

Living Within Our Means and Investing in the Future: The President's Plan for Economic Growth and Deficit Reduction

Military Retirees

The President's Plan for Economic Growth and Deficit Reduction lives up to a simple idea: as a Nation, we can live within our means while still making the investments we need to prosper – from a jobs bill that is needed right now to long-term investments in education, innovation, and infrastructure. It follows a balanced approach: asking everyone to do their part, so no one has to bear all the burden. And it says that everyone – including millionaires and billionaires – has to pay their fair share. Pursuing a balanced approach to deficit reduction is critical to being able to keep our promises made to the men and women who serve their fellow Americans in the armed forces.

Already, the Obama Administration has issued billions in GI Bill benefit payments to over half a million individuals and their educational institutions; expanded the GI Bill to include job training opportunities; and awarded nearly \$60 million in veteran homeless prevention grants. The President also included in the American Jobs Act two new tax credits for employers to hire veterans and wounded warriors who have been unemployed for more than six months. Still, as the cost of health care rises and benefit programs across the public and private sectors are being restructured to remain solvent, it's important that programs that serve military retirees and veterans are modernized to be able to meet the needs of the future. There is currently a measurable disparity between the fees most retired private sector workers pay for health care services and what retired military personnel pay. To reduce the deficit, ensure the strength of these programs in the long term, and align government retirement programs with those in the private sector, the Administration proposes to:

Strengthen TRICARE by introducing modest annual fees. One of the ways military retirees and their families are recognized for their essential service is through health insurance coverage called TRICARE. Upon turning 65, beneficiaries transition to Medicare coverage, with TRICARE-for-Life (TFL) becoming second payer. Unlike comparable services in the private sector, there are no premiums under the TFL programs. The Administration is proposing to introduce modest annual fees for the TFL program, beginning with a \$200 annual fee in FY 2013. This proposal is estimated to save approximately \$6.7 billion in mandatory spending over 10 years.

Update TRICARE pharmacy benefit co-payments. The Administration supports a generous health care benefit to recognize the service of military members and retirees. This includes providing affordable options to access prescriptions. However, the co-payments for military members have lagged behind other Federal and private plans. For example, the copayment for a generic prescription at the drug store today is \$3, and for a brand prescription, it is \$9. The Administration proposes to move the TRICARE pharmacy program closer to parity with the most popular Federal employee health plan, BlueCross BlueShield (BCBS) Standard and closer to the health plans that most Americans have from their employers. The proposal would provide an incentive for consumers to choose less expensive pharmacy options by eliminating co-pays for generic mail-order drugs while, at the same time, shifting retail co-pays from a dollar figure

to a percentage co-pay. This option would have no impact on active duty members, but would affect active duty families and all military retirees regardless of the age of the beneficiary. The Administration's proposal is estimated to save \$15.1 billion in mandatory funds and \$5.5 billion in discretionary funds over 10 years.

Establish a commission to modernize military retirement benefits. The current military retirement system has served the military well in past years. In an era when defined-benefit plans were common, it helped the military to retain the personnel needed to maintain a vigorous and highly effective force. But the system was designed for a different era of work, and is now out of line with most other government or private retirement plans. The non-disability program provides generous benefits to the relatively few members who stay for at least 20 years and no benefits for the roughly 80 percent of servicemembers who stay less than 20 years. To consider reforms the Administration plans to set up a Commission to develop recommendations for reforming the current military retirement system. The Commission will review the impacts of reform proposals on military readiness, recruiting, retention, costs, and the quality of the force. We plan to propose that the Commission's recommendations be handled in a manner similar to the 2005 Base Realignment and Closure Commission's recommendations. Under this approach, the Department of Defense would make a proposal to the Commission, which can alter the proposal as it deems appropriate. The Commission proposals then go to the President, who may not alter the proposals but can decide whether to forward them to Congress. The Congress must approve or disapprove without any modifications. The Administration believes that any major military retirement reforms should include grandfathering provisions that ensure that the country does not break faith with military personnel now serving, including those serving in Afghanistan and Iraq."

Pursue balanced deficit reduction to prevent drastic cuts. We have little doubt that some of these proposals will not be popular with those who benefit from these affected programs. These are tough choices that we had to make -- and some of these changes are those that we would not make if it were not for our fiscal situation. But we are all in this together, and all of us must contribute to getting our economy moving again and on a firm fiscal footing. If we all don't pitch in, we know what happens if we try to do this much deficit reduction without a balanced approach -- because the congressional Republicans have proposed to do that. Millionaires and big corporations keep all their special tax breaks and tax cuts while there are severe cuts in programs we need to grow and prosper on which many Americans rely. For instance, under their budget, there will be dramatic cuts to many programs that military families rely on like Head Start, the Women, Infants and Children program (WIC) and the Supplemental Nutrition Assistance Program (SNAP).

We believe the President's plan is the most fair and effective way to keep the promises made to all Americans while achieving the deficit reduction needed to win the future.