



Breaking the Faith

Today's servicemembers are tomorrow's retirees—and they are watching!

Introduction

Military professionals *earn* unique long-term benefits as compensation for risk and hardship endured during their careers. This compensation includes lifetime access to quality health care¹ and a no-risk, defined-benefit pension²—both of which have proved for decades to be central to the readiness and retention of the All-Volunteer Force. New fees, fee hikes and more limited access to service providers have already slowly eroded the value of retirees' deferred compensation over the years. However, the administration's Fiscal Year 2013 budget request effectively phases out much of the value of retirees' health care compensation over the next five years; further, it creates the conditions for the demise of the existing military pension system.

TRICARE

The administration's proposed fee hikes for all retirees' TRICARE access are unprecedented. TRICARE Prime annual enrollment fees for middle-class retirees—any family receiving more than \$45,179 in annual retired pay—would nearly quadruple over five years and be indexed to medical cost inflation thereafter. (Fees for most of those who receive less than \$45,179 in annual retired pay would “merely” triple.) There would be new, rapidly growing enrollment fees for TRICARE Standard and Extra and large increases in those programs' deductibles. Copays for pharmaceuticals would increase steeply. TRICARE-for-Life, the Medicare supplement for military retirees over age 65, would institute new annual enrollment fees (beyond the Medicare Part B premiums) that would then quadruple over five years. Essentially, the budget proposes to stabilize Department of Defense (DoD) personnel accounts today by cutting the earned deferred compensation—long-term pay—of yesterday's Soldiers; today's and tomorrow's Soldiers would never see this compensation.

Military Retirement Pay

The administration also proposes that Congress create a commission to be charged with deciding whether there

are cost-effective changes that should be made to the military retirement system. Once such a commission writes its recommendations, Congress and the President would have no authority to alter the ideas; they would merely vote on the recommended changes as a package. What is troubling is that there has been continuous pressure recently to “civilianize” military retirement by replacing the current defined-benefit system with a 401(k)-like defined-contribution system and/or by removing an existing disincentive—the 20-year retirement threshold—for mid-career professional Soldiers to end their service prematurely.

Congress tried once before to save money in this area. The “Redux” plan of 1986 made no structural changes and attempted only a straightforward reduction to retirees' pay. Only a few years later, the military faced a recruitment and retention crisis, so Congress wisely reinstated the previous system. But history is repeating itself: DoD and Congress again face pressure to control personnel costs, only this time the ideas for change are far more radical (and potentially far more devastating to readiness). Creating a mechanism such as the proposed commission that simultaneously reduces elected officials' responsibility for the outcome while inserting a purely budget-driven, rather than readiness-driven, mandate into the proceedings is a prelude to disaster.

The Promise—The Reality

The budget request for the entire Military Health System (\$48.7 billion) comprises just over 1 percent of the administration's federal budget. Even if the Military Health System budget were cut in its entirety, it would hardly dent *this year's* projected budget deficit of over \$900 billion. Yet the proposals to overhaul retirees' health care and pay (which would save nowhere near \$48 billion per year) have been inaccurately portrayed as necessary for long-term fiscal sustainability. **Execution of these ill-advised, unsound proposals—based on false comparisons—would disastrously affect the well-being of and break faith with those who have already risked and sacrificed more than their fair share.** The

¹ See AUSA Torchbearer Issue Paper “Military Retiree Health Care Faces a Triple Whammy,” November 2011, http://www.ausa.org/publications/torchbearercampaign/torchbearerissuepapers/Documents/TBIP_Retirees_web.pdf.

² See AUSA Torchbearer Alert “U.S. Army Retirees: Retired Pay and Health Care at Risk,” September 2011, http://www.ausa.org/publications/ilw/Documents/TB_Alert_Retirement_web.pdf.

proposals gamble with force readiness yet do little to achieve long-term budget viability.

What You Can Do

It is imperative that Congress and the administration recognize these perils and preserve the *full value* of Soldiers' earned deferred compensation. In coming months, Congress will be considering whether to implement these

proposals. For the latest developments on these and other personnel issues, please visit the AUSA website at <http://www.ausa.org>. Click on the Legislative Action Center icon to view the latest headlines and contact your elected officials to remind them that we owe a debt of more than just gratitude to those who have willingly given a lifetime of service and sacrifice to the nation. Your children and grandchildren will thank you.

