

**TAX AND FISCAL POLICY: EFFECTS ON THE
MILITARY AND VETERANS COMMUNITY**

HEARING

BEFORE THE

**COMMITTEE ON FINANCE
UNITED STATES SENATE**

ONE HUNDRED ELEVENTH CONGRESS

SECOND SESSION

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SEPTEMBER 22, 2010
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TAX AND FISCAL POLICY: EFFECTS ON THE MILITARY AND VETERANS COMMUNITY

WEDNESDAY, SEPTEMBER 22, 2010

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 10:11 a.m., in room SD-215, Dirksen Senate Office Building, Hon. Max Baucus (chairman of the committee) presiding.

Present: Senators Grassley and Ensign.

Also present: Democratic Staff: Bill Dauster, Deputy Staff Director and General Counsel; Lily Batchelder, Chief Tax Counsel; Holly Porter, Tax Counsel; and Michael Grant, Detailee. Republican Staff: Tony Coughlan, Tax Counsel.

OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. The committee will come to order.

In a fireside chat during World War II, President Franklin Roosevelt honored America's troops by saying, "We honor our troops fighting our enemies in distant parts of the world." Today, America's armed forces are once again fighting our enemies in distant parts of the world, and once again we should honor these brave men and women. But there is much that we can do to support their efforts. That is our task today, and every day. During today's hearings, we will work to identify new ways that we can help.

Our troops bear a heavy burden. They deploy for months, sometimes even years, at a time. They often leave much behind: spouses, children, jobs. Members of the National Guard and Reserves leave their careers, and too many come home to face financial or marital problems. In spite of these challenges, our armed forces still answer the call. They bear this burden because they love their country.

My home State of Montana sends a higher share of its population to serve in Iraq and Afghanistan than almost any other State. This week, hundreds of Montana National Guardsmen said goodbye to their families and began a year-long tour in Iraq. For many, this was their second or third deployment.

In April, I had the honor to meet with members of our armed services in Afghanistan. I saw our brave troops in action. These men and women work under the most difficult conditions. They serve every day: weekends, holidays, anniversaries, and birthdays, 24 hours a day, 7 days a week.

Our troops are some of the hardest-working Americans there are. They patrol the mountains, they fix trucks, they fire artillery. They are warriors and they are diplomats. They organize meetings, known as shuras, with local leaders and village elders. I was struck by their professionalism, their courage, and their tenacity. We have some of the very best men and women in the whole world serving the United States of America over in Afghanistan and Iraq, and I am very proud of them.

We Montanans, and all Americans, are so proud of these men and women, but we must do more than just express our support. We must act to take care of our soldiers, marines, sailors, and airmen when they get home. So today, this committee will take a hard look at how we can improve tax and fiscal policy to make life better for our military and their families.

We did much in 2008 with the Heroes Earnings Assistance and Relief Tax Act. That law eliminated many obstacles in the tax law that created problems for veterans and service members. Among other changes, we made permanent the law that combat duty income counts for EITC purposes. We guarantee that family members of fallen soldiers can take advantage of tax-favored accounts, and we provided disabled veterans with an extra year to claim tax refunds.

I know that there is more we can do. Today, we will hear how the tax code does not always make allowances for the unique circumstances that the troops and their families face during times of war. Surviving children of our troops are sometimes subjected to higher tax rates on benefits paid to them. National Guard and Reserve troops regularly pay out of their own pockets to drive hours to military training and do not receive reimbursement or a tax deduction for these expenses.

Small businesses who hire Guardsmen or Reservists see their employees deployed again and again, but are not compensated for their loyal support for their employees. We need to address concerns like these, and more.

George Washington once said, "The willingness with which our young people are likely to serve in any war, no matter how justified, shall be directly proportional to how they perceive the veterans of earlier wars were treated and appreciated by their nation."

We have a sacred responsibility here. Our armed forces have answered the call, and they have shouldered their responsibility. Let us do so as well. Let us honor the members of America's armed services who have borne this heavy burden. Let us do our part to help those who fight our enemies in distant parts of the world. And let us do what we can to show them that we are very appreciative of them and that they are appreciated by a grateful Nation.

Senator Grassley?

**OPENING STATEMENT OF HON. CHUCK GRASSLEY,
A U.S. SENATOR FROM IOWA**

Senator GRASSLEY. Thank you, Mr. Chairman. Thank you, panelists, for coming today and taking time out of your busy schedules to help us review tax laws.

When our Nation is at war, as it is now, we are often reminded of the tremendous sacrifices made on the battlefield by those who

wear our country's uniform. I think of Salvatore Giunta, the Iowan who is about to receive the Medal of Honor for risking his life to aid his wounded comrades while fighting the Taliban in Afghanistan.

The stories I read in the paper of the patriots from my home State, who have given their lives for their country, bring home the tremendous price of freedom. We can never thank enough those who are serving or who have served in the armed services; however, we often overlook the many day-to-day sacrifices on the part of those who serve, as well as their important support group: their families.

I also want to acknowledge the small business owners, like Dr. Darrah from my home State of Iowa, who seek to hire Reservists, even knowing that they could be called to active duty, leaving the business in the lurch. I thank Dr. Darrah for being here today as well.

To the extent that it is possible to alleviate the extra stresses and strains on service members and veterans, as well as their families and support network, we have an obligation to explore policy options to do so. We have done that in the past, and I was pleased in that process to support the Military Family Tax Relief Act and the Heroes Earnings Assistance and Relief Tax Act. Those bills were passed in 2003 and 2008, respectively, and are now law.

