

Prepared Statement
of
The Honorable David S. C. Chu
Under Secretary of Defense
(Personnel and Readiness)
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Biography
Dr. David S.C. Chu
Under Secretary of Defense
for Personnel and Readiness

David S. C. Chu was sworn in as the Under Secretary of Defense for Personnel and Readiness on June 1, 2001. A Presidential appointee confirmed by the Senate, he is the Secretary's senior policy advisor on recruitment, career development, pay and benefits for 1.4 million active duty military personnel, 1.3 million Guard and Reserve personnel and 680,000 DoD civilians and is responsible for overseeing the state of military readiness.

The Under Secretary of Defense for Personnel and Readiness also oversees the \$15 billion Defense Health Program, Defense Commissaries and Exchanges with \$14.5 billion in annual sales, the Defense Education Activity which supports over 100,000 students, and the Defense Equal Opportunity Management Institute, the nation's largest equal opportunity training program.

Dr. Chu earlier served in government as the Director and then Assistant Secretary of Defense (Program Analysis and Evaluation) from May 1981 to January 1993. In that capacity, he advised the Secretary of Defense on the future size and structure of the armed forces, their equipment, and their preparation for crisis or conflict.

From 1978 to 1981, Dr. Chu served as the Assistant Director for National Security and International Affairs, Congressional Budget Office, providing advice to the Congress on the full range of national security and international economic issues.

Dr. Chu began his service to the nation in 1968 when he was commissioned in the Army and became an instructor at the U.S. Army Logistics Management Center, Fort Lee VA. He later served a tour of duty in the Republic of Vietnam, working in the Office of the Comptroller, Headquarters, 1st Logistical Command. He obtained the rank of captain and completed his service with the Army in 1970.

Prior to rejoining the Department of Defense, Dr. Chu served in several senior executive positions with RAND, including Director of the Arroyo Center, the Army's federally funded research and development center for studies and analysis and Director of RAND's Washington Office.

Dr. Chu received a Bachelor of Arts Degree, magna cum laude, in Economics and Mathematics from Yale University in 1964 and a Doctorate in Economics, also from Yale, in 1972. He is a fellow of the National Academy of Public Administration and a recipient of its National Public Senior Award. He holds the Department of Defense Medal for Distinguished Public service with silver palm.

INTRODUCTION

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

A recent Volker Commission report noted that “Executive Departments should be ...given the authority to develop management and personnel systems appropriate to their missions.” Today, I will discuss a wide array of initiatives that do just that.

I will begin with the “Defense Transformation for the 21st Century Act of 2003” (DT-21), a proposal that is under review in the Administration. This four-part legislative proposal will change the way we manage people, acquisition processes, installations, and resources.

In DT-21, personnel changes are based on one concept: agility. Agility is our response to the extreme uncertainty of the national security environment. In obtaining that agility, we propose to change the processes by which we manage military and civilian personnel, even as we keep the value systems embodied in existing legislation including the Civil Service Reform Act. The values continue to be relevant, but the processes, many of them legislated, have not kept pace with national security realities.

Transforming Civilian Personnel

For civilians, the Department is considering a National Security Personnel System (NSPS) as a key part of our transformational agenda. We are working to promote a culture in the Defense Department that rewards unconventional thinking – a climate where people have freedom and flexibility to take risks and try new things. Most would agree that to win the global

war on terror, our Armed Forces need to be flexible, light and agile – so they can respond quickly to sudden changes. Well, the same is true of the men and women who support them in the Department of Defense. They also need to be flexible, light and agile – so they can move money, shift people, and design and buy weapons quickly, and respond to sudden changes in our security environment. Today, we do not have that kind of agility.

The Congress has recognized these shortcomings by consistently advancing the cause of flexibility and competitiveness in DoD civilian human resources management. Congressional action paved the way twenty years ago for the groundbreaking work in pay banding at the Navy’s China Lake facility, enacted the first federal program of separation buyouts that avoids the human and economic toll of reduction in force, authorized critical personnel demonstration projects in the defense acquisition workforce and in defense laboratories and centers, provided flexibility in paying for degrees, and created scholarships to attract, advance, and keep those with information assurance skills. These innovations and experiments over many years have demonstrated that a more flexible and collaborative system of human resources management, providing greater opportunity for employees and more responsibility for managers, can lead to higher productivity and improved morale that are critical to mission support. In a related action, the Congress recognized the need for much greater flexibility in the management of national security personnel in the enactment of the new Department of Homeland Security.

The Department now needs to fold these innovative pieces into a more joint, flexible, and expanded plan of civilian human resources management. The Department cannot continue to operate effectively or efficiently with the current fragmentation of civilian personnel management authorities. The National Security Personnel System will give the Department the

flexibility to manage its civilian personnel – so we can attract and retain and improve the performance of our 700,000-plus civilian work force.

Transforming Military Personnel Management

Modernizing and streamlining officer management for both the Active and Reserve components is key to defense transformation. As with Department of Defense civilians, we need flexibility for our military personnel, and we need to be able to assure a prompt response to changing circumstances. We seek to accomplish this by modernizing and streamlining officer management, and creating a “continuum of service” in our Reserve Component.

General and Flag Officer Management

The Secretary of Defense has underscored the need for greater flexibility in managing job tenure and career length for general and flag officers with a view toward longer time in a job and longer careers. Present laws frequently operate against those objectives.

The current system rapidly rotates general and flag officers through their positions. Moving senior officials through career paths, as private sector organizations do, provides experiences that develop leadership and management skills. But officials must serve in these positions long enough to acquire these skills, to demonstrate their capabilities, and to manage the organization effectively. CEOs average more than eight years in a job and many serve more than a decade. In contrast, the average tour length for the military senior leadership is between 22 and 31 months.

We are proposing several provisions that would allow longer tours and longer careers by eliminating mandatory retirement for time in service, time in grade, and age; mandatory time-in-grade requirements for retirement in grade; and mandatory tour lengths. We propose to eliminate the authorized general and flag officers serving in the grade of O-7 distribution cap to allow flexibility in filling O-7 and O-8 jobs. Other proposals would sanction the President's authority to immediately reassign senior general and flag officers, who were initially confirmed in grade, to another position authorized to carry the same grade.

Joint Officer Management

We are requesting several provisions to streamline joint officer management. The Secretary of Defense requires the authority to define the standards for joint tour lengths and have the discretion to recognize situations in which officers should receive full joint credit. We also require greater flexibility in assigning officers following graduation from joint education institutions. Another requested provision concerns lengths of joint officer duty assignments.

We are refining our strategic plan for joint officer management, education and training. As part of this effort, the Department is using an on-going, Congressionally mandated, Independent Study of Joint Management and Education to help evaluate and validate our ideas for transformation. The study will determine which processes have "added value," and which ones do not. Ultimately we look forward to working with Congress to strengthen joint management and training.

We are proposing now two modest changes: creating a single standard for achieving joint credit (i.e., 24 months); and eliminating the sequencing requirement for Professional Military Education (PME) and joint tours.

The Department is assessing the entire career continuum of officer education with the goal of reducing the amount of in-residence time required, maximizing viable advanced distributed learning (ADL) opportunities and integrating joint requirements. We want to train and develop our leaders like we fight—in a joint environment.

