps we do. Maybe you did predict it; maybe nobody was listening.

Admiral WATKINS. I have had 10 years in the personnel business. I have been before your committee in the 10-year period on nuclear pay and on a variety of other pay matters. We have had three quadrennial reviews, two Presidential blue ribbon panels and two, OSD studies during this period. The net result has been zero. We have accomplished nothing in 10 years of pay reform initiatives. We have been over here and talked about the expected decline in personnel readiness, but my experience has been that until the services are already in serious trouble and can demonstrate that, our projections of troubles are never accepted to adequately demonstrate need.

We have been unsuccessful in the past. I am not blaming Congress, I am saying that within our own system, we can't seem to push these things through as long as we are still surviving. By this I mean that if it is perceived that we are satisfactory today; then this system con-

cludes that we ought to be able to survive 1 more year; that is the way it has been.

Senator NUNN. During this period of time, how many of these proposals have been administration proposals that came to the Congress?

Admiral WATKINS. None have ever come to the Congress.

Senator NUNN. It is not something that Congress turned down?

Admiral WATKINS. No, sir. You never received a comprehensive pay reform from 10 years of quadrennial reviews and other studies of pay reform.

Senator NUNN. The Navy itself has made these proposals within the administration?

Admiral WATKINS. Yes, sir.

PROPOSALS MADE BY NAVY IN PAST YEARS

Senator NUNN. Could you trace back for the record how many proposals have actually been made by the Navy to the administration, what years they were made, and at what level they were stopped?

Admiral WATKINS. Yes, sir, we can provide that.

Senator NUNN. Including Congress?

Admiral WATKINS. I don't remember any of those specifically coming to the Congress. I don't think they ever got out of the study phase, sir. In 1976 when we first brought up modernization of the sea pay concept, we were told to wait until the third quadrennial review had reported out. It was reported out in 1977 and sea pay was still not acted upon by anyone. So we have been somewhat thwarted in our efforts to move pay reform through the system due to these constraints.

[The information follows:]

NAVY SEA PAY PROPOSALS

Year	Originator	Proposal source	Eligibles	Rate	Cost (mil-ions)	Action taken	Reason
1967	Navy	SECNAV retention task force recommendation No. 62.	Officer and enlisted	\$15 (less than 2) to \$105 (to over 12) cumulative years of sea duty.	\$103.6	No action taken by OSD.	
1967	L. Mendel Rivers (H.R. 13886)	Unknown	Officer and enlisted	Same as above	130.6	Bill died in Congress.	1. Draft OSD report expressed opposition because sea pay under study by 1st QRMC. Technical and budget problem associated with "certain places" pay.
1969	Navy	First QRMC	Officer and enlisted	Same as above plus same rates for "certain places" pay.	118.0	None, opposed by Army and Air Force.	1. Technical and budget problem associated with "certain places" pay.
1970	Navy	Revision of 1969 proposal	Officer and enlisted	\$15 (less than 2) to \$115 (over 10) cumulative years of sea duty.	135.1	Not approved by OMB	1. Impact on "certain places" pay. 2. Budget priorities. 3. Failed to prove it would solve retention problem.
1970	OSD	1970 Navy proposal	Officer and enlisted	Same	135.1	SECDEF reclama to OMB rejected.	1. Should be considered with other special and incentive pays. 2. OMB indicated willingness to consider a new proposal.
1971	Navy	Transition to AVF	Officer and enlisted	Same as 1970 proposal.	107.3	Although OSD authorized re-submission, OMB reiterated nonconcurrence.	1. OMB indicated willingness to consider a new proposal.
1972	Navy	2d QRMC	0-3 and below and all enlisted.	\$25 (less than 2), \$75 (more than 2) continuous years of sea duty.	111.30	Not approved by OMB	1. Did not show how retention problems would be solved. 2. Not using VRB and Pro pay to maximum. 3. Need to analyze AVF pay raises.
1973	Navy	Resubmission of 1972 proposal.	Same	Same	(1)	Disapproved by DEPSECDEF	1. Failed to show how pay would solve retention problem.
1975	Navy	Revision of	Enlisted with sea duty	\$100 (over 3 yrs duty), \$25 (over 3), \$100 (over 8) cumulative years of sea duty.	47.5	Not approved	1. Ceiling on budget increases. 2. Recommended bonus-oriented proposal. 3. Consider in context of 3d QRMC.
1977	Navy	3d QRMC	E-4 and above with over 3 yrs sea duty.	\$25 (over 3) to \$100 (over 12) cumulative years.	30.7	Enacted Oct. 20, 1978 with 3 yr phase-in.	1. Since Navy had been totally unsuccessful in modernizing sea pay for 10 yr, Navy shifted the concept of employing the 1949 \$30,000,000 dedicated to sea pay from everyone at sea to only careerists at sea. To optimize dollars available, a cumulative years-at-sea concept was also adopted. It was recognized that the total dollars allocated were inadequate; but at least the dollars were now being focused on the career retention problem area. Because there was no budget increase involved, it was approved by Congress.
1979	Navy	Retention problems	Same	Same	30.7	Proposed to accelerate 3-yr phase-in (enacted Sept. 8, 1980)	
1980	Navy	Retention problems	Officer (O-3 and above) enlisted (E-4 and above)	25 percent of basic pay (E-4) to 7 percent of basic pay for senior officers.	(2)	OSD deleted officers/E4 > 3 < 4 YOS inserted flat rates vice percent of BP. OMB considering specifics Sept. 27, 1980.	

² \$30,000,000 (current program), \$165,000,000 (incremental).

¹ Unknown.

Senator COHEN. Are you cynical at all about the suggestion that we wait until after November to move forward with the details of the plumbing that must be put in?

Admiral WATKINS. I have learned that a bird in the hand is worth two in the bush, Senator.

Senator COHEN. It would be your recommendation that we move forward on H.R. 7626 with the essential pay proposals that you have announced?

Admiral WATKINS. I feel it is quite possible, given what I understand to be the OSD position now. I have not seen the bill as submitted to OMB, but I believe that we are in close enough agreement so that thoughtful minds can be put together in a hurry and produce a very credible bill.

There are some fundamental concepts that need to be addressed, such as sea pay equity for officers. That is a concept that goes back to the pre-1949 period when we did have sea pay for officers for about 100 years before that.

PAY FOR NCO'S

Senator COHEN. Beyond the sea pay for officers, let us talk about the sea pay and sub pay for the NCO's.

Admiral WATKINS. I think we are quite close to the administration's position, so I don't think there needs to be a long harangue over the next few days. Good people at the top ought to be able to come together and decide what is right for the country.

Senator COHEN. In other words, if you have agreed on \$150 million, you can live with that. OMB has agreed to that; OSD has agreed, so really we are talking about fine-tuning. With all the great minds we have in the Pentagon, some of those even in Congress, we ought to be able to come up with a package?

Admiral WATKINS. It is my feeling we should give it a try, sir. I am not saying that success is certain, but I think we should give it a try and any help to move it from OMB into the Congress would be greatly appreciated.

Senator NUNN. Admiral, let me ask you a question on that point: When we talk about whether or not we are fine-tuning, 2 years ago, in response to a Navy request, Congress increased sea pay and changed its basic structure from pay that depended fully on rank to one that depended on years of duty at sea. Do you recall that?

Admiral WATKINS. I was Chief of Naval Personnel at the time and was a witness on that legislation.

Senator NUNN. Secretary Claytor said at that time:

The provision recognizing increasing years of cumulative sea duty is intended to convey to our career petty officers our awareness of the compounding debilitating effect on morale and motivation toward continued service that repetitive reassignment to sea duty imposes over a career officer. Further, it does provide a mechanism through which wide variances in sea/shore rotation patterns among ratings may be recognized in a tangible manner, a desirable management objective unobtainable through the present pay grade entitlement.

As I understand the new Navy proposal, it would abandon the relationship between pay and years at sea and return to a system of sea pay related only to members' grade; is that correct?

Admiral WATKINS. Yes, sir; that is the way the current bill was submitted to the administration or at least to the Department of

Defense. I do not know what happened to it on the way to the Office of Management and Budget.

Senator NUNN. That is a fundamental change and in a completely opposite direction from what Secretary Claytor testified to 2 years ago, is it not?

Admiral WATKINS. I would not say it is completely opposite; it is quite closely allied. If you assume that the Navy is certainly not doing better than a 3 years at sea/3 years at shore concept, we are certainly not going to have a large body of people who will be allowed to stay ashore and not go to sea.

I would say that it is quite close to the current concept since paying by years of service would also equate well with years at sea.

Senator NUNN. What has changed in the last 2 years to move in a different direction than Secretary Claytor said was essential?

Admiral WATKINS. A multiple of five in the total amount of the budget you are directing at the problem. You will recall, Mr. Chairman, that when we came over with our sea pay proposal, the letters to the chairman of the two committees indicated all we were doing was taking \$30 million, the amount fixed in 1949 when sea pay first came into law, taking that same \$30 million now in 1980, the same dollar amount, and trying to allocate it to a fewer number of people, to get the impact higher, because there was not any other source of funds at the time.

So, it was not an optimum sea pay bill; it was an interim fix to try to put some dollars on the career force which we saw waning at the time. We thought it was a good signal to send to our careerists that we were more concerned with them than with the youngsters who really come into the Navy to see the world and have an adventure and don't need the kind of support our senior people do, that is those who stay at sea a much longer period.

Nothing has changed, but now we have an opportunity to come forward with a comprehensive sea pay concept one modernized after 31 years, one that makes more sense for the long haul of the Navy.

Mr. MURRAY. Another thing I might add to that, Mr. Chairman, that has changed, and that is, the earlier proposal didn't do the job, and we are hopeful that this one will do the job.

Senator NUNN. It seems to me there is no way you could have been right then and also be right now. At some point you were wrong?

Mr. MURRAY. Both were aimed at paying people while they were at sea. This one will appeal to a wider audience. That is to say, it will go to people who have spent more time in the Navy ashore than the other proposal would have. It will expand the overall numbers of people covered and will therefore contribute more to retention than the earlier proposal.

Senator NUNN. Do you have any kind of retention pattern that you could trace, based on that last proposal that went through? Is there any way to trace what effect that will have?

Admiral WATKINS. No, sir. The total health dollars are so inadequate they are down in the grass relative to the other initiatives.

Senator NUNN. How many total dollars did the Navy request 2 years ago?

Admiral WATKINS. It was \$30 million. We stayed at the same fixed dollar value that was set in 1949, sir.

Senator NUNN. Is that what you requested from the Department of Defense?

Admiral WATKINS. We couldn't get anything more through, sir; no. We had alternate plans but we were budget constrained and not able to come in with more funds. We said at the time that an optimum pay bill, one paying for cumulative sea service, would cost on the order of \$100 million. You escalate that to 1981 dollars and you will find that is close to what we are proposing today; it is about \$135 million.

Senator NUNN. You proposed that 2 years ago?

Admiral WATKINS. We did not propose it, sir, because we could not budget. We could not get it to the Congress, but we indicated in the Speaker letter that the \$30 million would be inadequate, but it was a better utilization of the funds than we had under the current law.

Senator NUNN. I am very interested in seeing if we are going to get in front of these problems and not be chasing them from behind all the time. We have to figure out some way to get this information to the Congress or to the decisionmakers in a timeframe that allows some preplanning.

We have a deplorable situation in the Navy now. It is very regrettable what you, Mr Murray, and Mr. Danzig have outlined here. Is our system such that we simply cannot get in front of the problem? That is the reason I would like you to submit for the record what the Navy itself has said over the last 5 or 6 years, about these problems—what the Navy predictions were, what requests were made from the Navy that were turned down, what level turned them down, including the executive branch and the legislative branch. This goes to the heart of the personnel system as to whether we are going to be able to get out in front of the problem.

Mr. MURRAY. We will, as we said, Mr. Chairman, give you the full report, as full as we we can make it.

We have to keep in mind that when we put the budget together we have a lot of problems. People are one of them. People are not the only one, however. We try to emphasize people programs as much as we can, but we have to fix other things, too.

We have had long periods of time where readiness problems show up in different parts of the force. We can do better at predicting, I think, and maybe this is something that needs to be taken up in your annual manpower hearing at the time of the budget.

RETENTION VERSUS NEW INPUT

Senator NUNN. What about retention versus new input? Do you have enough new people flowing into the submarine force now?

Mr. MURRAY. No, sir, particularly not in the officer category.

Senator NUNN. How are you going to address that problem? Retention itself is not enough if you don't have enough people coming in?

Mr. MURRAY. Indeed it is not. We are going to have to work very hard. We have a bonus program, as you know. We are expanding ROTC coverage. I don't know whether there is anything else Admiral Watkins would add.