Among other provisions included in these laws were a temporary tax credit for small employers of Reservists called to active duty, a permanent extension of an election to include combat pay as earned income for purposes of the Earned Income Tax Credit, an allowance for Reservists called up for active duty to withdraw unused funds from a health flexible spending account, and an exclusion from income of payments made to offset adverse effects in housing values that result from military base closures.

The subject of this hearing is building upon those previous acts, and it is a very important hearing. We will consider at this time to what extent the tax laws of this country need to be changed to alleviate the special hardships placed upon the military and veterans communities.

To the extent requirements of the Federal Government contained in the Uniformed Services Employment and Reemployment Rights Act and elsewhere place burdens on employers of those deployed to the military, we should determine the most appropriate way to alleviate those burdens.

This committee should also consider the best way the unique burdens of the members of the military and veterans communities should be addressed by the tax laws. The committee may also wish to determine the best way those burdens are addressed, by the tax laws or by some other way. Thank you.

The CHAIRMAN. Thank you, Senator Grassley.

I would now like to introduce our panel. I am very proud to have two representatives from the Montana National Guard. The first witness is Specialist Dan Dobyms, who is the State Family Programs Director for the Montana National Guard Family Programs. Welcome, Specialist Dobyms.

We also have Staff Sergeant Noyce Merino, former "Noncommissioned Officer of the Year" for 2008, and he was also the winner

of the U.S. Army's 2008 "Best Warrior" title. Staff Sergeant Noyce Merino, thank you very much for being here.

And Dr. Darrah, who is president and chief executive officer for Athena ISG/GTXtreme, Inc. That is quite a mouthful.

In addition, we have Captain Marshall Hanson of the U.S. Navy, Director of Legislative and Military Policy for the Reserve Officers Association of the United States. Captain Hanson is also a representative of The Military Coalition, a consortium of nationally prominent military and veterans organizations, and will present testimony on their behalf.

Finally, we have Timothy Embree, who is a legislative associate with the Iraq and Afghanistan Veterans of America. Thank you all very, very much for coming. I just urge you—I know I need not tell you this—let 'er rip. Tell it like it is. Tell us what you think. Let us make the most out of this hearing here. Thank you very, very much.

All of your statements will be automatically included in the record. You can just rest assured of that. Second, I would just urge you to speak for about 5, 6 minutes and summarize your statements, and we will take it from there.

We will start with you, Specialist Dobyns.

STATEMENT OF SPECIALIST DAN DOBYNS, DIRECTOR, STATE FAMILY PROGRAMS FOR MONTANA NATIONAL GUARD FAMILY PROGRAMS, HELENA, MT

Specialist DOBYNS. Thank you, Mr. Chairman. Thank you for this opportunity today. My name is Specialist Dan Dobyns. I am the State Family Program Director for the Montana National Guard. I am a full-time Federal technician with the Montana National Guard in Ft. Harrison, Helena, MT. I was born and raised in Montana. I am proud of that. I am very familiar with the unique challenges.

The CHAIRMAN. Where were you born?

Specialist DOBYNS. I was born in Shelby, MT.

The CHAIRMAN. Good for you.

Specialist DOBYNS. Yes. Up in the high line up there. We reside in Helena right now. We like Helena. Today, I want to put human faces to some of our service members in Montana. There are a few important statistics, obviously, that are pretty important. In Montana, life is a little bit different than other States. We are the fourth largest, and from east to west we have over 600 miles. A lot of our roads are covered in ice many months, and a lot of our residents live in very rural, isolated areas.

The average income is substantially lower, \$20,000 to \$30,000, depending on which family it is. With gas prices hovering at about \$3 a gallon and employment opportunities being the lowest that we have seen in a long time, Montana is different. These are just a few facts. I do not want to get jumbled up in facts. I want you to hear some stories of some people who have been impacted by these facts.

Late on a Saturday night, I received a really distressed call from an 18-year-old female who is taking care of four young children; I get these calls a lot. Her mom, who is a member of the Army National Guard, was gone for annual training. Annual training is a mandatory 2-week training for Guard members. Well, the power for

their house had been turned off, since the bill was not paid. Since the power was turned off, all the refrigerated food in the house had spoiled, and the kids had nothing to eat. They were down to one loaf of bread. Five military children down to one loaf of bread.

The mother was an extremely hard worker—I did a lot of research on this case—balancing, sometimes, three jobs at one time. She had been traveling on her drill weekend—Guard members are required to drill 1 weekend a month—and it was 4 hours one way to her drill location. That’s an 8-hour round trip.

In Montana, we do not talk about miles, we talk about hours. We do not talk 100 miles, we say it takes about 3 hours, because we are not sure what the driving conditions are going to be like. While her rank was an actual E-4, her pay was not even enough to hardly cover her expenses for the weekend to travel to drill.

Like I said, Montana is a big State. With gas prices, for an E-4, there is not enough money to come back and to contribute to paying for the power bill. Her husband is also in the National Guard. He had been at basic training for over 4 weeks, and he was an E-1. His pay did not even come close to covering the cost of a family living in Montana.

Well, as the Director of Family Programs in Montana, I have great resources at my disposal to help families just like this. We have six Family Assistance Centers State-wide that I call on to help in situations like this. We have geographically dispersed them strategically throughout Montana.

I called the Family Assistance Center in their area and the Family Program staff, and I started to work up possible solutions specifically for this family. We went to a local grocery store right away and provided the family with groceries, since that was the most important need that we could see right away.