Measuring the Force

We believe there is a better way to manage and measure personnel strength. We propose to change the metric used to measure authorized force levels to average strength measured across the entire fiscal year, rather than reporting strength attainment on the last day of the fiscal year. Using average strength will improve visibility on the actual force manning and improve personnel readiness. A one-day reporting metric can conceal force shortfalls in the 364 days a year not captured in the end-year snapshot, and actually leads to inefficient management practices.

Recruiter Access to High Schools

Through coordination with the Department of Education, Congress included language requiring military recruiter access to high schools in the 2002 No Child Left Behind Education

Act. Having the benefit of this coordinated Defense and Education emphasis on the importance of this issue has engendered profound improvement in the access our recruiters have received.

Currently, however, there is a disconnect between titles 10 and 20 that cause confusion among both recruiters and secondary schools as to what is actually required by law. Title 10 permits schools to deny access to high school student directory information if a school board policy restricts release; title 20 does not provide that exception for school districts. We would like to correct this conflict by making title 10 read as title 20 does, thereby allowing military recruiters access to all secondary school information unless the school maintains a bona fide, verifiable religious objection to service in the Armed Forces.

Continuum of Service

As we meet the challenges of today and the future, it is essential that the Reserve components be part of this transformation. Over the past year, my office has worked with other agencies inside and outside the Department to address contributions of the Guard and Reserve-in both new and traditional roles and missions. The “Review of Reserve Component Contributions to the National Defense,” establishes strategic principles to guide future structure and use of the Reserve components and proposes innovative management initiatives to meet the requirements.

A key element in transforming our military forces is to ensure efficiency and effectiveness in the use of our part-time reserve forces. There is a need for streamlined personnel management practices that offer greater flexibility in accessing and managing

personnel throughout a military career that may span both active and reserve service — in other words, a career that spans a “continuum of service.”

Levels of military service and mission support can vary substantially throughout a military career and between the extremes of non-participating individual Reservists and the 365 days per year performed by members serving on full-time active duty. We know some reserve members are willing to serve more than the 39 days of training (drill periods and annual training) required in law, but less than full-time. This variable pool of Reservists could be more effectively managed to better support certain selected mission areas and functional requirements.

Operating within a continuum of service paradigm necessitates simplifying the rules for employing Reserve Component members, enhancing combined Active Component/Reserve Component career development, and creating conditions for the seamless flow of personnel from active to reserve and reserve to active over the course of a military career. Barriers to such service must be minimized, thereby eliminating the need for the workaround solutions often in effect today. A more flexible reserve compensation and benefit system can serve to encourage volunteerism.

Managing within a continuum of service can help to attain and retain skills that are hard to acquire and maintain in the military, including those in cutting edge technologies. It will provide opportunities to establish new and innovative affiliation programs and DoD partnerships with industry. Adopting a new availability and service paradigm as the basis for managing active and reserve forces would allow individuals to change levels of participation with greater

ease and better leverage the DoD investment in training and education to meet operational requirements.

Today the Department is limited to using Active Component forces to provide assistance to civil authorities during emergency situations. In an age of competing resource requirements, the Department would like to enable all Reserve Component members to assist local first responders in a domestic natural or manmade disaster, accident, or catastrophe. The Department is reviewing the possibility of creating Service auxiliaries, based on the Coast Guard auxiliary model, to address potential personnel tempo problems.

Range Sustainment

A critical element to sustaining requisite force readiness levels is unimpeded access to test and training ranges. However, a number of encroachment issues expose our military personnel to increased combat risks as their ability to train as they expect to fight is compromised. These influences may be urban sprawl, loss of frequency spectrum, restrictions on air space, and endangered species- related restrictions on training lands. Loss or restricted use of combat training ranges and operating areas force units in all Services to use either less effective workarounds or in extreme cases to forego needed training altogether. Loss of radio frequency spectrum reduces the Department's ability to test new weapons, increasing program risk and potentially raising the cost of acquisition. Urban encroachment pressures around training areas inhibit development of new tactics to meet emerging threats, restrict altitudes for flight training, limit application of new weapons technologies, complicate night and all-weather training, and reduce live fire proficiency. Ranges in the southwest United States (for example, San Diego, Camp Pendleton, and San Clemente Island) are prime examples of how endangered

species critical habitat designations, frequency spectrum restrictions, clean air compliance, maritime encroachment, and other externalities can cumulatively constrain the use of combat training ranges and operating areas. Such constraints force the Services to alter or compromise training regimens. This increasingly inhibits the ability to “train as we fight,” eventually degrading combat readiness.

Solutions to this broad issue are being pursued through a variety of Department of Defense internal initiatives, interagency means, and Administration legislative proposals. Ongoing DoD policy, organization, and programming changes support range sustainment efforts, with increased emphasis placed on outreach and stakeholder involvement to resolve encroachment issues. DoD is working with other federal agencies on regulatory or administrative solutions to issues that can be addressed without changing existing federal law.

In 2002, the Administration submitted the DoD Readiness and Range Preservation Initiative (RRPI) to Congress, which included eight legislative proposals that addressed a number of encroachment concerns. We are grateful to Congress for the three provisions enacted last year, including addressing the serious readiness concerns raised by the Migratory Bird Treaty Act. The Department of Defense intends to work with the Department of the Interior on a lasting solution to this Act’s unintentional takes issue within the framework of Congress’ temporary exemption provision. However, the other five elements of our Readiness and Range Preservation Initiative remain essential to range sustainment and will continue to be addressed. This year’s RRPI continues to seek clarifications to aspects of the Marine Mammal Protection Act (MMPA), the Endangered Species Act (ESA), the Clean Air Act (CAA), and two solid waste management and disposal laws known as the Resource Conservation and Recovery Act (RCRA) and the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA).

For example, the proposal to clarify the Endangered Species Act would enable our installation commanders to work more effectively with the U.S. Fish and Wildlife Service to continue to protect imperiled species without compromising military testing and training. My office will remain committed to working with stakeholders in this multi-year plan of action to develop viable solutions that appropriately balance our environmental stewardship and military readiness responsibilities.

We believe that this year is the appropriate time to implement the transformation initiatives I have just discussed. Our world has changed. As a consequence, people and personnel systems must be agile and responsive.

FORCE MANAGEMENT RISK BALANCED SCORECARD

There is much change being worked in Personnel and Readiness. As diverse as these efforts are, we have aligned outcomes associated with many of our efforts under the new Force Management Risk Balanced Scorecard. The Balanced Scorecard strategically aligns our personnel management objectives, the variety of current and planned research efforts, human capital plans, and policy revisions within Personnel and Readiness under five major goals. These goals include: maintain a quality workforce; ensure a sustainable military tempo; maintain workforce satisfaction; maintain reasonable costs; and shape the force of the future. Our goals focus on accomplishing the initiatives set forth in the President's Management Agenda, with particular emphasis, of course, on the Strategic Management of Human Capital initiative. The Balanced Scorecard will allow us to track progress toward short- and long-term objectives like meeting high quality recruit goals, commitment of members and spouses to the military lifestyle; costs per enrollee for health care; transforming training; shortening the civilian hire fill time; and implementing the new Active Component/Reserve Component management paradigm. In turn, the Force Management Risk Balanced Scorecard serves as one quadrant of four risk areas within a Secretary of Defense Instrument Panel of metrics that will be used to balance Force Management risks, Operational and Institutional risks, as well as Future Challenges across the Department. This is an ambitious charter, but we are committed to this strategic course.