Admiral WATKINS. Yes, sir, there are additional initiatives going on, very important initiatives, expanding the NROTC program to an 8,000 base instead of a 6,000 base. We are expending large dollars in our recruiting effort to bring college graduates into our nuclear power officer candidate program through OCS. This has been lagging over the years because of the competition over those same resources in the private sector, but that is improving.

We are expanding the entrance bonus for officers who volunteer to come into submarines from \$3,000 to \$5,000.

Senator NUNN. Aren't you compelling some people to go into submarine duty at the Academy?

Admiral WATKINS. We are not compelling any, no sir. Not for submarine duty. We are ordering some nonvolunteers to nuclear power training. Those of them who do not volunteer for submarines go to surface nuclear ships. Nobody is being forced to submarines.

Senator NUNN. They are being forced to nuclear power?

Admiral WATKINS. That is right. I do not consider it forced. If they are bright people, they should serve in the kind of ship where the Navy has the greatest need for that kind of individual.

Senator NUNN. You either volunteer or you are ordered. If you are given an order, told to go, isn't that being forced?

Admiral WATKINS. It all depends on how your motivation program works out.

Senator NUNN. If we could reinterpret the volunteer force along those lines, we wouldn't have any problem.

Admiral WATKINS. We are trying to do that right now, as you know. We are having a hard time but we are working on it.

POSITION ON DRAFT

Senator NUNN. Have you decided what your position is on the draft and whether it will have an effect on the Navy's problem? Admiral Hayward has made his statement on that. What is your view?

Admiral WATKINS. I was told when I came over here today to try to keep this discussion of mine on the sea and sub pay issue. I will be delighted if you really think my opinion is worthwhile—

Senator NUNN. I value your opinion. We have talked for a long time, and I have a high regard for you.

Senator COHEN. I have a suspicion you probably know the answer.

Senator NUNN. No; I don't. I would like to know the impact of a draft, in your opinion, and whether you think it is going to be essential in the future.

Mr. DANZIG. Do you want to make clear whether you are asking Admiral Watkins to volunteer his opinion or whether you are drafting it? [Laughter.]

Senator NUNN. I am just asking him to respond to the needs of the Nation. I am asking for his personal view.

Admiral WATKINS. Mr. Chairman, I think my personal view, as recently expressed at the *Forrestal* lecture series which I gave at the

Academy, is that I felt that, one, the Navy does not have a requirement today to go to a draft to meet its input manpower requirements.

Two, it is my personal opinion that the Nation is ready for a period of service to the country by the individuals who make up the society. I think it is overdue. I think our Nation is turning around. I think we are seeing the flag waved for the first time. Our ships are coming back from the Indian Ocean and actually being welcomed by the politicians in the local areas. We have not seen that since World War II.

Senator COHEN. You mean Washington, D.C.?

Admiral WATKINS. I mean San Diego, Norfolk, and the like. As a matter of fact, when the *Midway* returned from the first Indian Ocean deployment, even the mayor of Yokohama, who had never come down before came down to meet the ship as did members of the Diet. We are seeing interest in maritime strategy around the world. This is very rewarding to our people, to see that kind of public interest return.

CONDITIONS IN SOCIETY INFLUENCE RETENTION

I believe the Nation is ready for the kind of proposal that you have been talking about over the years, to at least try to come to grips with a period of service to the Nation by its people, to be able to serve their country, because I think from that we all grow.

I think our Nation's leadership will be enhanced 20 years from now by that kind of arrangement. I think the All-Volunteer Force has worked to give us people. We have a reasonable demographic cross-section of society in the services, but there is a difference, and I feel that we all should be required to serve our country for a period of time in some service; and, therefore, I think when Admiral Hayward made his statement, he was rather courageous at that time, to come out and talk about the draft as a concept.

As far as the Navy was concerned, it had more than it needed to quantitatively meet its input manpower requirements which obviously we can meet when the unemployment is high. We are the beneficiary of that situation in society as we feed off the ills of the economy. That is the way the military and an All-Volunteer Force work. Many times when we say retention or recruiting is improving, it is not because of any action we have taken; it is due to conditions in society at the time.

Senator NUNN. The economy. Mr. Murray, do you have any personal views on this?

Mr. MURRAY. I share the VCNO's views, Mr. Chairman. I think the questions about the draft, as far as the Navy is concerned, in the narrow sense are that it is not absolutely essential to it. In the larger respect of the country and service to your country and providing a pool of trained people who would be available in wartime to go into the service, I think from that point of view, the draft is a useful thing.

Senator NUNN. Mr. Danzig?

Mr. DANZIG. Mr. Chairman, knowing that it will not be perhaps congenial to the views that you hold, let me offer three observations that run counter to what has been said:

The first, quite implicit, is that the kind of surge of enthusiasm for the military that Admiral Watkins describes—and I think we all ap-

plaud—fuels and sustains the Volunteer Force and, I think, does not cut for a draft but against it.

Second, nothing associated with the draft, in my view, would significantly help the kinds of problems we are here talking about today. There is a tendency, because of the intensity of the draft and volunteer issue, for people to talk about that rather than about what I regard—and I think, in the end, Admiral Watkins and Mr. Murray would regard—as the absolutely first-line crucial problems, those being problems of the career force, which problems I think would not be affected by the draft.

We are talking about years and years of time at sea and the like, and careerists who would not be draftees.

The last point I would like to make takes a somewhat different tack and that is that I understand and respect the desire of a variety of people. Admiral Watkins has articulated it and I think you, Mr. Chairman, have articulated it: A sense of obligation, of a world in which all serve.

I point out no draft scheme I have ever seen talks about anything like that. There are 2 million men and 2 million women who turn age 18 every year in this country. Admiral Watkins is not proposing to draft 4 million people. The reality is, with the kinds of forces we have today and will have predictably in the foreseeable future, a draft would be an exceedingly small-scale item: 50,000, 100,000, one out of 20, one out of 40 people serving. Those people are going to bear a strong sense of resentment when forced into serving and you are not going to achieve a world which all of us might think was desirable when it existed in the past when something like 40 out of 40—

Senator NUNN. When was the last time we had a zero shortage in petty officers in the U.S. Navy and when was the last time we had a 20,000 shortage?

Mr. DANZIG. We can go back and develop the figures, but I think you will find there have been such times in the past.

Senator NUNN. Could you supply that for the record?

Mr. DANZIG. Certainly.

[The information follows:]

PETTY OFFICER SHORTAGES

Navy's petty officer shortage has existed for more than a decade. It has grown from about 9,000 skilled, experienced petty officers in 1980 to more than 21,000 at the end of fiscal year 1980. The severity of the petty officer shortage, however, cannot be adequately assessed by gross numbers alone. Of greater significance is the fact that the experience level of Navy's career force has declined. As a result of less than adequate retention, the number of personnel with more than eleven years of service has, since 1974, been reduced by 21,500. One indicator of the effect of this reduction is that the average experience level of personnel in pay grades E-5 through E-9 has declined from 12.1 years to 11.4 years, representing a loss of ten percent of the 1974 experience base. The full extent of this loss of experience has been masked to some extent by the fact that while the number of personnel with more than eleven years of service decreased by almost 22,000, the number of personnel with five to ten years of service increased by 20,300, resulting in a net loss of only 1,200. This relatively small loss is misleading in that it does not reflect the significant loss of experience in the numbers of personnel with more than eleven years of services.

Additionally, while current numerical petty officer shortfall has remained approximately the same since fiscal year 1974, and the petty officer base that Navy has managed to maintain has declined in experience, the shortfall must now be

borne by a Navy that is significantly smaller than it was in the early 1970's. This means that the relative readiness degradation suffered by individual units due to manpower shortages has actually increased. To illustrate:

	Fiscal year 1974	Fiscal year 1979
Active force ships.....	512	455
Aircraft.....	5,445	4,289
Major shore activities.....	200	170
"Top 5" (E5-E9) shortfalls.....	-17,900	-19,200

READY DIVISIONS IN U.S. ARMY

Senator NUNN. When was the last time we had as few ready divisions in the U.S. Army as we have today?

Mr. DANZIG. Mr. Chairman, that has come up in recent times. I am very disturbed about that discussion. The tendency has been to say, "Gee, we had in the United States in 1975 or 1976"—take your date; the 1976 date is the date often used—"all our divisions in CONUS were ready and now they are not ready."

The reality is that in 1974, the decision was made to form three new Army divisions in the continental United States and in 1975 and 1976 that decision was implemented. Those three divisions were so unready in 1975 and 1976 they were not even counted in the report system. From 1976 to 1980, we began counting those divisions, redistributing assets to them, so that we went from a situation in which we had 13 divisions and 3 paper divisions to a reality where we had 16 strong, actual divisions.

It is not the case, in my opinion, that the kind of readiness figures that have been bandied about recently do indeed make a case that the readiness of the Armed Forces is considerably lower now than it was at some previous time.

Senator NUNN. We have had the Chief of Naval Operations say publicly we are going to have to start docking ships because we don't have enough people.

Forgetting whether we have a draft to cure the problem or we find some other way to cure the problem or some combination, everybody I know in the military tells me that the state of readiness today, personwise in the Navy, is the worst it has been in many years. Admiral Watkins just said he had never seen anything like it in 31 years.

Admiral WATKINS. Yes, sir; it is.

Senator NUNN. Mr. Danzig, do you say that we don't have any concern—everything is going well?

Mr. DANZIG. Absolutely not. I don't want to convey that impression. The readiness problems we confront are serious, as they were quite serious in 1976 and quite serious in 1971. I looked at the statement made in Congress yesterday. I find Secretary Schlesinger saying in 1976 that the readiness of our forces is not what it should be, and we have a serious concern. I find Secretary Laird, who has been speaking pointedly, saying in 1971 he was seriously concerned about the operational readiness of our forces. We had very real concerns.

The issue is, how you began to cure them. I don't believe for a moment that a draft would deal with that kind of problem. It did not deal with them when we had a draft.

We are talking about the career issue, people who are committed professionals. In my view, you get them better when you motivate them to volunteer than by coercing them to come into the service.

Senator NUNN. I heard almost as adamant a statement from you on the question of registration 1 year ago, and then I heard you change your views completely 5 months after that. I heard the same thing with the administration.

I must say that even though we don't agree, I do see hope that you are flexible and as the world changes and as evidence becomes overwhelming, Mr. Danzig, I have great confidence in your flexibility and your capability of making significant changes in direction and retaining the same degree of adamant opinion.

Mr. DANZIG. Mr. Chairman, appreciating this more generous than usual comment, let me say nonetheless that on the registration issue, Senator Cohen and I had a lengthy exchange, I think, when we came back here the second time offering a view that registration was appropriate then and not previously.

Senator Cohen then said, "Hey, aren't you changing your views with regard to that?" And I went to pains to point out two things to Senator Cohen, and I have to reiterate them here now because of what you have said.

One is that our position with respect to registration when the issue first came up was not that the President ought not to register people under any circumstances. It was an argument that Congress ought not to compel the President to register people at that time because there wasn't sufficient reason at that time.

We then had the invasion of Afghanistan.

POST MOBILIZATION REGISTRATION

Senator NUNN. And postmobilization registration could be handled after the President declared an actual emergency everything would work out fine and in 30 days we would be able to produce the number of people even after mobilization occurred so that we would have enough people going through training. That was the testimony; that was the adamant position. There are all sorts of documents to that effect.

The Director of Selective Service System wrote a letter saying in spite of 6 months of planning and effort, it would take another 60 days after Congress passed the law before they could even begin registration, which not only rebutted but also so overwhelmingly rebutted the previous premise you had been operating under, that it became almost laughable—we said it was a joke before.

So, I don't have a great deal of confidence, based on the historical record of the people in a civilian capacity in the executive branch of Government in this administration, or for that matter, the previous one, in coming to grips with a very difficult and sensitive problem.

Senator COHEN. Mr. Chairman, could I interject something here?

I find myself in agreement with various portions of the witness' testimony, including your most recent statement that the very inconsistency of this administration and past administrations is one of the major reasons why we as a subcommittee or full committee as soon as

possible ought to move forward with these recommendations made by Admiral Watkins and Secretary Murray.

The very urgency which the admiral sees as being the worst situation in 30 years, when Admiral Hayward has testified we have a hemorrhage in the Navy, we have a situation in my own State where Bath Iron Works turns out ships not only on time but also ahead of time, thereby saving taxpayers millions of dollars, but they slow them down because we can't man those ships. Therefore we are told, "Don't build them so fast, don't save as much money even though Admiral Hayward says we have to have more ships."

All the testimony is that the Chief of Naval Operations has to have more ships. But don't have the people to man them. There is no disagreement with the three witnesses that we have to have these rather significant increases in sea and sub pay. There seems to be no disagreement as to the amount of money that will be necessary, and I would say the fact of the inconsistency, the so-called flexible response, is one of the major reasons why Congress ought to move forward quickly with respect to this matter.