TRICARE Prime Annual Family Enrollment Fees[†]

Retired Pay	FY12	FY13	FY14	FY15	FY16*	FY17
Tier 1: \$0–\$22,589	\$520	\$600 (+15%)	\$680 (+13%)	\$760 (+12%)	\$850 (+12%)	\$893 (+5%)
Tier 2: \$22,590–\$45,178	\$520	\$720 (+38%)	\$920 (+28%)	\$1,185 (+29%)	\$1,450 (+22%)	\$1,523 (+5%)
Tier 3: \$45,179+	\$520	\$820 (+58%)	\$1,120 (+37%)	\$1,535 (+37%)	\$1,950 (+27%)	\$2,048 (+5%)

*Indexed to medical inflation after FY16

Example

Fred Jones retired from the Army as an E-7 after 20 years of service. He is UNDER age 65 and married. His retired pay grosses approximately \$25,900 per year.

- Fred and his family started paying \$520 per year in 2012 for TRICARE Prime access. Under the administration's proposal, their family access fee for 2017 will total \$1,523 (a 193 percent increase).
- Even though cost-of-living adjustments will slightly increase Fred's income, Fred and his wife will still pay almost 40 percent more in real terms for health care and survivor benefits in 2017 than they did in 2012.

Alternately:

- Instead of TRICARE Prime, Fred and his family could choose to enroll in TRICARE Standard or TRICARE Extra. In 2012, there is no annual enrollment fee, but there is a \$300 family deductible for services. Under the administration's proposal, their family enrollment fee for 2017 will total \$250 and their family deductible will increase to \$580 (a 93 percent increase).

TRICARE-for-Life Annual Enrollment Fees (per individual)[†]

Retired Pay	FY12	FY13	FY14	FY15	FY16*	FY17
Tier 1: \$0–\$22,589	\$0	\$35	\$75 (+114%)	\$115 (+53%)	\$150 (+30%)	\$158 (+5%)
Tier 2: \$22,590–\$45,178	\$0	\$75	\$150 (+100%)	\$225 (+50%)	\$300 (+33%)	\$317 (+6%)
Tier 3: \$45,179+	\$0	\$115	\$225 (+96%)	\$335 (+49%)	\$450 (+34%)	\$475 (+6%)

*Indexed to medical inflation after FY16

Example

John Smith retired from the Army as an E-7 after 20 years of service. He is OVER age 65 and married. His retired pay grosses approximately \$25,900 per year; he also receives Social Security benefits.

- John and his wife presently have no out-of-pocket cost for TRICARE-for-Life access. Under the administration's proposal, their combined access fee for 2017 will total \$634.
- If Medicare Part B premiums continue rising at the average pace they have risen since 2000, the couple's combined premiums will increase from \$2,398 in 2012 to \$3,348 in 2017 (a 40 percent increase).
- Even though cost-of-living adjustments will slightly increase John's retired pay and Social Security income, John and his wife will still pay about 30 percent more in real terms for health care and survivor benefits in 2017 than they did in 2012.

TRICARE Standard/Extra Fees and Deductibles

Annual Enrollment Fee	FY12	FY13	FY14	FY15	FY16	FY17*
Individual	\$0	\$70	\$85 (+21%)	\$100 (+18%)	\$115 (+15%)	\$130 (+13%)
Family	\$0	\$140	\$170 (+21%)	\$200 (+18%)	\$230 (+15%)	\$250 (+9%)

Annual Deductibles	FY12	FY13	FY14	FY15	FY16	FY17*
Individual	\$150	\$160 (+7%)	\$200 (+25%)	\$230 (+15%)	\$260 (+13%)	\$290 (+12%)
Family	\$300	\$320 (+7%)	\$400 (+25%)	\$460 (+15%)	\$520 (+13%)	\$580 (+12%)

*Indexed to medical inflation after FY17

Pharmacy Copays

Retail (1-month fill)	FY12	FY13	FY14	FY15	FY16	FY17*
Generic	\$5	\$5	\$6 (+20%)	\$7 (+17%)	\$8 (+14%)	\$9 (+13%)
Brand-name	\$12	\$26 (+117%)	\$28 (+8%)	\$30 (+7%)	\$32 (+7%)	\$34 (+6%)
Non-formulary*	\$25	N/A	N/A	N/A	N/A	N/A

Mail (3-month fill)	FY12	FY13	FY14	FY15	FY16	FY17*
Generic	\$0	\$0	\$0	\$0	\$0	\$9
Brand-name	\$9	\$26 (+189%)	\$28 (+8%)	\$30 (+7%)	\$32 (+7%)	\$34 (+6%)
Non-formulary*	\$25	\$51 (+104%)	\$54 (+6%)	\$58 (+7%)	\$63 (+7%)	\$66 (+6%)
Military facilities	No charge (still zero copay)					

*Non-formulary pharmaceuticals will have limited availability in retail pharmacies

Talk is Cheap – TRICARE Fees Are Not