Next, we helped them with the resources to assist them in paying their power bill. Family Assistance Centers have knowledge and access to resources to help families financially. The family had their power turned back on, and they had received financial help. The end of the story was, people realized, just even in our community, how, right next door, you can have a family like this.

The primary mission of a Family Assistance Center is to provide guidance to family members. FACs also provide resources on health insurance, even access to great family counselors. All information is validated, it is official, and all families in the military are welcome at the Family Assistance Center. We will help any family, no matter if they are National Guard, if they are Reserve, or if they are active duty.

Another family that I want you to hear about today is a couple who showed up in my office in Ft. Harrison. They were very frustrated. Tears were flowing off of their faces as they told me how they had been working four jobs between the two of them because they had been laid off of their original jobs that they had obtained with college degrees. They were coming up short on their bills.

His wife had joined the National Guard for an opportunity to further her education to earn more income, but the exact opposite started to happen. Before she left for 9 weeks of basic training, which is required, they saved as much money as they could. However, since she had to travel every drill weekend so many hours,

they actually lost money on their drill weekends. Her pay at basic training was actually lower than her civilian employment. So their income took a drastic cut because she became a member of the National Guard.

They were faced with 2 months of rent that could not be paid, and his two jobs definitely could not cover their bills while she was at basic training. To add to that, she discovered that, after 9 weeks of basic training, she was going to be deployed. Not only was her absence a huge emotional stress to their three children, but once again, her income while being deployed was not enough to cover the bills.

Well, right away I had them get in contact with the Family Assistance Center in their area. We got them financial help not only for the time that she was gone at basic training, but for the time that she was going to be deployed. We put them in touch with great organizations that we work with. We helped them with some financial programs available to military families, and they were really grateful.

Many other Montana service members like the ones I just mentioned are undergoing financial challenges as we continue to deploy, we continue to train. Families are being impacted in serious ways because of the military life and because of deployments.

There are a couple of other families. My time is running short here, but I want to share a couple of more. These stories are not so good.

The CHAIRMAN. Briefly, please.

Specialist DOBYNS. Briefly. You got it. You got it, sir.

One active-duty member came to me, and he had some legal issues with his daughter. He was out of town. He came back into Montana, found out he was being deployed, and gave his daughter into the care of his parents, which would be her grandparents. They did not have enough funds to really take care of her, and they came to our Family Assistance Center. We could only help a little bit with this family, but we need to be able to do more.

Another family I know who has been under huge economic stress, the parents of this service member became incredibly ill. This service member, whom I know personally, actually took emergency medical leave to help take care of her parents. She was not only financially supporting her parents who had lost their jobs due to economic stress, but she was taking care of them. She called her Family Assistance Center, and we helped only in the small bit that we could do.

My point here today is that I want to put human faces to just a couple of Montana service members in our military. I deal with this every week, all day long. The statistics in Montana are a little bit different, but I want you all to take a closer look behind the statistics and look at the people behind them.

I know there are great ideas out there that can help families like this, and I really wish you would consider the stories that I have shared. I do believe that you, as leaders of our country, have the ideas. You know the laws, you know how you can help. I want to thank you for the opportunity to be here and the brief time that I had to share.

The CHAIRMAN. And thanks so much for taking the time.

Specialist DOBYNS. Absolutely.

The CHAIRMAN. It is a long distance not only across Montana, but from Montana to Washington, DC. So, thank you very much.

Specialist DOBYNS. Yes, sir.

[The prepared statement of Specialist Dobyns appears in the appendix.]

The CHAIRMAN. Sergeant Noyce Merino, you are next.

**STATEMENT OF STAFF SERGEANT MICHAEL NOYCE MERINO,
MONTANA NATIONAL GUARD, FORMER "NONCOMMISSIONED
OFFICE (NCO) OF THE YEAR" FOR 2008, AND WINNER OF THE
U.S. ARMY'S 2008 "BEST WARRIOR" COMPETITION, MELROSE,
MT**

Staff Sergeant NOYCE MERINO. Chairman Baucus, Ranking Member Grassley, thank you for your time. It is an honor to testify before you today as a member of the military community. I am testifying today based on my experience, and I hope to represent my population with accuracy and in good faith.

I entered into the military when I was 19 years old in the summer of 2001. I entered because I wanted to serve my country, and I also wanted to see if I could do it; it was a challenge to me. In the middle of my basic training, our country was attacked on September 11, so I knew right away that I would be training for, and going to, war.

I enlisted as an infantryman, and I also learned how to jump out of perfectly good airplanes, as they say. I was assigned to the 82nd Airborne Division. Five months after I was assigned there, I deployed to Afghanistan, where I served for 6 months. On redeploying 6 months after that, I deployed to Iraq, this time for 8 months. When I returned from Iraq, I reenlisted and was deployed again in 2005, this time for 12 months.

During the time that I was deployed, I saw a lot of the hardships that our soldiers face, of course, overseas and in the combat area, but I also saw the hardships that we face when we return. A lot of these soldiers escape injury and near death and come home to financial problems and divorce. A soldier that I know was there, was severely injured, and made it home alive, but came home and ended up getting divorced and had lots of financial problems.

My wife and I were actually separated our entire second year of marriage during the deployment. When we came home, we faced a stop-loss and possible involuntary extension of my service by 2 years, so we decided that the active Army was no longer good for us, and I left active duty in August of 2007.

Once I got out of the active duty, I still looked for a way that I could continue to serve my country while being there for my family, and I found the National Guard. It has been a wonderful home for me. It has helped me transition from active-duty military into civilian life. I have been a proud member of the National Guard since I left active duty, and I hope to retire from the National Guard.