MILITARY PERSONNEL

Last year the Department presented a comprehensive Human Resource Strategic Plan. With direction from the Quadrennial Defense Review and Defense Planning Guidance, we collaborated with the Secretaries of the Military Departments and the component heads to develop a strategic human resource plan that encompasses military, civilian, and contractor personnel. The plan identified the tools necessary to shape and size the force, to provide adequate numbers of high-quality, skilled and professionally developed people, and to facilitate a seamless flow of personnel between the active and reserve forces.

The Department continues to refine the Human Resources Strategy designed to provide the military force necessary to support our national defense strategy. We face an increasingly challenging task to recruit, train, and retain people with the broad skills and good judgment needed to address the dynamic challenges of the 21st century, and we must do this in a competitive human capital environment. Consequently, we seek a mix of policies, programs, and legislation to ensure that the right number of military personnel have the requisite skills and abilities to execute assigned missions effectively and efficiently.

End Strength

At the end of Fiscal Year (FY) 2003, the Department of Defense as a whole exceeded its end strength target for the active and reserve forces by approximately 31,400 service members, or 2.3 percent. This was due to the number of personnel still in Stop-Loss status at the end of the fiscal year.

The requested active duty military end strength for FY 2004, as reported in the Service budget submissions, show a net decrease of 1,600 spaces from the FY 2003 authorization. The Army continues at an end strength of 480,000; the Navy projects a decrease of 1,900 from 375,700 to 373,800; the Marine Corps remains steady at 175,000; and the Air Force increases slightly from 359,000 to 359,300.

The fiscal year 2004 Defense budget recognizes the essential role of the Reserve components in meeting the requirements of the National Military Strategy. It provides \$31.3 billion for Reserve component personnel, operations, maintenance, military construction, and procurement accounts, which is approximately 1% above the fiscal year 2003 appropriated level.

Significantly, this is only 8.2% of the overall DoD budget, which represents a great return on investment. Included are funding increases to support full-time and part-time personnel, and the required sustainment of operations. It also continues last year's effort toward Reserve Component equipment modernization and interoperability in support of the Total Force policy.

These funds support nearly 863,300 Selected Reserve personnel. The Selected Reserve consists of the following: Army National Guard 350,000; Army Reserve 205,000; Naval Reserve 85,900, Marine Corps Reserve 39,600, Air National Guard 107,000, and Air Force Reserve 75,800, Coast Guard Reserve 10,000 (funded by DOT). Our total Ready Reserve, which also includes the Coast Guard Reserve, Individual Ready Reserve and Inactive National Guard is 1,190,009 personnel.

Maintaining the integrated capabilities of One Force is key to successfully achieving the Defense policy goals of assuring allies, dissuading military competition, deterring threats against U.S. interests, and decisively defeating adversaries. Only a well-balanced, seamlessly integrated military force is capable of dominating opponents across the full range of military operations.

DoD will continue to optimize the effectiveness of its Reserve forces by adapting existing capabilities to new circumstances and threats, and developing new capabilities needed to meet new challenges to our national security.

The Reserve Components exceeded their 2002 recruiting and strength goals in spite of market challenges. The success the Reserve Components experienced in achieving end strength was a combination of recruiting successes and excellent retention in most components (only the Army National Guard exceeded its programmed losses). Although limited Stop-Loss will assist in managing departures, the Reserve Components will continue to optimize use of retention incentives while sustaining their recruiting efforts.

Stop-Loss

Stop-Loss is the involuntary extension on active duty of Service members beyond their date of separation in times of war or national emergency when the need arises to maintain the trained manpower resident in the military departments. During FY 2002, 5,800 personnel were effected by the Stop-Loss. For officers, the Army continued a limited program impacting only pilots and special operations officers. Affected Navy officers include the special operations community, limited duty security officers, physicians in certain specialties and the nurse corps. In addition to C-130 aviators and infantry officers, the Marine Corps expanded their program to include the newly formed Anti-terrorism Brigade. The Air Force released all members from Stop-Loss over the course of the year.

For the enlisted forces, the Army implemented a limited skill-based program in increments. The initial increment included soldiers primarily assigned in Special Forces specialties; the second increment expanded the program to include Ready Reserve personnel in the same specialties already stopped in the active force and added three additional specialties (enlisted and officer psychological operations, and enlisted supply and services) to the program. The Army released certain skills throughout the year and adjusted its policy from an indefinite hold to a 12 month maximum time period. The Army is currently working on the details of lifting more skills from Stop-Loss.

The Navy enlisted program affected sailors in five different specialties deemed critical to current operations, including SEALs, special warfare combatant craft crewman, explosive ordnance disposal specialists, and certain linguists. The Navy ended their program in August and all affected sailors were released by the end of 2002.

The Marine Corps implemented an incremental program that coincided with current operations that the Marine Corps was tasked to support. The first increment addressed Marines assigned to Marine Forces Atlantic, as they were needed to staff the anti-terrorism brigade. The second increment included Marines assigned to C-130 aircrew positions across the Corps. The third increment was used to meet force protection requirements.

The initial Air Force program applied to all enlisted skills. As with its officer program, the Air Force released all enlisted specialties from the program.

FY 2003 Stop-Loss programs brought about new programs in light of the continuing war on terrorism, as well as the build up for a possible war with Iraq.

Service	Stop-Loss Plan
Marine Corps	<ul style="list-style-type: none"> • Applies to entire Corps and addresses growing number of units already engaged in operations • Provides stabilization of units while potential operational demands of an Iraqi scenario are evaluated.
Army	<ul style="list-style-type: none"> • Focuses exclusively on members of units alerted for deployment. This approach places a premium on unit cohesion and trained teams • Incrementally executed only for Army forces in Southwest Asia.
Air Force	<ul style="list-style-type: none"> • Ensures units remain adequately manned for all current and future operational requirements. • Applied to most stressed officer and enlisted specialties. Specialties will be evaluated every 60 days to align force mix to identified operational demands.
Navy	<ul style="list-style-type: none"> • No plan to use at this time.

While the Services have used Stop-Loss authority to some degree during the past year, the Department expects this ebb and flow of specialties and the use of the program to insure unit cohesion and enhanced readiness to be included in the Service Stop-Loss programs to continue until appropriate force manning adjustments are achieved.

Conscription

There has been some debate recently about this Nation returning to conscription. Throughout most of American history, our military has been composed of volunteers. However, conscription was the primary means of obtaining sufficient numbers of military personnel during World Wars I and II and the Korean Conflict, to the point that its renewal became perfunctory. In the late 1960s, a presidential commission studied how best to procure military manpower – retain the draft or institute a volunteer military. After much debate within the Administration, the Congress, and across the country, it was decided that an All-Volunteer Force was feasible, affordable, and would enhance the Nation’s security. The debate concluded that, under a draft in which not all served, it was inequitable for only some to bear the burden and responsibility of military service. Thus, the authority for conscription was allowed to lapse on July 1, 1973.

The All-Volunteer Force has served the Nation for more than a quarter century, providing a highly effective military that continues to exceed the expectations of its framers. It has also proven more cost-effective than a conscripted force according to many studies, including an external review by the Congressional auditing arm, the U.S. General Accounting Office. The Department respectfully seeks your support to ensure that our fighting force comprises individuals who have voluntarily made the decision to defend this Nation.