I would recommend, Mr. Chairman, with all due regard, that we at least consider H.R. 7626, which has the full support of the administration, as quickly as we can and consider any other matters such as those recommended by Admiral Watkins, before Congress adjourns, so that we don't have 3 to 4 months, and possibly 6 months, of hiatus before Congress returns to consider them.

Senator NUNN. The first I knew about this new proposal was Tuesday of this week. I assume we will do all we can to get it through to get the Senate Armed Services Committee between now and next Thursday. That will be a major problem. Then, the House Armed Services Committee has to act.

Senator COHEN. Perhaps at a minimum we could take up H.R. 7626.

Senator NUNN. I would hope we could take up part of this bill before we recess. The discouraging thing in the entire sea pay question is that there has been no evidence submitted here today that the previous sea pay package did any good.

Admiral WATKINS. Mr. Chairman, I would like to reiterate that we are talking about a \$30 million package which spreads over the career force of the Navy. This package increased the sea pay from \$8 a month to \$25. It is very difficult when you are doing elasticity measurements in any kind of retention effort to know what a difference of \$17 a month makes. It is two more beers here in Georgetown. So I don't really think that we can make an elasticity estimate. I know it was a good move because it was in the right direction and it sent a signal to our careerist, but it was simply inadequate. We knew it was inadequate at the time, but it was a better allocation of available dollars than to give away so many of those same dollars to the E-1's and E-3's at \$8 a month.

Senator NUNN. I would tend to agree with that. Of course, we now have a new package that would increase pay up to \$110. If you can't measure what has already happened in increasing pay from \$8 to \$25, and have not seen what \$110 will do, how can you possibly project not only what the Nunn/Warner bill may or may not do, but also what this is going to do?

You have been pretty precise in projecting exactly how many petty officers will be retained.

Admiral WATKINS. I can only put it in this perspective: 2 percent of the current pay in some cases is sea pay, but in our proposal we are talking about 22 to 25 percent of their base pay. That is a significant increase; that is almost the monthly heating bill; it is a lot of things like that which make a significant difference.

I would say it is a tenfold jump in the amount of dollars that are moving into that line.

Senator Nunn, if I may I would like to finish my informal statement, because I do touch on some additional things, if it would be possible to finish that.

Senator NUNN. Go right ahead.

Admiral WATKINS. Over the past 2 years the number of ships reporting marginally combat ready and not combat ready has been increasing steadily. In the past year the number of ships reporting marginally combat ready has doubled and those reporting not combat ready has quadrupled, to the point that in February of this year the Chief of Naval Operations, for the first time that I know of in our naval history, had to establish special inspection teams to go aboard all the ships declared not combat ready to determine: No. 1, were they safe to steam; No. 2, were they safe to operate; and No. 3, should they be deployed overseas?

This process is now institutionalized and formalized and we have a growing number of ships now that are not only combat ready—and, remember, when we talk about not combat ready we are talking about readiness relative to wartime requirements; I make that distinction because, obviously, in peacetime we can do many things with a ship that does not have the sustaining power for 60 combat operational days at sea.

So there is a distinction there that I want to make. But, nevertheless, our criterion is the same as used in the standard reporting system for all service within the Department of Defense.

SPECIAL NAVY ASSESSMENT PROGRAM

So, we have had to set up this special Navy assessment program. We now closely monitor every ship that is declared not combat ready and we know specifically the degree to which it is degraded.

We have also implemented the same process to measure our aircraft squadrons. Let me give you an example of the kind of limitations we have now had to put on the ships because of personnel. None of these constraints I am talking about are found in the other indicators of readiness, equipment, supply, and spares and the like; those are moving along quite well, in some cases improving, in some cases holding their own, but generally healthy and safe.

For example, we are talking about ships that are limited to manning three underway replenishment stations instead of six. We are talking about ships that are limited to four boiler operations for only 6 hours because of the number of additional watchstanders required. We simply don't have enough watchstanders to relieve the individuals beyond some specified maximum number of days underway.

The underway periods for some submarines are limited to not more than 96 continuous hours submerged. We have some squadrons limited to 18 hours of sustained operations for two aircraft, when performing ASW operations, and limited to 24 hours sustained operations we have reduced flying days to 12 hours for another

squadron, not to exceed five sorties per day, or a maximum of 3½ hours per sortie. Those are simply examples to illustrate the kind of restrictions we must impose.

SAFETY OF OPERATION

We are down to the fine structure of control on safety of operation. Safety is an indicator not in the reporting system per se. To measure safety, we have to know the people that we are monitoring; we must know what their qualifications and experiences are. As a result, we are quite concerned that we have reached that low edge of acceptability, where an inadequate margin of safety is going to preclude operation of ships, let alone preclude sustained combat operations which are seriously degraded by the 20,000 shortfall in experienced petty officers.

Senator NUNN. Could our Navy forces keep the Strait of Hormuz open?

Admiral WATKINS. Yes, sir, because we would take whatever steps were necessary to increase the maximum levels of the ships. For example, we would move people from shore duty. We would move them from other CONUS-based units and we would fly them over there, 600 or 700, to bring those units to combat strength.

Were we to do that, because the Nation wants it done, our people always would respond and do well. The question is, Is that the way we want to run it, rip them out of shore duty, rip them out of the ships back in the continental United States, to solve emergency problems overseas? We will do that when we must, but that should not be our normal process. I see no problem in conducting sustained operations in the Hormuz area. However, we could not act in a similar fashion to meet a greatly expanded demand. There simply are not enough of the right skills even ashore to meet all needs at sea.

Senator NUNN. If there was a NATO scenario or some other scenario in that time, the Navy would be in pretty bad shape?

Admiral WATKINS. We would sustain a degradation of the forces which would vary depending on the numbers and skills of particular individuals involved. We are talking about inadequate long-term sustainability and quality of the individuals to maintain the systems.

On the officer side, for the first time we are beginning to see trends of reduced readiness of ships because of the decline in junior officer experience levels. We are also seeing selection opportunities for officers increased. For example we have gone from 70 percent to 85 percent selection opportunity from lieutenant to lieutenant commander.

Senator NUNN. That really means that you can be less choosy about your officers; it is a way of seeing that the quality of the officer corps is bound to deteriorate?

Admiral WATKINS. By those indicators, the quality of the leadership moving into the special jobs has to be declining because you are accepting a cut level that is 10 to 15 percent lower than it was before. It is just one more manifestation of the deterioration of the experience levels that you have out there.

Because of this situation, we are sometimes accused of slackening off on officer leadership. But for the reasons indicated is not because

of anything we are doing deliberately. As a matter of fact, we are trying to tighten up in a lot of areas that I would now like to discuss.

Senator NUNN. For the record can you give us a breakdown of how much of this problem of officers is based on not recruiting them versus not retaining them?

Admiral WATKINS. Yes, sir, we can. They are obviously related. [The information follows:]

OFFICER ACCESSION/RETENTION

Surface Warfare

Surface Warfare has had an annual initial accession requirement of approximately 1,300. Since 1972 there has been a total shortfall of 886 initial accessions. Retention experience in the last eight years varies from 23 percent in 1973 to 39 percent in 1980, against a steady state requirement of 60 percent retention.

Surface Warfare has accession and retention shortfalls. Navy is unable to assign a finite portion of the surface officer strength problem to either accessions or retention but the best estimate would be 15 percent an accession and 85 percent a retention problem.

Aviation

Pilot retention has dropped dramatically from 62 percent in fiscal year 1977 to 30 percent in fiscal year 1980.

Accession of qualified pilot candidates has not and will probably not be a problem in the near future.

Physical training constraints (aircraft, instructors, etc.) for fiscal year 1978 and 1979 caused a significant shortfall to accession requirements. This has been corrected.

Accession of qualified NFO candidates is a problem. Estimate making recruiting quotas in fiscal year 1981, but with some difficulty.

As with with Surface Warfare, Navy is unable to assign a finite portion of the Aviator strength problem to either accession or retention but the best estimate would be 10 percent an accession problem and 90 percent a retention problem.

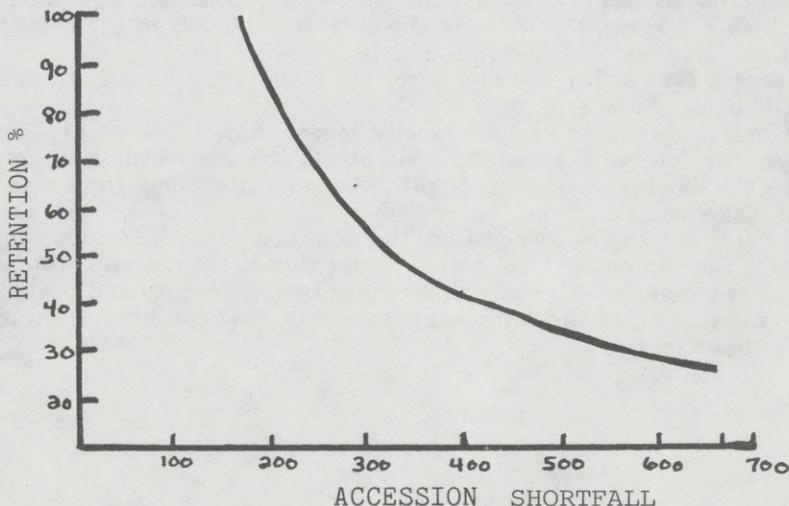
Submarine

The overall retention trend has been downward from the 73 percent in fiscal year 1967 to 36 percent in fiscal year 1980. Retention is projected to decline to 28 percent in fiscal year 1981 and 28 percent-24 percent in fiscal year 1982.

Nuclear submarine officer accessions have been below goal for the last 10 years.

The average annual shortfall has been 29 percent since fiscal year 1976.

The present accession goal is based on having sufficient officers to reach department head seniority at the 8 year point. The relationship between accession shortfall and required retention is depicted below. This graph assumes no carryover shortfall from previous years. Actual accessions and continuation values are shown in the following table.



YG	Accession	8 yr continuation (percent)
1969	269	31
1970	274	27
1971	305	33
1972	262	29

For submarine officers, the under accessions and low retention now act in concert to perpetuate the manning problems in that:

The years of under accessions have necessitated excessive amounts of sea duty. This in turn has resulted in lower retention.

Recognized excessive amount of sea duty has acted as an impediment to voluntary accessions.

Admiral WATKINS. If you can recommit to a larger input base, you can do it. But in the nuclear sub area we have been unable to achieve our input base because it grows beyond reach each year since retention is so low. We need to bring in very large numbers of high quality individuals to do the job. Supply and demand are out of balance. It is almost an impasse.

Senator COHEN. What is the retention rate for nuclear trained submarine enlisted, engineers, third term?

Admiral WATKINS. Third term, that is 10-14 years of service, has plummeted down 10 to 14 percent, close to 7 percent right now.

Senator COHEN. What should it be?

Admiral WATKINS. The goal is about 60 percent. Classically, in the old days, our very senior people would always stay past the 8-year point to achieve to the 20-year retirement carrot, because there was enough draw there. Even in the last 5 years and probably preferentially in the last 3 that retirement draw has disappeared. We are seeing in the private sector for the same individual retirement offers that are every bit as good as the Navys' 20-year retirement plan.

These individuals can move out and do thier job in the private sector and overcome the deficit that they would otherwise have had years ago. So I do believe that there are many things that have changed in this near-term period of double-digit inflation that I don't think we have a full grasp yet on all of the factors. I know the Senator doesn't feel that pay may be the sole issue. However, I happen to think that it is right now today the only variable left in the equation that we have not addressed properly.

Senator NUNN. I would also agree with you. It is the only thing we can do in the short term.

Admiral WATKINS. Yes, sir; I really believe that.

Senator NUNN. We can talk lot about the long-term answers. I think the short-term answers ought to be built into a long-term pattern that makes sense.

I don't see any evidence that the administration has a long-term view in the manpower area. I would agree that in the near timeframe—the next 6 months—the only thing that Congress can do and probably the only thing that the administration can do that can be enacted is to go for more pay.

INADEQUATE MANPOWER BASE

I would like to see it put into some kind of concept of where we are going in manpower. That is what is so frustrating. Even if we had every ship ready, every plane ready, all the crews ready, all the Army and Navy ready, and all the Reserves ready, in my opinion, we could not fight one and a half wars today. We don't have an adequate manpower base. We just don't have it.

The one and a half war theory is, to say the least, unrealistic today. It doesn't exist. We don't have that capacity. Yet, nobody seems to care. Nobody seems to talk about it. Nobody seems to have a long-term plan. It frustrates me to deal with this subject on such a piecemeal basis with no long-range view and no overall willingness to confront all the manpower issues in some kind of framework.