I really want to thank you, Senators, for all the support that I have seen come from Congress from the start of the war to the present. I have seen the equipment that we use overseas improve greatly since 2001, and it has increased our survivability many,

many times. I would not even consider going over there with some of the equipment we had back in 2001, and I really appreciate your help.

I also want to thank this committee specifically for your work to lower the cost of Tri-Care. Currently, Tri-Care Reserve Select is affordable to the lowest-ranking enlisted Guardsman with a family, and that has not always been the case. Thank you so much for your work on this, and I hope that your efforts are successful in keeping Tri-Care affordable to all service members, especially our Reservists.

When I first joined the Guard, the only place that I could find that had the job, which is called a Military Occupational Specialty or MOS, and the rank position for me, was 150 miles from my home. I live in Melrose, and my drill location was in Missoula. Even though my round trip was 300 miles and there was no reimbursement to myself, it was more important to me to be able to serve in the Guard than it was to have to pay those costs, so I chose to do it. My example is not the exception. The distance I had to travel is not far above average. As you heard Specialist Dobyns testify, some of our soldiers travel as many as 4 hours from one side of the State to the other to serve in the only way that they possibly can.

You might ask why we do not drill in the armory that is close to us. For instance, I have an armory that is half an hour south, and also one that is half an hour north. Those jobs are not compatible with what I have been trained in, and if I were to retrain and reclassify I might lose rank, or I might have to do a job that I have no interest in doing. So personally, once I came off of active duty, if those two drill locations were my only options, I would not have done it. I would have become a civilian and ended my military career. Fortunately, that did not happen.

The CHAIRMAN. What were you doing in Missoula?

Staff Sergeant NOYCE MERINO. I was infantry up there. The unit that deployed just now, sir, was my old unit. I actually helped them train and deploy.

The problem of drill travel hits Montanans especially hard. We have a very geographically large State and a few number of armories and a few number of Guard members for the square miles that we cover. A lot of these Guardsmen—for some reason there is a higher percentage of Guardsmen who come from rural areas, family ranches like mine, small hometowns, cities that are not large enough to support armories. So no matter what, even if they take the job at the armory nearest them, it still requires them to travel a great distance.

The Guardsmen that are the most affected by Guard drill travel are lower enlisted soldiers. They are the ones who are 17 to 25 years old. Usually they have a high school-level education, and they usually have meager financial means, so they are the ones who are most affected by this travel.

The absolutely hardest hit group is the young Guardsman who has a family who is paying for Tri-Care Reserve Select. The average drill pay for this soldier is just over \$200. As you know, the premium for Tri-Care Reserve Select for the same soldier is about \$197. If this soldier drives any more than a few miles to drill, he

ends up paying money so that he can go and serve his country in addition to the medical benefit that he receives, the medical coverage that he receives.

Sometimes these soldiers get discouraged from actually paying money to have to serve their country, so they just stop showing up for drill. They end their military career, and we lose a Guardsman and someone who could have been a great leader and a great asset to our Guard.

There are a couple of ways that we can try to reimburse these soldiers for their costs of having to drill. The best way to do it would be to allow these soldiers to fill out a travel voucher and have their costs refunded for travel and lodging. This would ensure that the soldier has the resources and that they are readily available so that he can pay for his drill costs between one drill and the next. I understand that there are limits on things like this. I just hope that eventually this is something we can do to take care of our Guardsmen.

In the meantime, there are some things that we can do, coming from the tax side. Currently, as I understand it—and it is very difficult for me to understand it; I made some mistakes in my research—if a soldier travels over 100 miles to drill, their costs can become part of their adjusted gross income, and they are not taxed on that money that they spent.

However, we have soldiers who still travel up to 100 miles, and they do this 12 times a year. They travel once a month, and also for AT. Even though it is not over 100 miles, that is still a significant cost, and it is still something that that soldier has to pay for out of pocket. When you are talking about a lower enlisted Guardsman, they do not make a lot of money. This is a pretty significant cost to them.

Hopefully, this committee is able to find some way, perhaps by removing that 100-mile minimum, to allow these soldiers to at least get a tax deduction from their adjusted gross income to begin to compensate them for the costs of traveling to drill.

I thank you so much for your time. This concludes my testimony, pending your questions.

The CHAIRMAN. Thank you, Sergeant, very much.

[The prepared statement of Staff Sergeant Noyce Merino appears in the appendix.]

The CHAIRMAN. Dr. Darrah?

STATEMENT OF DR. MARK DARRAH, PRESIDENT AND CHIEF EXECUTIVE OFFICER, ATHENA GTX, INC., DES MOINES, IA

Dr. DARRAH. Good morning, Mr. Chairman and committee. I appreciate the opportunity to address this committee.

Athena GTX, which is easier to say, Mr. Chairman—

The CHAIRMAN. Thank you.

Dr. DARRAH [continuing]. Is a small business developing state-of-the-art wireless miniature electronic medical sensors for use on injured humans from the point of injury all the way back through treatment. Development of these monitors began with close contacts in the various military branches—medics, trauma surgeons, doctors, nurses—primarily for triaging civilian mass casualties or numerous casualties on the battlefield. Hence, Athena has a long

history of working with various branches of the military, including a strong relationship with the U.S. Special Forces.

Several employees are retired service members or have served in Reserve and National Guard units, as have many of our consultants and our subcontractors. Many have been recalled and/or served, as outlined in my written submittal to this committee.

