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Congress of the United States
House of Representatives
Washington, DC 20515

May 15, 2008

Dear RSC Colleague:

Soon the House of Representatives will vote on amendments to H.R. 2642, the Fiscal Year 2008-2009 war funding supplemental. Amendment #3 contains the text of H.R. 5740, the Post-911 Veterans Educational Assistance Act—legislation to create a new entitlement for veterans who have served our nation since September 11th, paid for with yet another tax increase on American small businesses that threatens our economy.

I believe that some update of the current GI benefit is necessary to account for the accelerating cost of higher education resulting from years of sustained increases in federal student loan subsidies. However, it is paramount to pass a bill that will not adversely impact our nation's ability to maintain an all-volunteer military force or create jobs, and that any entitlement expansion be paid for with appropriate offsets. **To that end, I will be voting no on Amendment #3 for these and other reasons, and I urge you to do the same.** In addition, I will be introducing an alternative next week to both increase the GI benefit and fully offset its cost. Here is my proposal:

Pass a GI benefit increase the Commander-in-Chief can sign. The Pentagon has expressed concern about legislation to increase GI benefits, particularly with S. 22, the Senate companion to H.R. 5740, because it may erode its ability to maintain an all-volunteer force. In a letter to Senate Armed Services Committee Ranking Member McCain, Defense Secretary Gates wrote:

An important corollary to the GI Bill is the recognition that today, remaining in the military is entirely consistent with the attainment of education goals. Unlike the past, our nation now encourages the fulfillment of college aspirations while serving, thus dealing with readjustment through upfront programs, rather than only after discharge. DoD invests \$700 million annually to offer funded, education tuition assistance for our servicemen and women while serving. More than 400,000 members of the armed forces took advantage of such tuition assistance last year. In conclusion, for all these reasons, the Department does not support S. 22.

Similarly, in testimony before the House Veterans' Affairs Committee, Acting Deputy Assistant Secretary of Defense for Reserve Affairs, Thomas Bush, stated:

The potential benefits of a higher benefit level to recruiting must be carefully evaluated in light of the difficulties some of the Services are currently experiencing in the recruiting market. Attracting qualified recruits using large, across-the-board basic benefits incurs the risk that many who enter for the benefits will leave as soon as they can to use them. If

so, lower first term retention could reduce the number of experienced NCOs and Petty Officers available to staff the force, and put added pressure on the recruiting market as additional accessions are required to replace the members who leave.

In short, if the educational benefits of leaving active duty exceed those of staying, it is not difficult to understand why the Administration believes that an all-volunteer force would be disserved by various bills under consideration by Congress. However, this concern is associated primarily with H.R. 5740, and not Rep. Stephanie Herseth-Sandlin and Rep. John Boozman's Veterans Education Improvement Act, H.R. 5684. Already passed out of the House Veterans' Affairs Committee, this bill would increase the current GI benefit to the total cost of education per month (\$1,450)—the level at which the Pentagon has said positive impacts on recruiting give way to negative impacts on retention.

Offset the cost of a GI benefit increase. While necessary, any increase in the GI benefit is very costly. According to the Congressional Budget Office (CBO), H.R. 5740 would cost roughly \$52 billion over ten years in increased entitlement spending, while H.R. 5684 would consume approximately \$20 billion over the same time frame. Entitlements currently consume over 60% of all federal spending and represent one of the largest obstacles to controlling federal spending, the growth of which is unsustainable. According to the General Accountability Office (GAO), the federal government has accumulated \$52.7 trillion in unfunded liabilities that must be met by future generations—amounting to over \$450,000 in debt for every American family. In 2040, the federal government will either have to double taxes or witness three federal programs—Social Security, Medicare, and Medicaid—crowded out every last federal priority. This means that future veterans cannot count on a dime of future benefits already promised if Congress continues to ignore its current spending problems. I believe that in a budget of \$21.4 trillion in mandatory spending over the next ten years, offsets can be found.

In particular, I believe that the benefits for federal workers need to be restrained. Over the past decade a growing divide has emerged between retirement and healthcare benefits for private sector employees and those workers employed by the government. Here are some facts. According to the Bureau of Labor Statistics (BLS), 61% of workers in the private sector have access to an employer sponsored retirement plan as compared to 90% of government employees. Only 21% of private sector employees have a defined benefit pension; most have defined contribution plans. All federal retirees also receive annual COLAs, although according to the Congressional Research Service, only 7% of defined benefit pension plans for private sector employees offer such COLAs. Furthermore, federal pension law actually encourages early retirement. As a result, between 1995 and 2004, an average of 12,000 federal employees retired early every year. The average age of such early retirees is 53 years old.

Moreover, federal retiree health benefits are significantly more generous than the health care the federal government provides to most seniors and that which the private sector offers, and could reasonably be restrained. Studies by the Department of Health and Human Services indicate that the average cost for an individual covered in the Federal Employee Health Benefits Program (FEHBP) is nearly \$5,400. This figure is more than 50% higher than the average benefit (including prescription drug coverage) provided to Medicare beneficiaries. Yet, federal workers are under no obligation to join the Medicare program upon reaching age

65—and many do not. Furthermore, CBO cites research showing that only one-third of private firms with 200 or more workers offer health benefits to retirees, and when it is offered, firms normally require ten years of service. While some may argue that these sort of generous benefits are needed to compensate federal employees for lower salaries, Office of Personnel Management data show that the average federal employee made \$64,659 in 2006, compared to the national average of \$30,353.

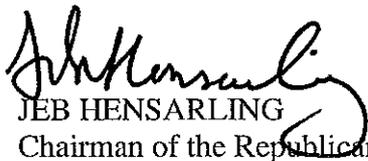
Therefore, I believe the following reforms could be made to better align the federal benefit package with that which is offered to private sector employees:

- The supplement under the Federal Employee Retirement System (FERS) for workers who retire before age 62, when Social Security begins offering benefits, should be repealed. This benefit, equal to the amount that Social Security *will* provide, provides an incentive for workers to retire at age 55, and is unavailable to most American workers.
- Congress should adopt a voucher plan for the FEHBP equal to the first \$3,600 in individuals for families and \$8,400 for families, adjusted thereafter for inflation. This would encourage competition among insurance plans within the program and drive down costs.
- The health benefits of new federal retirees should be based on their length of service, with declining premium subsidies for retirees who served relatively short federal careers. Under current law, full premium assistance is dispensed for as little as five years of service.
- The formula for determining the benefits under both FERS and the Civil Service Retirement System (CSRS) should be altered to compute benefits for new retirees according to a five-year average of an employee's consecutive highest earnings instead of a three-year average, consistent with private sector practices.

According to a recent article in *USA Today*, one federal worker stated that, "The sweet spot for me is about age 56. When I run the numbers, the system almost forces me to retire." Clearly, that is not the case for most workers in America.

I believe it is time to better align our federal benefit packages with the private sector, in order to provide for our nation's veterans now and in the future without raising taxes. Unfortunately, Amendment #3 is bad for veterans and bad for America. We can do better, and I urge you to join me next week in introducing a better solution.

Yours respectfully,


JEB HENSARLING
Chairman of the Republican Study Committee