Recruiting

We are optimistic that all active Services will achieve their recruiting goals this fiscal year. Through November 2002, all Services were ahead of their year to date recruiting goals as

they entered FY 2003 with a sizable delayed entry program. The Department, however, will continue to face stiff competition for high-quality youth from both private sector industry and colleges.

Expanding the Target Market

The Department continues to identify ways to expand our target market. Of particular interest this year is the new short-term enlistment option offered in the National Defense Authorization Act for FY 2003. This program, the National Call to Service, is designed to promote national service. This is in keeping with the increased awareness of the value of service to the nation, as highlighted by the President's USA Freedom Corps initiative. It allows the Services to enlist high-quality young men and women for 15 months of active duty following initial entry training, with a two-year Selected Reserve obligation after that active duty. Uniquely, this program allows participants to serve a portion of their eight-year service obligation in another national service program, such as Americorps or the Peace Corps. We hope that this program will expand the recruiting market to young Americans interested in alternatives to more traditional terms of enlistment.

Today, nearly two-thirds of high school seniors enroll in college immediately after graduation. Enlistment often is viewed as an impediment to further education. To address this trend, the Army launched its "College First" test program in February 2000. This program is designed to identify better ways to penetrate the college-oriented market. In FY 2002, the Army had over 600 program participants. We appreciate Congressional support of "College First" in permitting increases in the monthly stipend, authorizing a loan repayment incentive option, and allowing a recoupment clause for those who default on their "College First" responsibilities. These program improvements should make the "College First" program more viable, and we

hope that Congress will remain open to further changes that will enhance the program's chance of success.

In addition to targeting the college market, we have several on-going pilot programs designed to tap the high aptitude, non-high school diploma graduate market. The National Defense Authorization Act for FY 1999 directed a five-year project to attract more home schooled graduates and ChalleNGe-GED holders to the military by treating them as high school diploma graduates for enlistment purposes. Early analysis indicates that results in those experiments are mixed. As the sample size continues to increase throughout the pilot test, we will assess the military performance and attrition behavior of the home schooled and ChalleNGe recruits to determine their appropriate enlistment priority.

The Army will continue the GED Plus test program in FY 2003. This program provides for up to 4,000 individuals who left high school before obtaining their diploma with an opportunity to earn a GED and enlist in the military. GED Plus applicants have to meet stricter screening criteria than high school diploma graduate applicants. They must all be Armed Forces Qualification Test score category I-III A (top fiftieth percentile), they must score well on an Assessment of Individual Motivation (AIM) test (which is correlated to attrition), and they cannot require a waiver for morals or drug and alcohol. Because GED Plus graduates are required to have above average enlistment test scores, job performance should not be adversely affected. The GED Plus program is scheduled for completion in FY 2004..

Fiscal Year 2002 Enlisted Recruiting Results

During FY 2002, the Military Services recruited 259,290 first-term enlistees and an additional 84,312 individuals with previous military service for a total of 343,602 recruits, attaining 104 percent of the DoD goal of 331,622 accessions. All Active and Reserve Components achieved their numeric goals.

The quality of new recruits remained high in FY 2002.¹ DoD-wide, 93 percent of new recruits were high school diploma graduates (against a goal of 90 percent) and 68 percent scored above average on the Armed Forces Qualification Test (versus a desired minimum of 60 percent).

The Montgomery GI Bill continues to be an extremely popular recruiting incentive. Over 96 percent of all new accessions enroll in this program which provides over \$35,000 in benefits to a new active duty recruit in return for a \$1,200 contribution from current pay. An additional option allows a Service member an opportunity to contribute up to an additional \$600 in return for \$5,400 of potential benefits over a 36-month period. The Department continues to view the MGIB as one of our Nation's best investment programs – a military recruiting tool for the Services today, and a more educated veteran for our country in the future.

Fiscal Year 2003 Year-to-Date Results

Through the first quarter of this fiscal year (October to December 2002), the Services achieved 99 percent of their “shipping mission,” enlisting 71,194 young men and women. All

Active Components met or exceeded their first quarter goals. The Reserve Components achieved 97 percent of their first quarter mission, with the Army National Guard achieving 86 percent. It is too early to determine if the Army National Guard shortfall is an anomaly or a trend; but plans are already in place to monitor it. Overall, recruit quality in both the Active and Reserve Components remains high.

Unlike the Active Component, the Reserve Components do not routinely contract recruits for accession into a future period. So, while the Active Components entered FY 2003 with healthy delayed entry programs, the Reserve Components must recruit their entire goal in this current fiscal year. The recruiting goals for FY 2003 are higher for four of the six Reserve Components, with a total Reserve Component recruiting goal of 141,450 (a 3.8 percent increase over the FY 2002 goal).

The trend of increasing the percentage of Reserve Component recruits without prior military service continues. Approximately 50 percent are now expected to come from civilian life. This is a result of high Active Component retention and lower Individual Ready Reserve populations.

For 2003, all Reserve components are continuing to focus their efforts on maintaining aggressive enlistment programs by targeting both enlistment and re-enlistment incentives in critical skill areas. Emphasis will be placed on the prior service market for both officers and enlisted personnel. The Reserve components will expand their efforts to contact personnel who are planning to separate from the Active component long before their scheduled separation and educate them on the opportunities available in the Guard and Reserve. In addition, the Reserve components will increase their efforts to manage departures.

¹ Although the Army National Guard and Naval Reserve fell short of the desired high school

Officer Programs

All Services met their numerical commissioning requirements in FY 2002. However, both the Navy and Air Force continued to experience shortfalls in certain specialties, usually those that require a specific educational background. The Navy missed its goals for pilots, naval flight officers, civil engineers, chaplains, and most medical and medical support specialties. The Air Force was short navigators, intelligence officers, weather officers, physicists, and engineers. Many of these career fields offer higher pay and more opportunity in the civilian workforce. Also, these career fields are academically challenging and it takes more people on scholarships to produce just one graduate. Both Services have faced this problem for the past several years and continue to utilize the various incentives available, such as scholarship for specific degree programs, to ensure they attract enough individuals with the required prerequisites.

Overall in FY 2002, the Reserve Components achieved over 97 percent of their officer accession goals. The Services continue to work on reducing shortfalls in the reserve officer ranks through emphasis on both recruiting and retention.

Active duty officer accessions are on track in all Services for numerical success this year, but the Navy and Air Force continue to pay special attention to the specialty mix.

diploma graduate (HSDG) rate.

Retention

Retention results for 2002 were strong and the positive trends continue. Each service met or exceeded its aggregate retention goals. The improved result for all Services is due importantly to strong retention programs, including the targeted pay raises Congress has approved in the last two years.

The enlisted retention outlook for FY 2003 is good, although the full effects of Stop-Loss are yet to be felt. For example, some Service members previously affected by Stop-Loss, who had planned to separate may decide to reenlist; while others who had planned to extend their tours of duty may not want to be involuntarily extended again under a future Stop-Loss program.