Let me preface my comments with the statement that it is my belief as a business owner, and indeed our corporate policy which I adhere to, that no pressure has been, and never will be, put on any employee serving in the National Guard or as a Reservist to resign for any reason.

Additionally, Athena is not unaware of the risk of hiring such employees, but severely has under-estimated the impacts of those recalls. Deployment of employees impacts, first, compensation and tax incentives; second, their health care and their families'; third, their emotional stability; and finally, reassimilation upon return.

These impacts affect both the soldier and the company. The soldier and his or her family and the corporation or business are affected at three times: before the deployment, during the deployment, and—not to be under-estimated, by our experience—long after their return from duty.

Additionally, these impacts for the corporation or business become more severe as the overall size of the company decreases—Athena has only 25 employees—and the long-term impact is more serious as the importance of the individual's role in that business increases. Finally, these impacts become greater for younger, single employees and young married employees than they may be for older, more established, or married employees.

Our business has benefitted tremendously from employment of past and present active-duty Reservists and Guard-affiliated employees. However, it remains cost-prohibitive for Athena to continue to provide compensation benefits—including wages, health care, or paid time off, such as sick and vacation time—to those who are called up.

Possibilities to improve this policy will impact both the deployed employee and the business. I have summarized some of these, to include the following. (A) Travel expense deductions for any related period that the employee is called away from corporate duties, regardless of the distance traveled. When a deployed employee tries his or her best to serve this country and to maintain their family, they should be rewarded and honored for that decision, not punished emotionally or financially. (B) Tax credits for businesses hiring temporary workers to fill in for deployed personnel, especially when such a temporary employee also has direct military ties, perhaps a spouse or relative of the deployed soldier. (C) Tax credits to continue health care benefits to deployed personnel and their family as an option for Tri-Care. Athena pays the individual employees' health care, but, when they are deployed, we cease to continue to do so. (D) Consideration of continued part-time employment when benefitting the employer, the employee, and/or the employee's family. Pay cuts, as we have heard in previous testimony, are especially hard, even devastating, for single engineers once they are deployed. (E) Tax incentives for employers hiring returning soldiers, especially when wounded. We feel the incentives to

hire these veterans and their families must be a priority. (F) Consideration for continued tax breaks for returning soldiers in need of extended medical and psychological treatment during the process of reassimilation into the workforce. And finally, one of the most damaging issues for employees subject to recall, and the employer, is simply not knowing for sure whether they will be deployed.

Our experience as a small business is that few soldiers and employees will actually wear this emotion on their sleeve, but it certainly does exist. The reality of a pending deployment or call-up and the uncertainty of it often results in an employee's loss of focus.

Performance and attitude can drop significantly. The employer cannot plan appropriately or fast enough to properly deal with this uncertainty. It can be a substantial financial burden, as well as seriously damaging to strategic schedules and growth for a small business, especially when we are too small to absorb even the impact of the deployment. At one time at Athena, 50 percent of my engineering staff was deployed, and that is critical. Improving the occurrence of this one uncertainty will greatly improve our ability to progress. Simply stated, let us make a decision and stick to it.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Doctor.

[The prepared statement of Dr. Darrah appears in the appendix.]

The CHAIRMAN. Captain Hanson?

STATEMENT OF CAPTAIN MARSHALL HANSON, USNR (RETIRED), DIRECTOR OF LEGISLATIVE AND MILITARY POLICY, RESERVE OFFICERS ASSOCIATION OF THE UNITED STATES; ALSO REPRESENTING THE MILITARY COALITION (TMC), WASHINGTON, DC

Captain HANSON. Thank you. Chairman Baucus, Ranking Member Grassley, The Military Coalition appreciates the opportunity to give testimony today. The Coalition is a consortium of military and veterans associations representing over 5.5 million members. These groups work together as advocates for active and Reserve serving members, retirees, their families, and their survivors. TMC would like to express its thanks to this committee for its groundbreaking tax initiatives that have aligned with our goals in the past.

I am Marshall Hanson, a retired Naval Reserve Captain, and I am a co-chair of TMC's Tax Committee. Prior to coming to Washington, DC in 1999, I spent over 20 years in industry, mainly in small businesses. This is pertinent, because I have experienced firsthand some of the issues that we are here today to discuss.

While my home was in Seattle, WA, my Reserve career had me travel east to the Idaho border and south to the California border. In addition, I was let go from at least two companies because I was a Reservist. Many employers do not understand the financial demands placed on Guard and Reserve members and think the Reserve component members have a second generous stream of income.

National Guard and Reserve members subsidize a lot of their own training. They do not receive the same uniform allowances as authorized to active duty members. They pay for some of their own

training equipment and often are required to travel beyond normal commuting distances to get to monthly drills.

While this committee took steps to correct this in 2003, the final legislation that was included in the fiscal year 2004 National Defense Authorization Act allowed above-the-line deductions for expenses only to those who traveled at least 100 miles one way.

TMC feels like this needs to be changed to 50 miles, which is the distance many Federal agencies use to define the limit of a normal commute. We are pleased that Senators Kerry and Lincoln are introducing a bill to do just this. TMC is also concerned about protecting the civilian jobs of National Guard and Reserve members. The operational contingencies in an operational reserve policy have placed an enormous burden on America's employers.

While acknowledging their patriotism, TMC has noted employer fatigue setting in after 9 years of mobilization. Deployed units are returning to a high level of unemployment, and we have heard from Reserve component members who are hesitant to tell prospective employers that they are in the Guard and Reserve, for fear they will not be hired. Tax credit incentives are a possible solution. TMC's written testimony provides some examples of what could be done.