Whether we can pass them or not on an immediate basis is another question. I don't contend to anybody that we can pass everything that needs to be done in this area. It will take time. But to think that we are going to cure these problems by simply throwing money at them without having any plan at all in the long run, to me is not only naive; it is irresponsible.

Mr. MURRAY. We are rebuilding the Navy for the first time in a long time; so the trends on ships are going in the right direction. We are not restricted only to pay in terms of dealing with people. We are very much able to do some things on our own in the Defense Department and we are busy doing those things.

We do, however, still have to get the pay floor right, because if we don't people adequately, obviously some of these other efforts are insufficient to overcome opportunities that people have on the outside. So we have to get everything in balance. We have to have the right numbers of units for our strategy and we are working in the right direction on those. We have to make sure that readiness, in all other areas is up to speed—that we have the ammunition, the spare parts, are doing the overhauls, and so forth. We are working very hard on those areas and we have put more money in them the last couple of years. We are going to put further money in them in the next few years. We also have to do as much as we can to make sure that the leadership in the Navy is right, and that family life and naval life are as good as they can reasonably be. And then we also have to fix the pay.

I think when you add those all up, barring catastrophic things that we don't see now, we can be in a reasonably decent position in the next few years, in the Navy at least, with the proposals that we have in mind and the legislation that you have already passed.

Senator NUNN. Senator Cohen?

Senator COHEN. It is very difficult to sit here and listen to abstract talk about how to develop a blueprint of what we need. You cannot separate that, in my judgment, from having some coherent long-term foreign policy that it would integrate with.

Part of the difficulty I see at least is that it does not make a lot of sense to say we are combat ready if, in fact, you have no policy which tells you exactly what your responsibilities are going to be.

We are told, for example, we have a new responsibility in the Indian Ocean and they are going to get our help with the burden of cost-sharing on the part of our allies. I don't hear that anymore. I heard that back in February in Germany when we said we have to have a new sharing of the burden. Frankly, we don't have a policy with respect to the presence of the Soviet Union in the Caribbean—that deals with Havana and with Cuba. It is very difficult, in my judgment at least, to have some abstract concept about what it means to have a combat-ready military capability if you don't relate that to what are the vital areas of concern to the United States, what they are likely to be in the next decade or two for which you are trying to tailor that particular armed service. If you don't have the two of them, it does not make a lot of sense to say we are going to have a draft and pay proposals, among other things, if we don't fully integrate them with a comprehensive long-term policy.

We didn't have it in this administration; we didn't have it in the past administrations, including Nixon's and Ford's. I am not being partisan. It seems to me we have to redefine our vital interests and not simply note in some amorphous sense that we are prepared to fight anywhere in the world and then try to tailor our capability to that end.

I would simply say in view of the time problem you have, that I think it is important enough at least for the short-term emergency that we have some sort of meeting, if at all possible, next week.

Senator NUNN. I agree with you. We are going to do what we can to get as much of this through as possible.

Admiral, I know you are not through. Can you wrap up your statement in a few minutes as we are running out of time?

LEADERSHIP TRAINING

Admiral WATKINS. We are doing everything we can. We are putting 30,000 officers and enlisted next year, through leadership training in advance or tough sea assignments in order to prepare them it is inadequate and for all other problems. This is the first time we have found it necessary to do this in the Navy. When we are criticized that perhaps leadership need be improved, we accept that criticism. I think we are doing something about it.

I would say in closing that of the total deficit in military pay which has been expressed recently as residing somewhere between the OSD pay study figure of \$5.5 billion and the 1980 CBO study figure of \$6 to \$7 billion, we consider the Navy's portion to be about \$1.8 to \$2 billion. To date, Nunn-Warner has satisfied \$0.2 billion; the authorization bill, \$0.4 billion; the share of H.R. 7626 for the Navy would be \$0.02 billion. The total of these three initiatives would be about \$0.662 billion contributed toward that \$1.8 billion deficit.

I am measuring Navy versus Department of Defense, estimating that about 30 percent of the total military manpower cost problem to be Navy. In addition, the sea and sub pay proposal as submitted by Navy amounts to \$0.2 billion. If that is down to \$0.15 billion, so be it. That says that even with all of the initiatives of this year, one is which the Congress has passed more pay initiatives in the past month than they have in 15 years, we have solved only what we think to be about 40

percent of the total problem, but probably satisfied for 1981 at any rate.

So, we think that over the next several years, if the Congress is sensitive to the basic pay adjustments for our people, we will make it. But we must recognize that sea pay, sub pay, and special pay, under current law do not escalate with the base pay, but remain fixed. Therefore, with double-digit inflation, they will be worth less with each passing year and 4 years from now, we will probably be here asking for modernization of our special pays again.

Also, I do think Congress must be sensitive to the need for a series of adjustments in military base pay above the normal cost of living over the next several years. This year's 11.7 percent increase against the actual cost of living increase of 13.5 percent is merely holding our own. So the catchup has not yet commenced.

I think, over a period of years the estimated 15-20 percent base pay catchup needs to be looked at very consciously. Finally without your help, we would have had no hope of surviving in fiscal year 1981. Now there is hope.

I want to thank you and the other Members who have pushed so heavily this year, because I think you have saved the Armed Forces, certainly the Navy, from what would otherwise have been a very devastating situation.

There is a new sense of hope among our people. Morale is higher out there. I hear the term "low morale" used to define our situation, but it is not low aboard ships: they are doing a fantastic job. Their morale is up. They want to stay in the Navy. We have to close the deficit between what they could get on the outside and what they can get in the Navy. We don't have to exactly meet the outside pay scales, but we must be close enough so that Navy families can have some expectations for a reasonable way of life.

I appreciate this opportunity. I know it has been a burden on the Congress for us to come in late like this, but we think it is important to try to do what we can now in the closing days of this session of Congress.

Senator NUNN. Thank you, Admiral, for a convincing and optimistic statement about the future.

Senator COHEN. Mr. Danzig, I saw you flutter at some of my statements. In terms of inconsistency, let me assure you that the lack of inconsistency is not confined to the White House; the Congress, including myself, must bear our own measure of irresponsibility.

One example took place on the floor during the course of this morning's meeting, and that was a reversal—at last on record—of the President's policy of imposing a grain embargo against the Soviet Union. I happened to support the President on that matter, contrary to a number of my colleagues, you will be pleased to know, but that is part of the problem—Congress itself being inconsistent in its appreciation of formulating a long-range policy.

Senator NUNN. We may not be fighting the Soviets, but we sure as heck are confusing them.

I would like to insert in the record a fine letter from Mr. C. A. McKinney, senior vice president of government affairs, Noncommissioned Officers Association of the United States.

[The prepared statement of Mr. McKinney follows:]

NON COMMISSIONED OFFICERS ASSOCIATION
OF THE UNITED STATES OF AMERICA,
Washington, D.C., September 26, 1980.

HON. SAM NUNN,
Chairman, Subcommittee on Manpower and Personnel, Senate Committee on Armed Services, Russell Senate Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: The non Commissioned Officers Association of the USA (NCOA) commends your subcommittee's consideration of the CHAMPUS Dental Care and Military Pay and Benefits proposals recently adopted by the House.

The Association endorses both programs and recommends their early passage by the Senate. The adoption by the Congress will truly express the Nation's desire to adequately compensate those men and women who volunteer to serve its citizens in the United States Armed Services.

The dental care program will allow military dentists to provide care for the spouses and dependent children of active duty personnel on a space-available basis. Hopefully, the plan will be made available primarily to the dependents of members who are hard-pressed to pay for such expensive care through civilian sources. In this respect, the Association believes the care should be given on a priority basis to dependents of enlisted personnel. This, by the way, is continuing an old leadership custom of the military—taking care of the troops first.

Providing space-available dental care is not something new. It has been done over the years wherever a military installation was considered "remote" from the civilian sector. There were some installations not in that category outside the normal distances of travel to the closest civilian facility. The program will provide not only a service to those living in family housing on a military base, but could possibly aid in reducing energy costs in traveling longer distances to visit the private officers of civilian dentists.

The Association particularly endorses the Military Pay and Benefits Act (H.R. 7626). NCOA believes that most of the provisions in the bill will offer incentives to retain skilled and experienced non-commissioned and petty officers necessary to man the forces.

However, notwithstanding the recent kindness of Congress in developing "bigger and better" people retention programs, as now contained in Public Laws 96-342 and 96-343, NCOA urges the panel to consider increasing submarine duty incentive pay by a higher figure than the 25 percent recommended in the House version.

Submarine duty incentive pay has not been changed since 1955 when it was nearly 45 percent of a submariner's base pay. Today, 25 years later, it ranges from 7.6 percent of a Master Chief Petty Officer's base pay to 12 percent for a Lieutenant Junior Grade. As a probable result, the Navy has failed to attract sufficient volunteers for submarine duty and is unable to retain skilled petty officers who know how to take the subs to sea.

The Association is grateful for being able to submit this letter for the record. It is in hope that the panel will carefully consider the recommendations contained herein and expedite the adoption of both proposals. Meanwhile, the officers, directors and members of NCOA extend sincere appreciation for the outstanding work your distinguished subcommittee has accomplished throughout the 96th Congress. You, the members and staff have been most generous.

Sincerely,

C. A. (MACK) MCKINNEY,
Senior Vice President, Government Affairs.

Senator NUNN. I want to go on record as expressing our appreciation to the Non Commissioned Officers Association for their tremendous help in the last couple of years.

Senator COHEN. I have additional questions I would like to submit for the record.

Senator NUNN. Without objection, my questions, along with Senator Cohen's questions will be inserted in the record. Thank you all for being here.

[The questions with answers supplied follow:]

QUESTIONS SUBMITTED BY SENATOR SAM NUNN

NUCLEAR ACCESSION BONUS

Question. H.R. 7626 includes several increases in special pays for nuclear qualified officers. The nuclear accession bonus would be increased from \$3,000 to \$5,000. The nuclear continuation bonus payable for a four-year extension following initial obligation would be increased from \$20,000 to \$25,000 and the annual nuclear career incentive pay provided after 10 years of service would be increased from \$4,000 to \$5,000 per year. CBO estimates that these increases will cost about \$7 million a year.

What is the Department of Defense position with respect to these increases?

Answer. We are experiencing an unanticipated drop in retention of these officers. The projected figure for fiscal year 1980 is 34 percent, down from the 42 percent experienced for fiscal year 1979. One consequence of this is that an officer now entering the nuclear field can expect to spend 15 of the next 18 years at sea. The manning situation is further exacerbated by difficulties in obtaining volunteers for nuclear duty. We believe that the proposal contained in H.R. 7626 will be of significant assistance to the Navy in stabilizing the nuclear-trained officer community. We support this provision because it is a clear signal to our nuclear officers that we are taking positive action to retain them.

FUNDS FOR PRESIDENT'S BUDGET

Question. How much money is included in the President's budget for these increases?

Answer. No funds have been included in the President's 1981 budget for these increases.

EFFECT OF INCREASED NUCLEAR OFFICER SPECIAL PAY

Question. In 1976, Congress extended an increased nuclear officer special pay. What affect did that increase have? What have been the results of recruiting and retention for each year since 1976?

Answer. The increase in Nuclear Officer incentive pay in 1976 had a positive effect on retention. As can be seen in the following table, retention rose to 42 percent in 1979. The result of recruiting and retention for nuclear officers for each year since 1976 are as follows:

Year	Goal	Attained
Nuclear officer accessions:		
Fiscal year 1976	652	540
Fiscal year 1977	659	461
Fiscal year 1978	781	544
Fiscal year 1979	783	559
Fiscal year 1980 (projected)	758	577
		Percentage
Nuclear officer retentions:		
Fiscal year 1976		36
Fiscal year 1977		36
Fiscal year 1978		38
Fiscal year 1979		42
Fiscal year 1980 (projected)		34

INCREASE IN OFFICERS

Question. What specific increase in the number of officers accessed in fiscal year 1981 do you expect if this proposal is enacted?

Answer. Because of the relatively small numbers involved, it is not feasible to provide an accurate estimate. However, reaction among potential candidates has been favorable, and we believe that this proposal will not only result in an increase in the number of accessions, but the quality as well.

INCREASE IN OFFICERS RETAINED

Question. What specific increase in the number of officers retained do you expect in fiscal year 1981 if this proposal is enacted?

Answer. We believe that enactment of this proposal will result in the retention of approximately 30 nuclear officers.

OVERSEAS INCENTIVE PAY

Question. H.R. 7626 authorizes incentives to personnel, in shortage skills, who who extend overseas tours of duty for at least one year. Such personnel would be eligible to choose one of four options:

- (1) \$50 per month;
- (2) 30 days extra leave;
- (3) 15 days extra leave and travel to and from the U.S.; or
- (4) Travel to and from the U.S. for the member and his dependents.