Despite success in meeting the numeric goals, shortages in a number of technical enlisted specialties persist in all Services. Examples of shortage skills include special operations, aviation maintenance, information technology specialists, electronics technicians, intelligence linguists, and air traffic controllers. We will continue to depend on judicious use of bonuses and special pays to achieve desired retention levels in these skills. The Army is targeting experienced noncommissioned officers with special operations skills with the Critical Skills Retention Bonus (CSRB) program.

Officer retention challenges from FY 2002 are expected to continue into FY 2003. This primarily involves career fields whose technical and scientific skills are easily transferable to the private sector. The Army, Navy and Air Force are banking on the CSRB Program, enacted by the Congress in the National Defense Authorization Act for FY 2001, to help improve retention

in targeted critical skills. But appropriations for these bonuses were cut in the past two years. We hope the Congress will support these important investments this year. Targeted skills include: developmental engineers, scientific/research specialists, acquisition program managers, communication-information systems officers, civil engineers, surface warfare and submarine support officers, and designated health professionals across all the Services.

Compensation

Attracting and retaining high caliber individuals for a trained and ready All-Volunteer Force requires a robust, competitive and flexible compensation system. In addition to basic pay, compensation includes all pays and allowances, such as housing and subsistence allowances, and special and incentive pays.

Targeted pay raises are needed because increased educational attainment on the part of the enlisted force has made the existing military pay structure less competitive. We appreciate the Congress' direction on the 2002 and 2003 pay raises to target additional raises for NCOs, as well as mid-level officers. We recommend the Congress adopt our proposed targeted pay raises for our mid-level and senior NCOs and warrant officers for FY 2004.

In addition to maintaining efforts to achieve competitive pay tables, the Department recommends continuing to increase military housing allowances significantly, with the goal of eliminating average out-of-pocket costs by 2005. Building on the current year's increases, the FY 2004 budget requests further improvements in the allowance, reducing the average out-of-pocket costs from 7.5 to 3.5 percent.

In January 2002, the Department implemented a new authority provided by Congress to allow the uniformed forces to participate in the Thrift Savings Plan (TSP). This opportunity represents a major initiative to improve the quality of life for our Service members and their families, as well as becoming an important tool in our retention efforts. In its first year of operation, TSP attracted nearly 303,000 enrollees, 241,000 active duty and 62,000 guard and reserve members. The Department projected that 10 percent of active duty members would enroll in the first year; in fact, we had 17 percent sign up, exceeding our expectations.

The National Defense Authorization Act for FY 2003 provided a new Combat-Related Special Compensation for military retirees with combat-related disabilities. Eligible recipients are those retirees who have 20 years of service for retired pay computation and who either have disabilities because of combat injuries for which they have been awarded the Purple Heart or who are rated at least 60 percent disabled because of armed conflict, hazardous duty, training exercises, or mishaps involving military equipment. We are working closely with the Department of Veterans Affairs to identify potentially eligible members and establish and implement application procedures and requirements. We intend to have applications and instructions available by late spring so eligible retirees can begin applying. The retiree newsletters for each branch of Service should provide the first information about when and where eligible retirees may submit claims for compensation. We will keep the Service-related associations and other appropriate organizations informed as well.

In 2003, we are examining compensation programs for Reserve component members. The current and anticipated military environments require employment of Reserve forces in ways not imagined when current compensation programs were

designed. Current thresholds for housing allowances, per diem, some special skill and duty pays, and a range of benefits may not fully support the manner in which Reserve component members may be employed in the future. Compensation programs must be sufficient to attract and retain capabilities to meet continuous, surge and infrequent requirements. As we examine options and formulate alternatives, we will adjust DoD regulations and include proposed statutory changes as part of the Department's legislative program.

Managing Time Away From Home (PERSTEMPO)

Although the provisions of law that require specific management oversight, tracking and payment of PERSTEMPO per diem have been waived during the current national emergency, the Services are continuing to track and report PERSTEMPO data. We understand the effects of excessive time away from home on the morale, quality of life and, ultimately, the readiness of Service members even during wartime conditions. That is why we have asked the Services to continue efforts to improve their data tracking and to explore ways to further reduce PERSTEMPO while still meeting mission objectives.

Despite our best efforts, however, a number of specialties in each Service will continue to experience high deployment rates until we can fully adjust our force structure, force stationing and deployment practices. We are recommending changes to the current law that provide a better way to manage this challenge and compensate the individuals affected. The proposal would replace the current \$100 High Deployment Per Diem with a progressive monthly High Deployment Allowance (HDA), authorize the Services to compensate members for excessive

deployments based upon the duration as well as the frequency of their deployments, and set the statutory limit for HDA at \$1,000 per month.

Training Transformation

Our ability to successfully defend our nation's interests relies heavily upon a military capable of adapting to rapidly changing situations, ill-defined threats, and a growing need to operate across a broad spectrum of missions. The Services have been highly successful for many years by possessing a training superiority over all real and potential adversaries. We intend to maintain that critical edge in the future by continuing to move our training methods and capabilities beyond those of the Cold War. We will no longer simply deconflict or synchronize unique Service war-fighting instruments, but rather integrate them into a single, focused capability. We will also expand "jointness" beyond the Services and into intergovernmental, interagency, and coalition realms so that, as Secretary Rumsfeld has so often noted, "we train like we fight and fight like we train."

Transformed training is a key enabler to transforming this fighting force. DoD plans to link joint training and readiness assessments and reporting through the Defense Readiness Reporting System (DRRS) and continue development of a core on-line curriculum for expanded access to Joint Military Education and training. Our offices will also review and update acquisition and maintenance policies, plans, programs, and procedures related to training to include embedded training in operational systems.

As we have witnessed in the skies above and on the ground within Afghanistan during Operation Enduring Freedom, it is not easy to plan and execute complex combat operations when the Services have not fully trained in accomplishing those tasks. We are committed to meeting joint mission requirements of our Regional Combatant Commanders and must ensure that Headquarters and Component staffs deploying to a combatant command are fully trained to

joint standards and in the concepts of network-centric warfare. The Department of Defense is implementing its Strategic Plan to transform training, with the establishment of a Joint National Training Capability by October 2004 as a key component. The U.S. Joint Forces Command will work with the Military Services and Joint Staff to achieve a realistic, global combat training and mission rehearsal capability that incorporates interagency, intergovernmental, and coalition partners. Our focus is to better enable joint operations so that we never conduct an operation for the first time in combat.

Readiness Assessment and Reporting

We are currently in the process of transforming how we report and assess the readiness of our forces to meet the challenges of today's defense environment. Our new Defense Readiness Reporting System (DRRS), is an output focused, near-real time assessment system that measures the capabilities of our military units, defense agencies, and supporting infrastructure to perform their assigned missions. We have already established the policy and direction, and are now developing the methodologies and analytic tools to enable rapid readiness evaluation and risk assessment across the entire Defense enterprise. DRRS builds upon the best characteristics of our current readiness systems, and uses information technology to capture key transactional data from our personnel and equipment management systems. DRRS uses modeling and simulation to test the feasibility of our operational plans, and helps to frame the significant risk and planning issues. We expect to have an initial capability for DRRS in late 2004, with a fully operational system by 2007.