While the Uniformed Services Employment and Reemployment Rights Act (USERRA) may provide employment protections, it uses negative sanctions against employers who violate it. TMC has heard from employers who ask for positive incentives as a balance to USERRA.

Tax credits for employers hiring returning veterans were included in the American Recovery and Reinvestment Act, but these need to extend beyond 2010. Unemployment is 2 percent higher among Iraq and Afghanistan veterans when compared to all veterans as a group.

As veterans, serving men and women need a smooth transition as well from military duty to civilian life, or when they and their families are transferred between bases. The serviceman or woman's family is an integral part to that transition, and their financial stability is key to retention. Employment of military spouses, as well as reemployment of the serving member, is considered a critical element in recruiting and retraining a high-quality, all-volunteer force.

A TMC goal of no lesser importance is to alleviate a punitive burden adversely affecting some surviving military families. Following the loss of a serving member who has been killed, surviving spouses with dependent children are often faced with a harsh reality of sustaining an acceptable income. Congress has helped with two programs: the Dependency and Indemnity Compensation Program, and the Survivors Benefit Plan, or SBP, which unfortunately creates a financial offset, reducing, rather than combining, incomes.

As a work-around, Congress, in the fiscal year 2004 National Defense Authorization Act, authorized surviving spouses to transfer SBP entitlements to dependents. However, the unintended result was a child's unearned income triggering the punitive Alternative Minimum Tax, or AMT. The Coalition is exceptionally grateful to Senator Burr for introducing S. 3334, the Children of Fallen War-

riors AMT Relief Act, that will define a child's SBP annuity as earned income.

Unfortunately, the bill has another unintended consequence affecting Social Security Survivor Insurance income limitations. TMC requests that S. 3334 be amended to simply exempt the SBP annuity from AMT rules; suggested language is included in our written testimony.

The Military Coalition is very appreciative of the committee's sensitivity to the war-time sacrifices being made by active and Reserve serving members, their families, returning veterans, and surviving family members. TMC is looking forward to working with this committee on advancing solutions, and I am ready to address any questions you may have.

The CHAIRMAN. Thank you, Captain.

[The prepared statement of Captain Hanson appears in the appendix.]

The CHAIRMAN. Finally, Mr. Embree?

**STATEMENT OF TIMOTHY EMBREE, LEGISLATIVE ASSOCIATE,
IRAQ AND AFGHANISTAN VETERANS OF AMERICA (IAVA),
WASHINGTON, DC**

Mr. EMBREE. Yes, sir. Chairman Baucus, Ranking Member Grassley, members of the committee, on behalf of Iraq and Afghanistan Veterans of America's nearly 200,000 members and supporters, I want to thank you for allowing us to testify before your committee today.

My name is Tim Embree, and I served two combat tours in Iraq with the U.S. Marine Corps Reserves.

America's newest veterans face serious employment challenges. The difficult process of returning to civilian life is now even tougher in the most hostile economic environment in decades. As a result, unemployment rates for Iraq and Afghanistan veterans are staggering. To make matters worse, Iraq and Afghanistan veterans are finding civilian employers do not understand the value of their skills and experience, and many of these young veterans cannot afford the necessary job training.

National Guardsmen and Reservists who leave behind their civilian lives to serve alongside active-duty troops lack proper assistance to rebuild their own businesses when they return home. IAVA recommends passage of S. 3398, Senator Baucus's Veterans Employment Transition Act. This bill expands the Work Opportunity Tax Credit, which incentivizes businesses to hire Iraq and Afghanistan veterans.

We believe that S. 3398 must be passed before the October recess in order to ensure that the veterans of Iraq and Afghanistan are not left languishing in soup lines while waiting for Congress to get back to work after the elections. Finding a job for returning veterans is a challenge, but finding quality employment is extremely difficult.

Sixty-one percent of employers do not believe they have a complete understanding of the qualifications ex-service members offer. To make matters worse, employers are growing increasingly wary of hiring or re-employing National Guardsmen or Reservists because of unprecedented mobilization rates. This Congress author-

ized a 2-year tax credit for employers who hire unemployed Iraq and Afghanistan veterans.

Unfortunately, although the tax credit was well-intentioned, it was poorly advertised and limited in its effect. IAVA, and many other veteran service organizations, lauded this tax credit when it passed. This tax credit was designed to encourage hiring veterans, but few employers know about it and even fewer took advantage of it. S. 3398 solves these issues by expanding and simplifying this tax credit, and IAVA asks this Senate to pass it before the October recess.

Thousands of young veterans want to build on the skills they learned in the military, but they cannot afford the training. Today's newest veterans deserve the right to use the hard-earned new GI bill benefits for the job training they desperately need. IAVA recommends swift passage of S. 3447, commonly known as New GI Bill 2.0, before the October recess. New GI Bill 2.0 extends post-9/11 GI bill benefits to veterans who enroll in vocational schools, thereby providing returning combat veterans immediate access to job training.

I want to tell you about Dan from Missouri. Dan is an IAVA member and a Marine Reservist who recently returned from his second tour in Iraq. Dan was attending college, pursuing a degree in business. He soon realized his calling was to become a paramedic firefighter and quickly enrolled in the local fire academy. Dan was floored when he learned the new GI bill would cover college but would not cover the fire academy.

Dan told me he was shocked that someone who went from serving his country, two combat tours with a 400-day extension, cannot use his well-earned GI bill for the academy to help serve his local community. The New GI Bill 2.0 gives veterans like Dan the ability to pursue valuable job training. The Senate must pass this crucial legislation before the October recess to help people like Dan become leaders in his community.