CBO has estimated that this proposal would save money in the first year and would cost about \$6 million a year thereafter. Does the Department of Defense support this proposal?

Answer. The Services, particularly the Army, have observed that there are certain job codes for which there are more requirements overseas than in the contiguous United States. For all the Services, this affects about 30,000 overseas enlisted positions. This causes some undesirable effects among the servicemembers affected. For instance, the time between overseas tours is shortened considerably (12-24 months compared to 30 months for a person not in such an occupational specialty). The instant proposal would ameliorate this situation by inducing servicemembers in these positions to extend their tours overseas in exchange for a special pay of \$50 per month, or some agreed upon combination of rest and recuperative absence and transportation at Government expense. Survey data collected by the Army during 1978-79 indicated that the short turnaround time was a principal concern with more than 50 percent of Army personnel. The Services estimate that the proposed incentives could induce over 6,000 tour extensions during fiscal year 1981. An attractive feature of this proposal is that the relatively small amount invested in incentives (\$4.3 million) would result in much greater PCS cost-avoidance savings (\$23.2 million). Accordingly, we support this proposal.

FUNDS INCLUDED IN PRESIDENT'S BUDGET

Question. How much money is included in the President's budget for this proposal?

Answer. No funds have been included in the President's 1981 budget for this proposal.

DEPENDENTS OVERSEAS

Question. How would this proposal affect the number of dependents overseas?

Answer. Enactment of this proposal should not affect the number of dependents overseas.

OVERSEAS EXTENSION INCENTIVES

Question. In last year's authorization report, the Committee recommended that, "The Secretary of Defense should consider management actions through the use of cost effective positive incentives". We suggested that the incentives to be considered should include incentive pays, assignment guarantees, shorter tours, and accompanied tours for enlistments and reenlistments. Are there any legislative proposals along these lines?

Answer. There are no legislative proposals presently pending; however, alternatives to reduce the number of dependents overseas were reviewed and a number of voluntary programs designed to encourage members to elect shorter unaccompanied tours were emphasized.

INCENTIVES

Question. In last year's authorization report, the Committee recommended that, "The Secretary of Defense should consider management actions through the use of cost effective positive incentives". We suggested that the incentives to be considered should include incentive pays, assignment guarantees, shorter tours, and accompanied tours for enlistments and reenlistments. What would be your opinion of restricting the extra leave and transportation incentives

of this proposal to unaccompanied tours, so that those who extended an unaccompanied tour would receive extra leave and transportation home?

Answer. We would not be in favor of restricting the extra leave and transportation incentives of this proposal to unaccompanied tours. Unaccompanied tours overseas, while initially less expensive than accompanied tours, are not without their own problems and associated expenses ("Designated place" moves for dependents, for example). Personnel who meet the other qualifying criteria of this proposal and who happen to be unaccompanied will be able to avail themselves of the incentives of this proposal. If we determine that the provisions of this proposal can be expanded to benefit both servicemembers and the Government, we intend to propose any necessary changes.

OVERSEAS EXTENSION INCENTIVES

Question. Current law restricts the number of dependents overseas to 325,000. Would dependents authorized leave and transportation under this provision be counted towards that 325,000?

Answer. If the dependents concerned are command sponsored they will be counted against the 325,000 ceiling during those periods that they are actually located overseas.

AFFECT ON NAVY PERSONNEL

Question. How would this proposal affect Navy personnel on long overseas deployments or who voluntarily extend on sea duty?

Answer. This proposal would not be applicable to U.S. Navy personnel who were overseas on extended deployment. However, the proposal might be applicable in the case of Navy personnel who were assigned to ships or units that were forward deployed; that is, actually assigned a home port overseas. This would assume that the other qualifying criteria existed, such as the imbalance of job code positions overseas that caused a correspondingly shorter turnaround time of personnel qualified to fill these positions.

BAQ

Question. Mr. Danzig, the Administration has proposed that BAQ for bachelors in grade E-7 and above be authorized at a cost of \$33 million per year.

How much money is included in the President's budget request for this proposal?

Answer. No funds have been included in the President's 1981 budget for this proposal.

ON-BASE SINGLE HOUSING

Question. Especially with the introduction of a new Variable Housing Allowance, if enlisted bachelors in grade E-7 and above and all officer bachelors are authorized to draw BAQ, how can you be assured that on-base single housing will be fully utilized?

Answer. We do not anticipate that this will cause problems. We expect that this proposal will result in more quarters being available for personnel on temporary duty or in a transient status. Also, we have proposed that the legislation be modified so that we will have discretionary authority to extend this option and therefore retain a measure of positive control.

SINGLE SENIOR ENLISTED PERSONNEL

Question. Although I realize that there are not now large numbers of single senior enlisted personnel, those that are around and on base do provide military leadership and contribute to discipline. Won't removing all of these people from the post thus have a negative effect on discipline and leadership?

Answer. During the course of coordinating the DOD version of this proposal, this point was specifically addressed. We believe that the most important contribution to discipline and leadership in the barracks come from the E-5 and E-6 community. Additionally, in most locations, E-7 through E-9 are not quartered with the junior personnel. Therefore, we do not believe that this proposal will have a negative impact on morale and discipline.

BAQ FOR BACHELORS IN GRADE E-7 AND ABOVE

Question. Isn't it true that at most military facilities married E-7's and above live on post in Government housing? This means that they are available if problems arise and are at least in relative close proximity to the troops.

Answer. At most military facilities, the majority of married E-7's and above live off base. It is the responsibility of the operational commander to determine which personnel are required to live on post based on duties that are key and essential to the mission. This is generally less than ten percent of the personnel assigned to the installation.

Question. Has any thought been given to upgrading Government quarters for senior single enlisted personnel or offering them what is now married Government quarters rather than moving them off the post?

Answer. Housing programs to upgrade Government quarters have primarily supported the junior enlisted personnel, and only the key and essential personnel in grades E-7 and above. The family housing inventory is fully utilized for valid requirements of married personnel. Considering the economic disincentive associated with government housing for personnel in grades E-7 and above without dependents, providing housing to this category is not considered an acceptable alternative.

OFF-POST LIVING

Question. Single officers in pay grade O-4 and above are now authorized to live off post. I understand the argument is primarily one of equity to allow enlisted personnel E-7 and above to live off post. What is the rationale for allowing junior officers in grades O-1, O-2, and O-3 to live off post?

Answer. The rationale for allowing officers in grades O-1 through O-3 to live off base and receive a BAQ is that living in Bachelor Officer Quarters has been increasingly identified as a disincentive for future military service. This situation generates real inequities and frustrations for single officers who seek more privacy or the economic advantages of home ownership.

LOSS OF BAQ

Question. If a single serviceman does decide to live off post under this new authorization and is then assigned to sea duty, won't the result then be a loss in his BAQ. So, under this proposal, there will be more personnel, including for the first time senior enlisted personnel, who will have to take a pay cut to go to sea?

Answer. Under current law, the single servicemember drawing a BAQ would indeed lose BAQ when assigned to sea duty. However, the current proposal also contains a provision—which we support—that would allow a servicemember in such a situation to continue receiving BAQ as long as the ship or unit to which the servicemember was attached was not out of its home port more than 90 days.

TRAILER PADS

Question. (a) How many trailer pads are currently maintained by the Federal Government for military personnel?

(b) How many trailer pads will the Government be purchasing or constructing during fiscal year 1980?

(c) Has there been a conscious decision to supplement military housing with trailer pads? If so, when?

Answer. (a) The Department of Defense currently has 6,568 mobile home pads which are maintained in an active status for use by military personnel.

(b) None.

(c) There has not been a conscious effort by the Department of Defense (DOD) to supplement military housing with mobile home pads. It is DOD policy that consideration may be given to providing government owned parking facilities for mobile homes owned by servicemen if suitable private parking facilities at reasonable rates within the commuting area cannot meet the requirement.

TRAILER PAD CHARGES

Question. (a) I understand that currently the rental fee covers utilities, maintenance and an amortized cost of construction. Is that true?

(b) What is the current charge for renting a government owned trailer pad?

(c) How does this differ from a "reasonable charge" for trailer pads?

(d) How much would a service member be charged for renting a trailer pad under this new interpretation?

Answer. (a) The current rental fee supports only the cost of maintenance and an amortized cost of construction. The utilities are paid separately by the owner of the mobile home occupying the space.

(b) The current charge for renting a government owned mobile home pad, exclusive of utilities costs ranges between \$15 and \$46 per space, per month. This range reflects the differences in maintenance and amortized costs of construction for individual projects.

(c) The "reasonable charge" or fair rental value would be based on a comparison of DOD-owned pads with comparable private rental mobile home pads located within an adjacent established community. Since the current charge for renting a government owned pad reflects the cost to the government for maintenance and an amortized cost of construction, this is generally less than the "reasonable charge" for mobile home pads in the private community.

(d) Information to develop the charge for renting a mobile home pad under the reasonable charge principle is currently not available. A market analysis of the private community adjacent to each military installation with an inventory of mobile home pads would be required to determine the "reasonable charge" or fair rental value that would be charged to service members.

PLC ATTRITION/REENLISTMENT

Senator NUNN. Please provide attrition rates for PLC-procured officers from the day they begin their initial active duty at the 6-month point, at the 1-year point and at the 2-year point, for the last 3 years for which data is available. For comparison, provide similar attrition rates for officers procured by other means.

ANSWER. All newly commissioned Marine officers, regardless of accession source, have an initial active duty obligation of at least 3 years. Accordingly, the only means by which officers are released from active duty before that time are hardship/humanitarian discharges and disciplinary action. The number of such cases is too small to identify any kind of relationship to the officer accession source.

Senator NUNN. Please provide reenlistment rates for PLC-procured officers for the last 3 years for which data is available. For comparison, provide similar reenlistment rates for officers procured by other means.

ANSWER. A valid measure of retention for any officer program is the percentage of officers retained 2 years after the completion of the initial active duty obligation. Although that obligation varies according to the officer accession source and the officer's specialty, the retention rate at the 6-year point is used because the average initial active duty obligation for Marine officers is about 4 years. Accordingly, the following figures reveal the retention rates (expressed by percent) for officers commissioned in fiscal year's 1971-73 for the various officer accession sources:

Platoon Leader Class (PLC)	27.5
United States Naval Academy (USNA)	61.5
Naval Reserve Officers Training Corps (NROTC) (Scholarship)	34.6
Naval Reserve Officers Training Corps (NROTC) (Non-Scholarship)	19.7
Navy Enlisted Scientific Education Program/Marine Corps Enlisted College Education Program (NESEP/MECEP)	67.5
Officer Candidate Course (OCC)	21.8

PLATOON LEADERS CLASS

Senator NUNN. How many persons are involved in the Marine Corps Platoon Leaders Class Officer Candidate Plan?

ANSWER. Currently, there are 3585 members enrolled in the PLC Program.

Senator NUNN. How many Marine Corps officers were commissioned yearly from 1974 to 1979 who were also participants in the Platoon Leader Class program?

ANSWER. The following shows the number of commissioned officers obtained from the PLC program for the years indicated:

Fiscal year:	
1974	606
1975	836
1976	560
TQ	165
1977	847
1978	688
1979	815

PLC PERMANENT AUTHORITY

Senator NUNN. Why do you advocate permanent authority as opposed to periodic renewals?

ANSWER. Although the Senate included a 2 year extension of the authority to pay a subsistence allowance to members of the PLC program in the fiscal year 1981 Defense Authorization bill, the Marine Corps still finds if necessary to seek permanent authority because there can be no guarantee that the temporary authority to pay the allowance will always be renewed. Temporary authority to renew the allowance has almost always been approved just prior to the expiration of the previous authorization. This increases the sense of uncertainty surrounding the subsistence allowance and requires the Marine Corps to include the expiration date of the temporary authority in the agreement which members of the PLC program must sign before they can receive subsistence allowance. Since the Marine Corps cannot guarantee to the individual that the authority to pay the allowance will be renewed, it is possible that some members may be reluctant to continue in the program. This is especially true for those who are financially dependent on the allowance to remain in school.

The consequence of most significance in having to rely on temporary authority instead of permanent authority to pay the subsistence allowance is the repetitive efforts which have had to be expended in reviewing the PLC stipend issue. Since there can be no guarantee that the temporary authority to pay the allowance will always be renewed, the Marine Corps has no alternative than to continue the effort to obtain permanent authority. The significance of this is underscored by the fact that the Marine Corps relies on the PLC program for nearly 50 percent of its commissioned officer accessions. Permanent authority to pay subsistence allowance to members of the PLC program would not only provide for the legal protection and continued effectiveness of this most important of Marine Corps officer accession programs, but would also result in a huge savings in time and manpower by not having to rely on the uncertainty of temporary authority every 1 or 2 years.