QUALITY OF LIFE

A partnership exists between the American people and the military community that is built on the understanding that both Service members and their families are vital to the readiness and strength of our Armed Forces. Today, over 60 percent of today's military Service members have family responsibilities, necessitating a firm commitment to underwrite family support. President Bush has repeatedly stressed the need to improve the quality of life of our men and women in uniform, and in one of his first presidential directives upon taking office, he asked the Secretary of Defense to "undertake a review of measures for improving Quality of Life for our military personnel." The sentiment was later echoed in the 2001 Quadrennial Defense Review, which declared that the Department "must forge a new compact with its war fighters, and those who support them."

The fruit yielded by those early instructions is the new Social Compact, an ambitious review and long term plan for quality of life programs that renews the Department's commitment to our Service men and women and their families. Unprecedented in its scope, the Social Compact is built on the input from each of the Services as well as the Office of the Secretary of Defense. It seeks to address the issues of greatest importance in the lives of our Service members and their families.

As we move forward, the Military Departments will improve family support to meet the needs of the changing demographics of the force, with specific emphasis given to meeting the needs of the off-base population and Reserve Components families. Delivery of services and

information by exploiting technology will be a priority. Further, today's issues of spousal careers and quality education for military children are family concerns of high importance.

Family Assistance/Toll Free

When our Service members deploy around the world, whether to Afghanistan, Iraq, or one of numerous other posts, their families on the home front are first and foremost in their thoughts. They want to know how the family is getting along, how the kids are doing in school, if the bills are being paid, and if there's someone to lend a hand when problems arise.

With the majority of the force having family responsibilities, we must ensure that the families have the support and assistance they need when they need it, or our war-fighters might arrive on the battlefield distracted by concerns for the welfare of their loved ones. This is not an acceptable risk. That is why we must reach out to every military family, be they active duty, reserve or National Guard. We want every Service member to have a lifeline to support and assistance and to know that the same is available to his or her family. Someone they can call on, day or night, who will help them solve the crises they often face alone.

We have begun implementation of a toll-free 24 hour, 7 day a week family assistance service. This service puts families and Service members in contact with experienced, professional counselors who can provide immediate assistance with issues ranging from parenting and child care to financial counseling to how to find a plumber at midnight. Ultimately, this service will provide all of our Service members and families with immediate information on support available on the installation or in their community. This will include,

among a range of services: child care, domestic violence prevention and family advocacy, educational opportunities, and spouse employment resources.

Domestic Violence

The Department continues to make significant progress in addressing the issue of domestic violence within military families. We have reviewed two reports from the Defense Task Force on Domestic Violence and anticipate receipt of the final report shortly. We fully support more than three quarters of the recommendations, and anticipate that we will support 90 percent of them when we have completed studying a few issues. We have created an implementation team that is working to ensure that these Task Force recommendations are incorporated into DoD policy. The Task Force is preparing key response and intervention protocols for law enforcement and commanders and we are preparing to implement these in Service training programs. To improve DoD's response to domestic violence in the community, the Department will develop a confidentiality policy to protect appropriate communications.

The Army reviewed the domestic violence tragedies at Fort Bragg and identified some policies and practices that may need changing. The Department is looking at which of these apply to all Services, and if so they will be changed in the implementation process.

Family Support and Spouse Employment

There is a symbiotic link between family readiness and force readiness. We have worked hard this past year to reinforce the family and personal readiness posture of the Active and Reserve Component members.

We continue to support the families of military personnel involved in Operation Enduring Freedom. This includes deployment support programs for spouses, children, parents and extended family whose loved one has deployed as part of the global war on terrorism. In anticipation of a major contingency, DoD established a working group with representatives from all Active and Reserve Components and several Defense agencies. The purpose of the group is to assess the family support capability of each organization and make recommendations to strengthen programs and services for the families. As a result, we issued comprehensive guidance to reinforce the importance of family support, focus on specific areas based on proven practices, and encourage creative responses to new challenges. Most important, the family support strategy is One Force-based, which is critical to overall success.

We know that providing accurate information is the most supportive effort we can make to assist families. As a result, we are making maximum use of websites to communicate important information to families affected by deployment and family separation. Each of the Military Services and the office of Reserve Affairs have established comprehensive and effective websites to support the families as well. The most popular of these pages attract over two million hits per quarter. We are also using other technologies, such as e-mail, to help maintain

contact between deployed Service members and their families. Our goal is to ensure that every family of a deployed Service member has direct access to the support and services they need.

Our “Guide to Reserve Family Member Benefits” is designed to inform family members about military benefits and entitlements, including medical and dental care, commissary and exchange privileges, military pay and allowances, and reemployment rights of the service member. Additionally, a Family Readiness Event Schedule was developed to make training events and opportunities more accessible for family support volunteers and professionals. It also serves to foster cross-Service and cross-component family support, which supports the desired end-state of any service member or family member being able to go to a family support organization of any Service or component and receive assistance or information.

The family readiness “tool kit” is available to assist commanders, service members, family members and family program managers with pre-deployment and mobilization information.

At the same time, long-range recruiting and retention roles continue to drive family readiness programs such as spouse employment. Recent initiatives, like the Navy’s partnership with an international staffing firm and entrepreneurial initiatives focused on virtual business opportunities, have begun to yield significant results in terms of spouse employment and spouse morale. In addition, new measurement strategies at the installation and national level promise better, real-time assessment and analysis of spouse employment program effectiveness.

Financial well-being of military families is seen as a critical part of the Department’s new Social Compact. The Military Services have provided financial training and counseling services to aid military families in using their resources wisely. However, we have found that our junior

enlisted Service members and families continue to experience financial problems in larger numbers than their civilian counterparts. As a result, the Department is engaging in a financial literacy campaign focused on improving financial management abilities and changing behavior to improve resource management for current and future needs. The primary market for this campaign will be the junior enlisted member and the spouse, who though often the primary financial manager for the family, may not have received any guidance in managing home finances. Several federal agencies and non-profit organizations have pledged their support to accomplish these goals through the financial literacy campaign. Their participation will enhance our expertise and also provide an avenue for the American public to support its troops.

Employer Support

A Guard and Reserve Employer Database was established in late 2001 to enable the Department and others to communicate directly with employers on appropriate Reserve component issues. In addition to the Department's need for employer information, military leadership continues to express interest in the civilian-acquired skills and joint operations experience of Guard and Reserve members. Building employer support requires a strong network comprised of both military and civilian-employer leaders, capable of providing communication, education and exchange of information. Employers need to understand their legal requirements for Guard and Reserve employees and also the importance of the Reserve components' contribution to our national defense.

Since most Reserve component members have a full-time civilian job in addition to their military duties, civilian employer support is a major quality of life factor. The Department recognizes the positive impact employer support has on Reserve component readiness, recruiting and retention, and accomplishment of the Department's missions. The National Committee for

Employer Support of the Guard and Reserve (ESGR) is charged with enhancing employer support and coordinating the efforts of a community based national network of 55 committees consisting of 4,200 volunteers in every state, the District of Columbia, Europe, Guam, Puerto Rico and the Virgin Islands to meet their important requirement.

ESGR has greatly expanded its “Statement of Support” Program in the past year, which highlights the public signing by an employer of a statement pledging to publish and implement personnel policies supportive of employee service in the National Guard and Reserve. Forty-four Governors have signed Statements of Support and two more are scheduled to sign very soon. Many nationally known companies have also signed Statements of Support and hundreds of small and mid-sized companies, communities, and local chambers of commerce have also publicly signed ESGR Statements of Support in the past year.