IAVA asks every member of this committee to help Dan and the thousands of veterans in your States like Dan by calling for this vital bill to be brought to the Senate floor for an immediate vote. Dan was in my platoon. He was one of my Marines. I continue to have Dan's back. Do you?

The veteran unemployment rate remains consistently higher than that of the general population and threatens to undermine our country's next greatest generation. History has shown us the importance of investing in our country's veterans, and honestly, we need the jobs. The causes of veteran unemployment are complex, but the remedies do not have to be. They are right in front of us and ready to go.

IAVA calls on this committee to finish the work that it has begun and bring S. 3398 to the floor for a vote now. By passing S. 3398 and supporting the New GI Bill 2.0, the members of this committee will be taking an important step towards solving the critical problem of veteran unemployment. Now is the time. The members of this committee must act before the October recess and show our country's newest veterans that the 111th Congress has our back. I appreciate your time today, and I look forward to answering any questions you may have.

[The prepared statement of Mr. Embree appears in the appendix.]

The CHAIRMAN. Thank you all very much.

Let me start with you, Dr. Darrah, as an employer. You mentioned tax credits for temporary employees in the interim, I guess, when servicemen and women are deployed, waiting for them to come back, I guess.

Could you just, again, give me a flavor from an employer's perspective of what incentives are really needed to solve this basic problem of deployment, continued deployment, going over and back, and over and back, and the uncertainty that it causes? You also mentioned—one of you mentioned, anyway—that uncertainty creates lots of psychological problems too and makes it very difficult to plan, both for the servicemen and also for the employers. So, talk to me a little more about that and kind of help me get a better idea of what we might do to remedy that.

Dr. DARRAH. All right. A very long question, but I will try to take that apart.

The CHAIRMAN. It was a long question. You are right, there are several parts to it.

Dr. DARRAH. And I am not a lawyer, so—

The CHAIRMAN. That is all right. Just, what comes to mind.

Dr. DARRAH. Yes. A very good comment. I believe some tax incentives could be put in place for an employer who seeks to interview and hire those who are related to deployed servicemen. I think we heard at least a couple, three examples of service families that had trouble when one or more of the family members, significant income sources, were deployed.

I think that, in our particular case, I have no problem with sending family members to training. If some of the cost of doing that could be offset, either in a break to the corporation, a grant, or an incentive, that is not cost-prohibitive to do so. It is a good way for me to serve my country, although I am not in Iraq or Afghanistan.

The second thing is, my thought on the spouses and the family members is, we should put extra incentives in place to cover the cost of interviewing or bringing these people in to see if we can find a role for them. As a small business, I do not employ thousands of manufacturing personnel, but I do find opportunity for people to come in and serve in a capacity that can be anywhere from a high school degree up to a Ph.D. or trauma doctor with many years of experience.

So I believe that we can create those jobs, even if they are temporary jobs, to help offset those deployed. They do not have to be deployed from my organization. We are in three States right now, although we are a small business. There are plenty of deployed people from all States, and those families could find employment, at least temporarily, while their loved ones are deployed.

The CHAIRMAN. Now, why is the unemployment rate so much higher among returning veterans compared with the national average?

Dr. DARRAH. I do not see the same thing. I actually seek veterans coming back, especially those who have served. We had a discussion about medics and nurses, because that is the business I am in. I also find the work ethic and the contribution that they bring

from a user perspective very valuable to Athena. I do not share the opinion that veterans do not have value. I see it just the opposite.

There is a huge difference between one trained in the military world and one who lived in the world and never went to the military. In fact, some of our foreign countries have mandatory military service, and I am actually a proponent of that. Having raised three boys myself, none of them served in the military. We will not go into details on that. [Laughter.]

But we have had many discussions. I absolutely love that environment and that training and that work ethic.

The CHAIRMAN. All right.

Captain Hanson?

Captain HANSON. Sir, to answer your last question, I think there are a couple of elements. For the Guard and Reserve, what we are learning is that employers do not mind hiring individuals with military background, but are hesitant to hire Guard and Reserve members for fear that they will be deployed again. As the doctor pointed out, this puts a big burden on companies, especially the smaller ones, when key employees are removed from the organization.

But in a broader sense, veterans have been impacted because of the publicity that has gone out there, saying that one-third of the people who have come back are disabled, and the fact that many—even higher numbers, perhaps—suffer from post-traumatic stress. This creates a lot of fear in the environment because they think of the Hollywood version of a crazed veteran coming into their organization, so there is a hesitancy to even hire returning veterans with this bad publicity that is out there. In reality, if you talk to any of the associations—IAVA is a good representative here at the table—they will testify about the stability of these people, about the fact that they are not really suffering the health problems that are publicized. It is something to be watched, but it is not a risk for employers.

The CHAIRMAN. Well, then, I think what you are saying is right, namely that employers, to a large degree, in many parts of our country, they are a little reluctant for all those reasons. So how do we address that? How do we get this information, as you are suggesting—but how else do we address that so the employers are much more likely to hire? Mr. Embree?

Mr. EMBREE. Yes, sir. Thank you for the question. There are a couple of things. I mean, like we all understand, this is a complicated issue, so there are some answers that may be complicated, but there are some simple answers. First is like 3398, your bill, sir, for the tax credit.

The CHAIRMAN. Right.

Mr. EMBREE. That really does help a lot of these small businesses, folks who maybe are employing 3–10 employees. These folks may be Reservists or National Guard members—

The CHAIRMAN. Right.