CHAMPUS IN-PATIENT COST SHARING—H.R. 3351

Senator NUNN. Dr. Moxley, what is the estimated percentage of CHAMPUS inpatients surgery that could be performed on an outpatient basis?

Has there been a significant use of outpatient surgery under CHAMPUS by retirees?

ANSWER. Surgery under CHAMPUS should not vary significantly from that considered in the predominant national studies/opinions widely reported in surgical journals and related publications. These estimate that from 20 percent to 40 percent of the surgical procedures generally performed on an inpatient basis appropriately could be provided in an outpatient setting when adequate outpatient facilities are available. The availability of such centers continues to increase. In the period from 1975 to 1978, the latest year for which adequate data are available, for retirees, dependents and survivors there was a 12 percent increase in the number of outpatient surgery claims while their hospital surgery claims showed a 24 percent decrease. (For dependents of active duty members in the same period there was a 14 percent increase in outpatient surgery claims while their hospital surgery claims decreased 38 percent.) We believe that both the use of outpatient surgery by retirees and the increase in usage over the 3-year period are significant.

Senator NUNN. Dr. Moxley, is there any other medical care that the CHAMPUS program could provide other than surgery, which active duty dependents find more financially attractive to have provided on an inpatient rather than outpatient basis?

ANSWER. Yes, services related to accidents and medical emergencies provided in an outpatient setting. This is a fairly common practice among leading health care plans that have different levels of payment for inpatient and outpatient care.

CHAMPUS OUTPATIENT CLAIMS

Senator NUNN. Dr. Moxley, what is the current situation on outpatient claims to CHAMPUS?

Colonel Walsh indicates that he may not have experienced these delays if his wife had elected to be hospitalized rather than treated on an outpatient basis. What roadblocks exist to payment for outpatient care that do not exist for inpatient care?

ANSWER. There has been a major decrease in the time in which CHAMPUS inpatient and outpatient claims are being processed. In August, 1980, the latest month for which data are available, 84.9 percent of all CHAMPUS claims were processed in 21 days or less, and 93 percent were processed in 30 days or less. In August, 1979, comparative figures were 52 percent processed in 21 days or less, and 76.2 percent processed in 30 days or less. This trend was initiated more than a year ago by strict management techniques. Although separate data for just outpatient claims are not available, they have been subject to the same general improvement.

There should be little, if any difference in the time required to process a claim for inpatient services or a claim for outpatient services if the claim form is filled out properly. However, since beneficiaries tend to prepare and submit a greater percentage of outpatient claims the quality of outpatient claims is generally poorer. Most inpatient claims are submitted by institutional employees with experience in completing such forms.

QUESTIONS SUBMITTED BY SENATOR WILLIAM S. COHEN

NAVY READINESS

Question. In terms of readiness, is the Navy in better or worse shape today than it was a year ago?

Answer. The overall readiness of the Navy, as measured by our formal readiness reporting system (UNITREP) has declined over the past year. This is a result primarily of shortages in experienced career petty officers. Other indicators of readiness have been improving. Nonetheless, the pervasive nature of the personnel shortage is such as to overshadow other indicators and drive the combat readiness of the fleet down.

The UNITREP system provides the following comparative data on readiness: Of the total active ships inventory, [deleted] are currently [deleted]. A year ago that figure was [deleted]. Ships undergoing scheduled maintenance (such as regular overhauls) are excluded from these figures. Similarly, a year ago there were [deleted] ships reporting [deleted]. As of 22 September 1980 there were [deleted] ships reporting [deleted] for personnel reasons. Further, during the same month there were also [deleted] ships reporting [deleted]. One year ago that figure was [deleted].

Aviation squadrons are being affected in the same way by shortages of personnel, both pilots and air crew. Of [deleted] operational aviation squadrons, [deleted] are reporting [deleted] of the [deleted] cite personnel resources as the primary factor contributing to their degraded readiness. One year ago there were only [deleted] squadrons reporting [deleted]. In September, the total number of squadrons reporting either [deleted] in the personnel resource area represented [deleted] of all aviation squadrons. One year ago that figure was only [deleted].

Within the past year we have instituted high level reviews of individual units which are reporting or projecting a Not Combat Ready status (C-4). These "Safe-to-Operate" reviews determine what operational restrictions need to be imposed in view of personnel/experience shortfalls. [Deleted] ships and [deleted] aviation squadrons are currently operating under such formal restrictions, whereas one year ago no such restrictions were imposed.

READINESS TRENDS

Question. Over the past few years, has there been a trend in readiness which you could identify?

Admiral WATKINS. In reviewing readiness data for the period 1976 to the present there have been no identifiable trends until the latter part of calendar year 1979. The trends described in response to the previous question are the first which have been identifiable as long term and sustained.

REASON FOR LOW READINESS FIGURES

Question. Are these low readiness figures the result of personnel shortages?

Answer. To an overwhelming extent, low fleet readiness is directly attributed to personnel shortages either in the aggregate or in the important E-5—E-9

supervisory paygrades. For example on 22 September 1980 there were [deleted] ships [deleted] for reasons other than programmed. Of these, [deleted] were not combat ready because of serious personnel shortages. On this date, also [deleted] aircraft squadrons were "Not Combat Ready". Of these, [deleted] due to personnel shortages. This readiness posture is representative of experience during the past year.

PERSONNEL SHORTAGES

QUESTION. Is the problem getting better or worse? How serious do you consider these shortages? How severe is their impact on readiness?

Admiral WATKINS. Historically, Navy has operated with some degree of personnel shortages, but the trend in fleet manning in the aggregate and among skilled petty officer supervisors has been steadily declining since early 1978. The primary reason for the downward trend in fleet manning is that Navy has been unable to retain, over the past several years, the required number of petty officers, especially those serving in their second and third enlistments. In attempting to offset poor retention, Navy has been promoting into and within Top Six paygrades at the maximum achievable rate.

Compounding the numerical deficit of petty officers is the reduction in the experience level of these personnel. During the past five years, the average length of service for petty officers decreased almost three fourths of a year equating to the loss of almost 250,000 man years of experience. In both fiscal year 1974 and fiscal year 1979 Navy had a 20,000 petty officer shortfall. However, during this period the experience mix changed dramatically for the worse. Between fiscal year 1974 and fiscal year 1979 the more experienced bloc of the total inventory (length of service cell 11-31 years) lost 21,000 while the less experienced bloc (length of service cell 5-10 years) gained 20,000. The result is an adverse experience inversion.

As new ships and aircraft squadrons become operational in the future, Navy petty officer requirements will increase. This will require significant improvement in retention if these operating units are to be manned at adequate levels. As an example, if retention goals are met through fiscal year 1983, Navy will still have a 15,500 petty officer shortfall in fiscal year 1985. Under the best circumstances, the recovery of Navy's experienced petty officer deficit will take several years.

The shortage of experienced petty officers has had a severe impact on fleet readiness. Over the past two years, the number of ships reporting "Marginally Combat Ready" (C3) and "Not Combat Ready" (C4) due to personnel shortages have been increasing steadily. In the past year, the number of ships reporting "Marginally Combat Ready" have doubled and those reporting "Not Combat Ready" have quadrupled.

MOST SERIOUS PERSONNEL SHORTAGES

QUESTION. Where do the worst shortages appear?

Admiral WATKINS. The Navy's worst personnel shortages appear in the E5-E9 petty officer structure where we have a 20,000 shortage. Specific ratings which have the most readiness-degrading shortages are: Boiler Technician (BT), ASROC Gunners Mate (GMT), Gas Turbine Technician (GSM), Machinist Mate (Conventional) (MM), Operations Specialist (OS), Torpedoman (TM), Aviation Fire Control Technician (AQ), Aviation Anti-Submarine Warfare Operator (AW), Quartermaster (QM) and Electronics Warfare Technician (EW). All of these ratings are sea duty intensive.

REQUIRED RETENTION RATE

QUESTION. What retention rate must be attained in order to properly man our submarines and provide a normal sea/shore rotation?

Admiral WATKINS. Although submarine manning has been maintained at approximately 100 percent of allowance using increased accessions, a serious problem has developed in the portion of the crew represented by senior experienced petty officers. Since 1977 when the inventory of submarine senior petty officers nearly matched our requirements, the rapid loss of these supervisors to civilian industry has caused today's inventory to dwindle to only 67 percent of the current needs. The competition for our senior petty officers is acute was civilian industry offering improved compensation and less arduous working conditions. For a senior qualified nuclear-trained petty officer these offers amount to an average starting salary of \$28,000 with reasonable guarantee of early increases. The prob-

lem has developed to such proportion that with today's shortages of senior nuclear-trained petty officers with greater than ten years of service, it will take at least five years of significantly improved (at least 75 percent) third-term retention to correct this supervisor deficit. Until then, even the maximum Navy sea rotation schedule of five years at sea followed by two years ashore will be insufficient to maintain the submarine senior E-6 to E-9 petty officer manning at necessary levels. This concern has manifested itself in the requirement for operational commanders to evaluate the experience level on board deploying submarines to assure the safe operation of the submarine.

RETENTION OF NUCLEAR-TRAINED ENLISTED SUBMARINERS

QUESTION. What are the retention rates of enlisted nuclear-trained submariners—particularly third-term sailors?

Admiral WATKINS' information:

[In percent]

	1st term	2d term	3d term
1978-----	49	44	30
1979-----	46	58	27
1980-----	40	42	17

¹ During the 1st 6 mos of 1980, 55 nuclear-trained 3d-term (10-14 yr of service) submariners left the Navy and only 4 individuals reenlisted.

RETENTION RATE OF NUCLEAR-TRAINED SUBMARINE OFFICERS

QUESTION. What is the current retention rate of nuclear trained submarine officers? And what level is necessary for proper manning of our submarines?

Admiral WATKINS. The current overall retention rate of nuclear submarine officers is 36 percent. This is down from 42 percent in 1979. Retention is projected to decrease to 28 percent and 24 percent in 1981 and 1982 respectively. If accession requirements are met, a retention rate of 45 percent is required. At our present rate of accessions (under goal), a retention rate of approximately 65 percent is required.

SEA TOUR LENGTHS FOR NUCLEAR SUBMARINE OFFICERS

QUESTION. How many years does a nuclear submarine officer spend on sea duty?

Admiral WATKINS. A typical nuclear-trained submarine officer spends 15 of his first 18 years on sea duty. The last 12 of these years are spent in back-to-back sea duty assignments, without shore duty, in Department Head, Executive Officer and Commanding Officer assignments.

SUBMARINE OFFICER CAREER PATTERNS

QUESTION. Is this the desired career pattern for a submarine officer?

Admiral WATKINS. No. The desired career pattern is 11 years of sea duty in a 20-year career. This would result in every other tour being served ashore.

EXTENDED SEA TOURS

QUESTION. Why must he spend so much time at sea?

Admiral WATKINS. The extended sea tours are necessary in order to continue manning submarines at today's force level. This is compounded by the fact that submarine force levels are expanding each year. For example, we must man the TRIDENT submarines at a rate of 3 new crews a year, and the Los Angeles Class Attack Submarine requires another 2 new crews each year. During the past 10 years the number of required crews has increased from 123 to 165, even with the decommissioning of the older Polaris SSBN's. At the same time that submarine force requirements are rapidly expanding, our mid-grade officer inventory is decreasing due to poor retention. We are constantly spreading our assets thinner and thinner. The long sea tours are the major reason given for leaving the Navy on officer separation questionnaires. Unless Submarine Duty Incentive Pay is increased, retention will continue to decrease and sea tours will increase further.

SHORTAGES OF NUCLEAR SUBMARINE OFFICERS

QUESTION. What is the current shortage of nuclear submarine officers?

Admiral WATKINS. The 1980 requirements are 4,600 officers. The 1980 assets are 2,455 officers. The requirement of 4,600 officers would allow the Navy to maintain a desired sea/shore rotation of 11/9.

SUBMARINE OFFICER RETENTION PROBLEM

QUESTION. Is the problem getting better or worse?

Admiral WATKINS. The problem is getting worse. While the Submarine Force continues to expand in officer requirements, the number of officers available to fill the billets is dropping off in the mid-grades and we are unable to meet accession requirements into nuclear power training. The shipbuilding program causes the number of crews that must be manned to increase to an average of 5 per year. At the same time, we are also faced with an increase in manning requirements for new submarine squadrons, training and maintenance facilities and a submarine base. As an example, since 1970, the number of crews that we man has increased from 123 to 165. We continue to spread our assets thinner and thinner, with necessarily longer sea tours, which is causal to the recent significant downward trend in retention.

The Submarine Force closely tracks the retention of its officers. Because of the small community, it is a relatively easy task to count and analyze each resignation letter. The major reasons given in these letters for resigning are that a typical submarine officer is serving longer sea tours, without a chance for post-graduate school or other desired duty, and at pay levels that are not an incentive for this type of duty.