Child and Youth Development

Affordable, quality child care remains one of the most pressing and persistent needs of families throughout the Department. The Department considers child care to be a workforce issue with direct impact on the effectiveness and readiness of the force. The FY 2004 budget request continues to maintain child development programs at over 300 locations with 900 child development centers and over 9,200 family child care homes. Even with this vast system of support, we still project a need for an additional 40,000 spaces. Expansion efforts are continuing.

As contingency operations increase, Services are customizing and expanding child care programs to meet specific mission requirements. Various installations offer extended hours care, care for mildly ill children, and child care so that both service members and spouses can attend deployment briefings.

Partnerships with other agencies have really paid off for our youth. One example is the dynamic collaboration with Boys & Girls Clubs of America. DoD youth programs benefited from expanded scholarships opportunities and marketing initiatives. Program upgrades of computer centers allow youth and children to stay in touch with a mom or dad deployed many miles away. To address the concerns of youth at risk, we improved the Military Teens on the Move website for youth relocation issues and deployed the Community Assessment for Youth tool to assess community issues and to assist commanders to find solutions.

Educational Opportunities

With the support of Congress, last year the Department provided \$30 million to heavily impacted school districts serving military dependent students and an additional \$3.5 million to eligible school districts to reduce the cost of providing services to military children with severe disabilities.

The Department has reached out to public school districts and state education authorities to engage them in helping ensure military dependent students receive a quality education. We have asked districts to share best practices with one another to help eliminate problems experienced by children of military personnel who are forced to change schools frequently due to

the reassignment of the parent or guardian. Within the last two years we have brought together over 300 students, parents, military leaders, school personnel and state policy makers to address and give visibility to these issues which affect about 600,000 children. We will soon activate a website that will provide information to help make transfers smoother.

Once we begin the base realignment process, a careful look at the quality of life of civilian communities where our military families live is warranted. We owe children a good education no matter where their parents may serve, as well as good child care, homes, and spousal career opportunities. It will be important to tie base closure and realignment discussions to the quality of life in the local community.

The Department continues to operate one of the nation's largest post-secondary education programs. Service members' participation in the off-duty voluntary education program remains strong with annual enrollments exceeding 600,000 courses. Last year, Service members were awarded over 30,000 higher education degrees by hundreds of colleges and universities. Policy increasing tuition assistance became effective October 1, 2002. New levels of support virtually eliminate Service members' out-of-pocket costs for earning a degree. Army, Air Force and Marine Corps have implemented the new policy. Navy has indicated it has insufficient funds to implement the policy and has restricted sailors to a maximum of 12 credits for which tuition assistance has been authorized.

RESERVE MOBILIZATION AND TRAINING

Reserve forces continue to exhibit their willingness and preparedness to support the One Force during rapid mobilizations and deployments in the various ongoing contingencies and emerging operations around the globe. In addition to the traditional methods of employing reserve forces, the Department has engaged in some visionary new projects that have expanded the capabilities to support combatant commanders virtually.

We are in the midst of one of the longest periods of mobilization in our history. The men and women of the National Guard and Reserve have responded promptly and are performing their duties, as the Nation requires. For the past 18 months, we have mobilized over 230,000 Reserve personnel, who are performing and have performed magnificently throughout the world. We are managing these call-ups in a prudent and judicious manner, assuring fair and equitable treatment as we continue to rely on these citizen-soldiers.

As of 7 March 2003, there are 178,886 mobilized under 10 USC (12302).

- Army National Guard (ARNG): 67,652
- Army Reserve (USAR): 60,764
- Air National Guard (ANG): 12,762
- Air Force Reserve (USAFR): 10,957
- Navy Reserve (USNR): 8,005
- Marine Corps Reserve (USMCR): 15,798
- Coast Guard Reserve (USCGR): 2,948

Support to Mobilized Reservists

Taking care of our mobilized Guard and Reserve members and their families is a top priority for the Department. While we can draw on our experience from past call-ups, we continue to examine our policies and programs to ensure that our mobilized Reservists do not feel disenfranchised and that we have systems in place that support families.

Screening and Key Employee Exemption Process

To preclude conflicts between Ready Reserve members' military mobilization obligations and their civilian employment requirements during times of war or national emergency, the Department conducts a "screening" program to ensure the availability of Ready Reservists for mobilization. Once a mobilization is declared, all screening activities cease and all Ready Reserve members are considered immediately available for Active Duty service. At this time, no deferments, delays, or exemptions from mobilization are granted because of civilian employment.

However, due to the unique situation that was created by the events of September 11th, the Department immediately recognized that certain federal and non-federal civilian employees were critically needed in their civilian occupations in response to the terrorist attacks on the World Trade Center and Pentagon. Accordingly, the Department established a special exemption process to help accommodate overall national security efforts.

We are developing new policies that would require members of the Ready Reserve, especially the Selected Reserve, to provide the Department with limited information about their civilian employers. Having employer information will not only assist us in improving our employer outreach programs, but more importantly, it will provide a better understanding during mobilization planning of the impact mobilizations will have on local communities and industries.

The need for better employer-related information is a priority for us in the new threat environment we are facing. Additionally, obtaining accurate and current employer information is critical for the Department to comply with our statutory responsibilities for continuous screening of Reserve units and individuals.

Training

Training is a fundamental pillar of readiness and Reserve Component issues and concerns must be addressed as an *integral* part of defense training – specifically that Reserve Component training issues must be developed concurrently with active issues and included in new training transformation initiatives. We have made a concerted effort to ensure that the unique requirements of our Reservists are highlighted and given every consideration as we implement Reserve Component training under a One Force approach. This approach will continue to pay great dividends, not only for the Reserve Component, but for the entire force as the Reserve Components blaze the trail for distributed learning and other “virtual” approaches.

In the past year, we’ve experienced some very exciting developments in the training environment that will leverage use of new technologies to “just in time” training, and training oriented to improved job performance. This focus on distributed learning strategies and employing more robust communications tools will continue to pay great dividends for the Total Force. The National Defense Authorization Act for FY 2002 included changes that allow the Reserve components to receive compensation for completion of electronic distributed learning, adding significantly to the opportunities of our personnel to embrace these concepts. We are undertaking a study to develop policy recommendations for the implementation of a Department-wide compensation policy for the completion of training required by individual Services. These

new and emerging technologies provide exciting training opportunities across all components – not just the Reserve Component. .

MODERNIZING CIVILIAN PERSONNEL MANAGEMENT

On September 27, 2002, the Department completed deployment of the modern Defense Civilian Personnel Data System (DCPDS), DoD's enterprise civilian human resources information system. With the final deployment, the system reached full operational capability, and has now been fielded to all DoD civilian human resources (HR) Regional Service Centers and Customer Support Units. The system supports over 800,000 civilian employees in the Department worldwide, including appropriated fund, non-appropriated fund, demonstration project, and local national employees in thirteen host countries. DCPDS also provides operational and corporate-level information management support to all management levels within the Department. The deployment of DCPDS caps the largest HR transformation initiative in the Federal government: the DoD HR Regionalization and Systems Modernization Program, which has generated savings through the consolidation of DoD civilian HR operations into a regionalized environment, based on standardized and reengineered business processes, supported by a single HR information system.