Unless some significant action is taken to reverse the trend, retention in 1981 and 1982 is predicted to be 28 percent and 24 percent respectively.

RETENTION CRITERIA

QUESTION. How long will it take the Navy to "get well"?

Admiral WATKINS. Economic analysis indicates that Navy's proposed submarine pay increase with the recently approved VHA and 11.7 percent base pay increase will provide an inventory of submarine officers equal to the essential submarine billets by 1984. However, these officers will be more junior than desired for proper sea manning and the inventory will not allow achieving the desired sea-shore rotation.

The Submarine Force will require 6 to 7 years before it can really "start to get well." The two very important variables in "getting well" are (1) meeting accession goals and (2) maintaining an adequate retention rate of those officers already serving in the Submarine Force. The 6 to 7 years is based on the fact that the present "choke point" (point of greatest need) for the Submarine Force is the Department Head tour which typically starts at the 6 to 7 years of service point.

For the Submarine Force to "get completely well," it will take a minimum of 18 years. During this 18 year period of time, annual accession goals must be consistently met, and retention must be at least 45 percent annually. The definition of "completely well" is a stable retention rate of at least 45 percent and a sea/shore rotation of 11 years at sea and 9 years ashore.

SUBMARINE RETENTION PROBLEM

QUESTION. In your opinion, will the 25 percent increase in pay and bonuses be sufficient to solve our submariner retention problem?

Admiral WATKINS. No, it will not. The 25 percent increase in pay and bonuses will help but the level of compensation change we are talking about will not have significant effect on retention. For example, an E-4 will receive an additional \$15.00 per month in submarine pay; and an E-6 will receive an additional \$22.50. On the officer side, the 25 percent increase in the bonuses will result in an additional \$83.00 per month.

The last time Submarine Duty Incentive Pay was increased was in 1955. At that time submarine pay was approximately 45 percent of base pay and we had no problem with retention or accessions. Today, submarine pay is 11 percent to 12 percent of base pay. It is no longer an incentive for the arduous and demanding duty.

If we want to make a serious effort to increase retention, we must make sure that the amount of money we offer is enough. To do otherwise could be counter-productive. There are many submariners just waiting; holding on until they see what happens. If the benefits we offer are enough, they will stay; if not, the trend may be disastrous and we will have wasted a lot of time and lost many experienced personnel.

RETENTION OF SEA INTENSIVE RATINGS

QUESTION. Compared with the all-Navy average, is the retention rate higher or lower in the Navy's "sea intensive" ratings? What is the sea-shore rotation schedule of the "sea intensive" ratings?

Admiral WATKINS. The extremely arduous nature of sea duty with its long family separation and long working hours explains best why severe careerist shortfalls exist within Navy. As illustrated below, Navy's ratings which are sea intensive in nature have overall lower retention than those less sea intensive ratings. An efficient device to increase retention in these sea intensive ratings is sea pay. While the desired sea/shore rotation pattern for all Navy personnel is three years at sea and three years ashore, sea intensive ratings are five years at sea for every two years ashore. This is driven by declining retention, and amounts, on average, to spending at least 14 years at sea during a 20 year career. Examples of sea intensive and less sea intensive ratings through 31 July 1980, as compared with the all-Navy average, are:

	1st term (percent)	2d term (percent)	3d term and beyond (percent)	Rotation (months)	
				Sea	Shore
All-Navy	38.5	53.0	91.9		
Sea intensive ratings:					
OM	21.2	53.2	89.4	60	24
EN	24.9	58.6	95.1	60	24
GMT	30.3	51.8	91.1	60	24
BM	23.0	59.9	91.7	60	24
EM	46.5	35.1	88.0	60	24
MM	46.7	39.6	85.6	60	24
OS	18.9	57.9	90.6	57	24
MR	19.5	54.6	92.9	54	24
GMM	29.4	50.0	90.0	48	24
ABE	24.7	41.2	92.9	45	24
Less sea intensive ratings:					
LN	65.0	83.0	93.3	39	27
SK	42.8	59.9	95.2	39	27
CTM	96.8	52.6	95.0	24	12
PH	63.2	84.7	92.6	39	33
DM	51.4	73.9	92.9	39	51
AK	37.9	62.6	95.0	36	39

¹ 6 yr obligated service.

SEA/SHORE DUTY RETENTION RATES

QUESTION. Across the board, is the sea duty retention rate higher or lower than the shore duty retention rate?

Admiral WATKINS. Across the board cumulative retention rates indicate that sea duty retention rates are substantially less than shore duty retention rates as follows (fiscal year 1980 through June 80).

[In percent]

	1st term	2d term	3d term and beyond
Sea duty	35.4	46.0	89.0
Shore duty	41.6	57.4	92.8

VP VERSUS VF SQUADRON RETENTION

QUESTION. Would you compare the retention rates for VP squadrons (which do not deploy aboard ships) with VF squadrons (which do deploy aboard carriers)?

Admiral WATKINS. Retention rates for VP squadrons as compared with VF squadrons in fiscal year 1980 (through June 1980) are as follows:

[In percent]

Type	1st term	2d term	3d term and beyond
VP-----	40.0	51.0	91.0
VF-----	28.0	46.0	89.0

SEA-GOING NAVY RETENTION

QUESTION. In your opinion, what steps must be taken to improve the retention rates for our sea-going Navy?

Admiral WATKINS. The major step to be taken in order to improve the retention rates for our sea-going Navy is to recognize the unique working conditions of the shipboard habitat through increased compensation. Sea pay has historically been a means of recognizing and compensating those who are willing to serve under the unique conditions of service associated with duty at sea. Although the method of determining eligibility for entitlement to sea pay has changed numerous times since its inception, this basic concept of recognizing and compensating such service at sea has remained.

The unique conditions which warrant recognition are factors influencing the decision of skilled individuals to continue a career of service entailing repetitive reassignment to duty at sea. Necessarily, these members are those the Navy depends upon to man increasingly more sophisticated operational systems. The following summarizes the aforementioned unique conditions: (1) cramped living and working conditions aboard ships; (2) the unpredictability of ship operating schedules; (3) limited recreational facilities at sea; (4) in-port duties to maintain ship's readiness; (5) exceptionally long working hours at sea; (6) long and repetitive deployments; and (7) family separations. These conditions combine to make long and repeated tours of duty at sea unattractive; yet, because of national requirements, they must be performed. Unpredictable deployment demands frequently emerge during periods of international tension and exacerbate all of the above conditions. The Indian Ocean presence is a current example.

Some might say that the living conditions and burdens of service at sea are normal and expected consequences of a naval career and should not call for additional compensation. This point of view ignores the reality that if you don't compensate personnel for uncomfortably restrictive working conditions, they don't remain in the Navy beyond their initial enlistment. Experience over the years has demonstrated that the harsh, depriving conditions of sea duty are among the most frequently cited reasons given for leaving the Service. The persistent shortage of career personnel to maintain the required combat-ready force is reflected in the Navy low retention statistics for officers of 40 percent against a goal of 60 percent in 1978 and 1979, and 16,000 personnel shortage in the E-5 through E-9 enlisted grades authorized at sea. The need for improved monetary compensation, or sea pay differential, has been consistently cited as the single most important change required to improve the attractiveness of a Navy career at sea.

SEA-SHORE PAY COMPARISONS

QUESTION. Is it true that most sailors take a pay cut when they report for sea duty? If so, why?

Admiral WATKINS. It is true that most sailors take a pay cut, at least in discretionary income, when they report for sea duty. Officer and enlisted personnel transferred from shore duty to shipboard duty experience changes in their eligibility for certain pays and allowances. These changes vary between officer and enlisted personnel and, more significantly, by dependency status.

Basically, by law, when military personnel are not provided quarters and/or subsistence in-kind, they are entitled to a Basic Allowance for Quarters (BAQ) and Basic Allowance for Subsistence (BAS), respectively. Whereas most career personnel in the military services have the option of receiving the allowances versus in-kind entitlements, shipboard personnel do not have such an option and therefore generally receive a reduction in cash dollars when they report for such duty.

The economic disincentive to sea duty resulting from the above is such that a single E-5 experiences a 25 per cent decrease in monetary compensation during sea duty amounting to over \$3,000 annually. This difference includes current career sea pay in its calculation. A single O-4 experiences an 18 percent loss of about \$4,900 annually. The following provides a comparison of sea versus shore compensation for an E-5 and O-4.

SEA-SHORE PAY COMPARISONS¹

Compensation element	Single		Married ²	
	Sea	Shore	Sea	Shore
E-5 (over 6 YOS) (monthly rates): ¹				
BP	\$713.10	\$713.10	\$713.10	\$713.10
BAQ ³	8.70	140.40	209.70	209.70
BAS		96.30		96.30
CSP ⁴	35.00		35.00	
FSA II ⁵			8.75	
Tax advantage	2.04	62.44	46.69	65.35
Total	758.84	1,012.24	1,013.24	1,084.45
O-4 (over 10 YOS) (monthly rates): ¹				
BP	1,736.10	1,736.10	1,736.10	1,736.10
BAQ ³	26.70	282.30	340.50	340.50
BAS	67.21	67.21	67.21	67.21
FSA II ⁵			8.75	
Tax advantage	48.37	198.41	155.63	156.90
Total	1,878.38	2,284.02	2,308.19	2,300.71

¹ Oct. 1, 1979 rates.

² Based on family size of 2.

³ Partial BAQ for single personnel on shipboard duty included.

⁴ Career sea pay.

⁵ Family separation allowance based on 3.5 mo of annual eligibility at \$30 monthly rate.

PAY RECEIVED AT SEA

QUESTION. Does a bachelor lose as much pay reporting to sea duty as a married man? Do these pay cuts have an adverse effect on morale and retention? In your opinion, what is necessary to remedy this problem?

Admiral WATKINS. A bachelor, or member without dependents, actually suffers a greater loss in discretionary income than does a married person when reporting for shipboard duty. This occurs primarily because a married member continues to receive BAQ on behalf of dependents whereas the member without dependents does not. The loss in cash pay has an adverse effect on morale and retention as reflected by a continuing large volume of letters officially addressed to Navy headquarters staffs and to Navy-oriented media. The following charts reflect the percentage of shore pay received when assigned at sea for enlisted and officers.

PERCENTAGE OF SHORE PAY RECEIVED WHEN ASSIGNED AT SEA¹

Grade	Married	Single ²
E-1		
E-2	83.2	65.9
E-3	84.2	68.1
E-4	85.3	69.2
E-5	90.8	73.2
E-6	92.4	74.1
E-7	94.1	77.3
E-8	95.5	79.8
E-9	95.9	80.0
	96.7	80.9

¹ It is recognized that these percentages are not a true measure of loss in compensation since food and quarters are provided on ships, but it is believed that the perception held by the individual must be taken into account in any consideration of compensation for sea duty.

² Does not include loss of variable housing allowance.

PERCENTAGE OF SHORE PAY WHEN ASSIGNED AT SEA (OFFICERS)

Grade	Single ashore	Single afloat	Percentage
0-1 (under 2)	\$1,269.78	\$1,020.08	80.3
0-2 (over 3)	1,780.43	1,497.38	84.1
0-3 (over 6)	2,121.08	1,796.78	84.7
0-4 (over 10)	2,415.53	2,048.48	84.8
0-5 (over 16)	2,961.98	2,552.48	86.2
0-6 (over 22)	3,667.58	3,227.18	88.0

NOTES

1. For single officers ashore, a variable housing allowance of 25 percent of BAQ (140 index) has been assumed.
2. Data is provided for single officers only; married officers (less submariners) receive the same amount of pay regardless of whether they are ashore or afloat.
3. The percentage "lost" will in fact be greater than shown since the pay lost when assigned afloat consists of BAQ and VHA, both of which are nontaxable entitlements.
4. All data is based upon pay rates effective Oct. 1, 1980.

The major inequity expressed by single members results from the requirement to consider shipboard quarters as adequate to the needs of these members. Single members believe that, just as in the case of their married counterparts, they should be provided either adequate quarters ashore or a BAQ thereof. They would thus be able to find respite from the working environment (ship) while in port beyond their working/duty hours and have a place to maintain their personal property accrued over a normal career in the Navy. This situation is exacerbated when single career officers or enlisted personnel continue to maintain their private quarters ashore out of pocket after being assigned from shore to shipboard duty. This situation will be further exacerbated in fiscal year 1981 when these personnel will also lose their entitlement to variable housing allowances when assigned to sea duty.

A second inequity perceived by personnel assigned to shipboard duty results from the inability to pay BAS to enlisted personnel when they are assigned to a ship, even when they in fact partake of the majority of their meals at home with their families, if married, or elsewhere other than aboard ship, if single. Personnel assigned to shore duty can be given the option of receiving BAS or being subsisted in-kind. Therefore when members receiving BAS while on shore duty are ordered to sea duty, they no longer have this option. The result is a loss of discretionary income as well as out-of-pocket costs for those meals consumed off the ship.