The Human Resources Strategic Plan for FY 2002-FY 2008 is a living document. Adjustments are made on a continual basis, with the changes published in an annual annex. Twenty-six performance indicators were completed during FY 2002, including implementing HR system changes to enhance recruitment; benchmarking HR processes and practices against industry best practices; promoting diversity initiatives; and maintaining high-level strategic alliances with other public and private HR organizations. DoD experienced successful

completion of the first year goals and we are well on the way with the FY 2003 accomplishments.

An excellent method to develop, nurture and sustain the best and brightest members of our current workforce is the Defense Leadership and Management Program (DLAMP). DLAMP is the premier leadership development program for senior DoD civilians and a key component of the succession planning program. Full and complete funding of this program is vital to DoD to ensure the proper development and education of future senior civilian leaders, prior to the departure of any eligible senior executives.

Additionally, DoD is continuing efforts to improve the academic quality and cost-effectiveness of the education and professional development provided to its civilian workforce. We have made good progress towards obtaining accreditation for DoD institutions teaching civilians. DoD anticipates that all but one of these institutions will have gained accreditation by the end of this year. We are also working towards implementing the academic quality standards and metrics and associated data collection system developed last year. These will provide our institutions a mechanism for performance benchmarking and will give decision-makers accurate and timely information on the quality and cost-effectiveness of our institutions. Finally, we have progressed well in our research to identify the lessons learned and best practices used by educational institutions, corporate universities, and government agencies; we are applying those lessons and practices to improving the academic quality and cost-effectiveness of DoD civilian education and professional development.

HEALTH CARE

Military Health System Funding

In the President's Budget Request for FY 2004, the Defense Health Program (DHP) submission is based on realistic estimates of delivering health care. It includes assumptions for growth rates in both pharmacy (15%) and private sector health costs (9%). Still, we need flexibility to manage our resources. We seek your assistance in restoring the contract management flexibility you provided in the National Defense Authorization Act for FY 2002 and in alleviating restrictions on moving resources across budget activity groups. Our beneficiaries who are not enrolled in TRICARE PRIME make their own choices about where they receive their health care. When they choose purchased care, and our private sector care costs go up, we need to be able to realign funds to cover these bills. If the Department has to wait several months for a prior approval reprogramming, contractors and providers are essentially "floating" the government a loan. This is contrary to good business practice and harms our relationships with our contracting partners and participating providers. Health care costs for the TRICARE for Life benefit will be received from the Medicare-eligible Health Care Accrual Fund, and are not reflected in this appropriations request.

The Department has developed, and is implementing, a five-year strategic plan for the Military Health System. The plan was developed using a balanced scorecard methodology and focuses on the successful implementation of the dual mission of providing support for the full

range of military operations and sustaining the health of all those entrusted to our care. Key measures in the plan include readiness, quality and efficiency.

Force Health Protection and Medical Readiness

Even before the Global War on Terrorism, the Military Health System (MHS) had numerous activities underway to ensure force health protection and medical readiness. These efforts include development of a joint medical surveillance capability, joint medical response operations, and an aggressive immunization program to counter possible exposure to anthrax or smallpox. The FY 2004 budget continues to support these efforts.

TRICARE

TRICARE's success relies in part on incorporating best business practices into our administration of the program, specifically in regard to how our managed care contracts operate. We have carefully coordinated and planned for the next generation of TRICARE contracts (T-Nex). A basic tenet of the T-Nex acquisition is to exploit industry best practices to support the basic benefit structure of the TRICARE program. We enter this new generation of contracts with a commitment to our beneficiaries to earn their satisfaction, and to provide a near-seamless transition to our future providers.

Delivery of TRICARE for Life benefits continues to be a great success. In the first year of the program, we processed over 30 million claims; the overwhelming majority of anecdotal information we receive is that our beneficiaries are extremely satisfied with TRICARE for Life. They speak very highly of the senior pharmacy program as well. This program began

April 1, 2001, and in the first year of operation, 11.6 million prescriptions were processed, accounting for over \$579 million in drug costs.

Reserve Component Health Care Benefits

The Department has introduced several health care demonstration programs since September 11, 2001, to provide an easier transition to TRICARE for the growing number of reserve component members and their families who are called to active duty. These demonstrations have helped to preserve continuity of medical care and reduce out-of-pocket costs for these families. We are revising our administration of reserve benefits to ensure that families are not arbitrarily excluded from benefits that were intended for them. We have also revised our policies to ensure that family members of reservists who are activated are eligible for TRICARE Prime Remote benefits when they live more than a one hour's commuting distance from a military medical facility, regardless of the mobilization site of the Service member. In addition, reservist families can enroll in TRICARE Prime if a member is activated for 30 days or more.

Coordination, Communication and Collaboration

The MHS has built many strong relationships among other federal agencies, in addition to professional organizations and beneficiary and military service associations. The Department's relationship with the new Department of Homeland Security will demand effective cooperation across the spectrum of functions across the Department.

MHS collaboration with the Department of Veterans Affairs dates back many years, but we are especially proud of recent accomplishments. We have made great strides this year in partnering to provide health care to DoD and VA beneficiaries in areas such as North Chicago/Great Lakes and Southern Texas. We are pursuing other opportunities for resource and facility sharing and will report on them to Congress over the next few months as required by the National Defense Authorization Act (PL 107-314). We have experienced remarkable success in our joint pharmaceutical-related efforts. In fiscal year 2002, our joint pharmaceutical contracting resulted in over 100 million dollars in cost avoidance for the Department. We continue to collaborate with the VA through the VA-DoD Joint Executive Council, where senior healthcare leaders proactively address potential areas for further collaboration and resolve obstacles to sharing. The Department has worked with the Department of Veteran's Affairs throughout the past year as an active participant on The President's Task Force to Improve Health Care Delivery for Our Nation's Veterans. The task force has reviewed many aspects of each department's health care business. As stated in their Interim Report released in July 2002, the Task Force "is encouraged by the establishment of the VA/DoD Joint Executive Council...(which) recently agreed to undertake a strategic planning initiative, the first time such a joint planning endeavor has been initiated." We look forward to receiving their final recommendations.

Military Medical Personnel

The added flexibility for administering health professions' incentives that you included in the National Defense Authorization Act for FY 2003, including increasing the cap for clinical professions up to \$50,000/year for some of our accession and retention bonuses, and improving the Active Duty Health Professions Loan Repayment Program authority, are greatly appreciated.

The Services are working with Health Affairs to develop plans for future targeted pay increases in those clinical areas where there is difficulty in filling requirements.

CONCLUSION

Mr. Chairman, this concludes my statement. I thank you and the members of this Subcommittee for your outstanding and continuing support for the men and women of the Department of Defense.

I would like to take this opportunity to note that the joint efforts of Congress and the Department are beginning to pay off. Service members who completed the web-based 2002 Status of Forces Survey opinion survey expressed greater satisfaction with almost all aspects of service life than they had three years earlier. For instance, results show a significant gain in satisfaction over compensation. This is directly attributed to the annual pay raises that exceeded wage growth in the private sector, and housing allowance hikes set higher than the yearly rise in local rents. The Congress was instrumental in making this happen.

Even better news is that more than 80 percent feel they are ready to perform wartime duties. This is certainly a positive endorsement for the programs that you have helped us enact. I am hopeful that I can count on your support in the future. I look forward to working with you closely during the coming year.