In my opinion this problem can best be remedied by providing single career personnel (in paygrade E-5 and above) the option of receiving BAQ when their ship is not deployed away from homeport. In addition, Navy should be granted discretionary authority to authorize payment of BAS to personnel assigned to ships, when feasible, just as is done in the case of personnel assigned to shore duty.

IMPACT OF PAY INITIATIVES ON RETENTION

QUESTION. In your personal opinion, are the recently approved pay increases (11.7 percent base pay increase plus Nunn-Warner) and the proposed Fair Benefits Package sufficient to solve the Navy's retention problem?

Admiral WATKINS. In my personal opinion the recently approved pay increases and the proposed Fair Benefits Package are significant first steps toward resolving our problems with military compensation. However, I definitely do not believe that they will be sufficient by themselves to solve the Navy's retention problem.

We see the OSD Special Study of Military Compensation, convened last summer, as the most recent documentation of the shortfalls in military compensation. The Pay Study concluded that military real income has not, since 1972, kept pace with the private sector and that military pay has lagged 7 percent to 20 percent behind civilian benchmarks through the summer of 1979 when the Pay Study was convened. An approximate 20 percent pay raise on top of the annual pay raise would be required to return military pay levels to those that were relatively competitive in 1972 at the commencement of the AVF.

The 11.7 percent pay raise must also be considered in light of the 14.3 percent increase in the CPI during the period June 1979 to June 1980 and the recommendation of the President's Pay Agent for a 13.5 percent fiscal year 1981 comparability increase in Civil Service pay which would have provided military members that increase 1 October this year.

More important, however, the Navy's career retention problems are severe and are adversely impacting on fleet readiness. There is no flexibility left within the Navy to solve the petty officer shortfall at sea by assigning petty officers from shore to sea duty. Over the past two years the number of ships reporting "marginally combat ready" and "not combat ready" due to personnel shortages have been increasing steadily. To solve these retention and readiness problems, we need to provide a meaningful differential in pay between shipboard and shore duty assignments. Monetary recognition of the arduous and unique conditions of shipboard living and working conditions is essential if Navy is to compete with the private sector in attracting and retaining quality personnel. In 1949 sea payrates were established at about 10 percent to provide that differential. Today we do not have that difference and our analysis strongly suggests that differential should be on the order of 22 percent to 25 percent of basic pay.

QUESTION. Is the pay bonus working as planned?

Admiral WATKINS. The Selective Reenlistment Bonus is an excellent and effective tool for targeting specific retention improvements of our skilled personnel when the underlying compensation level is reasonably competitive with industry. However, in recent years the number of personnel reenlisting is converging on the number of people receiving bonuses. Thus, necessary program flexibility is reduced. Comparing the fiscal year 1980 program with that executed in fiscal year 1976 (end strengths roughly equivalent), there has been a 64 percent increase in the number of skills receiving the maximum SRB level. The percentage of the enlisted force receiving a bonus has increased by 56 percent and the percentage of the force receiving the maximum SRB level has increased 33 percent. In fiscal year 1981, for example, 50 percent of all ratings will be included in the SRB program, with 85 percent included in fiscal year 1982. The size of the program has increased from \$154M budgeted in fiscal year 1980 to \$251M programed in fiscal year 1982, with the number of payments at the maximum level expected to increase from 2,174 in the fiscal year 1980 budget to 10,110 in the fiscal year 1982 program. Nuclear field skills and most of Navy's engineering ratings (BT, MM, GSM, GSE, EM) are written at maximum award levels in the fiscal year 1981 program or have received substantial increases. Program growth of this magnitude has been created because of continued declining retention, which manifests itself in additional skills meeting SRB eligibility criteria. We can see clearly that SRB levels are increasing in order to compensate for less than adequate levels of base pay and special pays. Therefore, while the SRB program, as intended, is an excellent and effective retention tool for skills that are also sought by industry, the need to expand this program in the Navy to meet the continued retention decline across many skills has in effect reduced our flexibility in execution. The most startling example of this is the fact that 38 skill areas are now at the maximum award levels authorized in the SRB program and in almost every case these ratings are not recovering (retention and inventory) in a manner sufficient to bring about significant improvement in fleet readiness in the near term.

NAVY RECOMMENDATION TO IMPROVE RETENTION

QUESTION. What does the Navy recommend?

Admiral WATKINS. Navy recommends a revision to current Career Sea Pay and to Submarine Incentive Pay, both of which would positively and directly affect career personnel retention.

The Navy sea pay proposal revises the eligibility criteria to 3 years active service, vice 3 years cumulative sea duty, for an E-5 and above and E-4's with 4 years of active service. 65,000 career personnel of the 165,000 personnel serving at sea would benefit from this new plan, versus the 33,000 enlisted personnel now entitled to Career Sea Pay under current law. Rates would range from \$180 to \$320.

As stated above, the revision to Career Sea Pay, in addition to increasing the rates to more meaningful levels commensurate with the extraordinary conditions of shipboard life, established sea pay eligibility on the basis of active service vice cumulative years of sea duty. This provision, which includes increased sea pay by grade, is intended to adequately compensate personnel assigned to sea duty and to provide the retention necessary to correct the career force shortages in sea-intensive ratings that currently exist. The requirement for cumulative years of sea duty unduly restricts the number of sea-going personnel eligible to receive sea pay, thereby affecting the reenlistment decision of far fewer personnel over the next few years than would sea pay based on pay grade and years of service. Payment on the basis of years of active service would permit us to positively influence

the career decision, at an early point in time, of the majority of career personnel serving at sea.

The Submarine Incentive Pay proposal provides for significant increases in monthly submarine pay rates, approximately 100 percent higher than existing submarine pay. Additionally, both officer and enlisted personnel would receive Submarine Incentive Pay when assigned to shore duty, based on an obligation to return to sea duty. Proposed submarine pay rates would range from \$140 for an E-4 over 4 years of service to \$500 for an O-3 with over 8 years of service. The provision to pay sub pay to personnel when assigned to shore duty is considered consistent with the purpose of Submarine Incentive Pay, that is, to attract and to retain personnel to serve a career in the nuclear submarine force. The requirement for a follow-on sea tour for enlisted personnel in order to receive this pay while ashore acts to benefit both retention and career manning of our nuclear submarines. It also provides the Navy the necessary flexibility to assign personnel to essential submarine-related and demanding shore duty assignments without members experiencing a severe reduction in their standard of living.

IMPACT OF NAVY PROPOSALS

QUESTION. What impact on retention and readiness will these proposals have?

Admiral WATKINS. The Navy's proposals for revising career sea pay and submarine pay are targeted such that they will have the maximum effectiveness in improving career retention and fleet readiness. Navy's shortage of career enlisted personnel is expected to persist through fiscal year 1986, given the fiscal year 1981 compensation levels. This is primarily attributed to a continual decline in career retention rates.

The pay rates designed for the sea pay and sub pay proposals are projected to reverse the career experience losses in the Surface and Submarine Forces. There is currently a 14,000 petty officer shortfall in sea duty billets. The proposed sea pay rates are projected to retain approximately 12,000 enlisted career personnel by 1985.

Submarine officer and enlisted second term retention rates are predicted to increase by about 12 percent and 15 percent respectively, as a result of increased rates of submarine pay. Sub pay and sea pay combined will reduce most of the career petty officer shortfall in nuclear submarines by 1983. Economic analysis indicates that sub pay for officers will provide an inventory of O-3/O-6, although more junior than desired, that will meet submarine billet requirements by 1984. Furthermore, O-4 inventories will be increased to cover at sea requirements, but still fall short of overall requirements, by 1984.

The above increases in retention of career petty officers are critical to meet Navy's readiness requirements in support of national policy objectives during the 1980's.

SEA PAY FOR OFFICERS

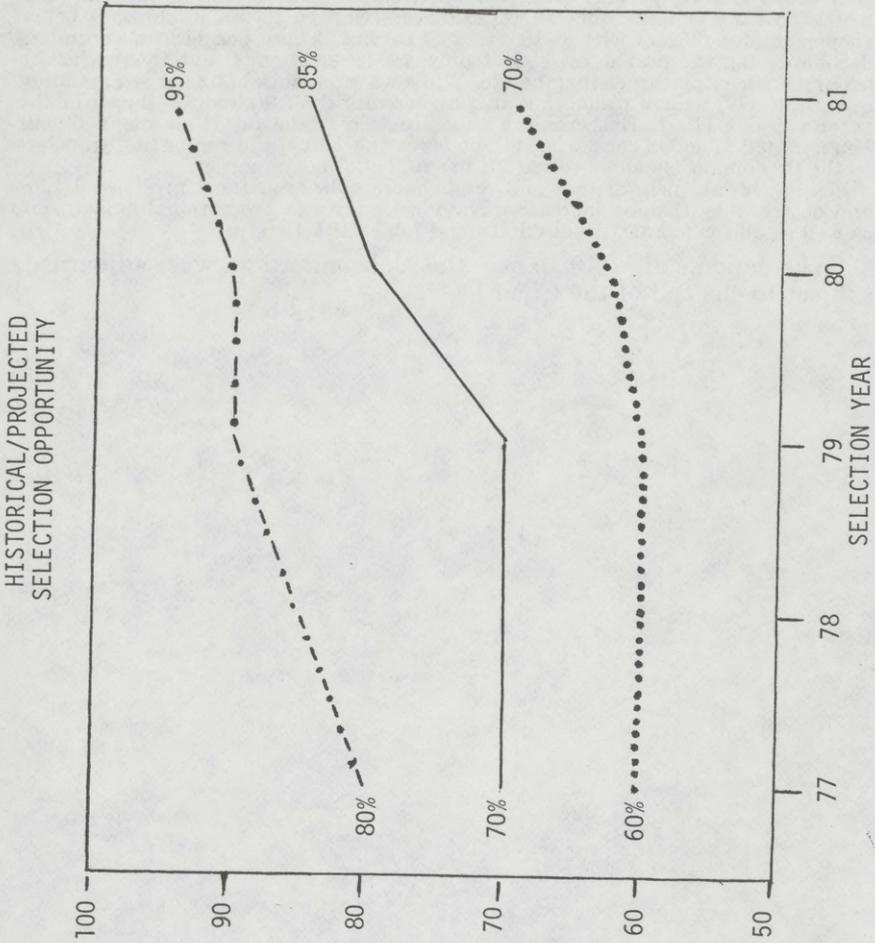
QUESTION. Do you favor sea pay for officers?

Admiral WATKINS. The purpose of sea pay is to recognize and compensate those who serve under the unique conditions of service associated with duty at sea. The payment of a significant differential pay for duty involving special skills or extraordinary working conditions is consistent with compensation practice in the private and public sectors, as well as in the military. This is basically true for all personnel. For example, officers in the Military Sealift Command, other U.S. Government Agencies, and maritime carriers receive a differential of approximately 80 percent of their basic wages when they are assigned aboard a ship. That is true because all personnel serving in ships experience the same general hardships and conditions of service.

Entitlement to sea pay for officers has ample precedent. The Navy has in the past, by its own administrative regulations, authorized sea pay for officers from 1812 until 1847, when sea pay formally appeared in law. Since 1812, except for the periods 1922-1942 and 1949 until the present time, sea pay in one form or another has been authorized for officers serving in ships. The rationale stated by the Hook Commission in 1949 for elimination of sea pay for officers was based on a determination that sea duty was a regular phase of each officer's chosen profession. This argument is neither consistent with the concept of sea pay nor with the universal practice in the private sector for compensating personnel in positions of responsibility at sea.

Navy is having difficulties with unrestricted officer retention and resultant manning of ships at sea. While surface warfare retention showed a rise in reten-

SELECTION OPPORTUNITY



P E R C E N T A G E S

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tion from 31 percent in fiscal year 1979 to 39 percent in fiscal year 1980, it remains well below our 60 percent retention requirement. Our retention rate for Unrestricted Line Officers, that is, those officers who go to sea in ships, is below 45 percent for officers with 6-10 years of service. There has been a continued decline during the past 6 years. Not only are fewer staying, but those who are leaving are leaving earlier than before. While we are maintaining our sea manning quantitatively, we are promoting at a higher rate than desired, as shown in the accompanying chart. Exacerbating this situation is the fact that many of our Unrestricted Line Officers, who do not leave the Navy, are requesting transfers to the predominately shore restricted line and staff communities.

Sea pay would help attract and retain more officers in the Unrestricted Line and on sea duty thereby increasing Navy selectivity in promotional assignment, as well as officer morale, productivity and job satisfaction.

[Whereupon, at 1:40 p.m., the subcommittee was adjourned, subject to the call of the Chair.]

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