Mr. EMBREE [continuing]. Or just returning from active duty. This immediately helps those small businesses. Then you have to discuss the issue of education. Right now, if you think of someone who did 4 years active duty, they are 4 years behind their counterparts in the civilian world. So while folks were in college, getting

their college degree, maybe doing an internship, someone else may have been humping a pack and learning how to fire a rifle.

So taking those skills they learned in, say, the Marine Corps, and trying to go to the civilian world is very tough to do. Translating those skills is the next step. So, if you have someone who is a squad leader, a platoon sergeant, they may walk into an interview and the civilian may ask them, do you have any management experience?

Well, the fact of the matter is, that platoon sergeant ran a small company the whole time they were in the Marine Corps. They managed 40 to 90 individuals. They managed their payroll, they scheduled their training, they made sure these folks knew when to eat chow, made sure they had food, they made sure they had housing. So the fact is, these folks are coming out of the military with amazing skills, business skills, but they do not know how to translate them .

Like, the average corpsman may have done phenomenal work on the battlefield, dealing with sucking chest wounds, to stab wounds, to blast wounds, patching people up and getting them to the health care in the rear. When they come to the civilian world, all that skill does not translate.

So now, granted they have the same amount of experience as an ER trauma nurse, but they do not have all the certifications, they do not have all the schooling, so they are only qualified to drive an ambulance even though they have the same experience and know the same information.

So I think you have a couple of things we have to deal with. We have to deal with the tax incentives to help the businesses now, to help them get the veterans into the door, help incentivize it. We need to deal with transition of skills to make sure folks understand what the veterans do bring to the table. We also need to deal with the education side, because it cannot just be a 4-year college. We have to make sure folks go to vocational schools, become a mechanic, open up that small car repair shop in Helena. Sorry, Helena. I am from Missouri; I am not from Montana, sir.

The CHAIRMAN. Good catch. [Laughter.]

Mr. EMBREE. Thank you, sir. Or Chillicothe, MO is another example, if they want to go and open up their own HVAC repair shop. These are the small businesses that are helping our small towns around the country. So the first step, I think, is the immediate, and that is these tax credits. I think we have to handle it with transition as well as education, sir.

The CHAIRMAN. So the GI bill was not available to that fellow. Could you explain why? What was it in the GI bill that precluded him from getting training, or getting assistance?

Mr. EMBREE. Well, sir, what happened was, he used his post-9/11 GI bill. For community college or a public university that is a degree-granting institution, he qualifies to use that to pay for his college credit. Unfortunately, he switched to a vocational school, and vocational schools are not included under chapter 33, which is the post-9/11 GI bill. So, instead of him being able to use his robust post-9/11, he is now in a situation where he had to take out student loans to help pay for the training to become a firefighter.

The CHAIRMAN. Why should vocational schools not be included? Any reason why they should not?

Mr. EMBREE. No, sir.

The CHAIRMAN. I know cost is part of it, but why not?

Mr. EMBREE. Well, we have been working with the whole VSO community, as well as the education community, to find pay-fors for the New GI Bill 2.0, and we feel very confident with a lot of things we have identified. In fact, I always like to tell folks about this, because this is very similar to the World War II GI bill. When they first passed that first GI bill, they actually left out vocational schools and distance learning.

The CHAIRMAN. Right.

Mr. EMBREE. And so, within 1 year, they realized that there are a lot of folks who need vocational training. They do not want to go to a 4-year college, they want to go to a 1-, 2-year training school, and they want to go start their own business, or go into working with a professional skill. So they actually ended up having to upgrade the original GI bill. In fact, the great GI bill everyone refers to is that second GI bill, the upgraded version.

The CHAIRMAN. That is interesting.

Mr. EMBREE. So New GI Bill 2.0, sir, is going to be our great upgrade. We just need to finish the work we started.

The CHAIRMAN. Well, I appreciate that.

Captain? Yes?

Captain HANSON. Addressing the incentives for employers, sir, The Military Coalition agrees with the Doctor on a lot of things that he brought up in his testimony, as you will find in our written testimony. A lot of people do not recognize the fact, though, that in an all-volunteer force, many of the veterans who are coming off of active duty continue in the individual Ready Reserve if they have not completed their 8-year obligation.

So, in addition to the people who are actively assigned to the National Guard and Reserve, you could potentially even have veterans called back up if their training was needed. So I think, when you come to tax incentives for employers, you need to look in-depth rather than just saying it is a simple solution, because, as the Doctor pointed out, there are different aspects that affect businesses.

In addition to perhaps compensating an employer who is continuing benefits to a deployed Guard or Reservist, you need to also look into the aspect of helping provide a tax credit for replacement employees who come in. Perhaps, as was pointed out, this is a good opportunity, that we could combine programs. Here they could get a tax credit for hiring someone, and perhaps even get an additional credit if that individual happens to be a spouse of a military member, which would solve two problems with one solution.

Then, in addition, many of these employers would love to continue the health care plan because it is an easier transition for the family, but, if they receive some type of stipend from DoD instead of having DoD pay for Tri-Care, this is another incentive that could be used. So I think, when we look at these potential incentives that we want for employers, it is a situation we have to look at in-depth, because there are many subtle ways that we can help these employers and make it a very positive type of support.

The CHAIRMAN. All right. Do you have all of these different ramifications in your prepared testimony?

Captain HANSON. Yes, sir.

The CHAIRMAN. Good, because we can go through that testimony and get that.

Yes, Doctor?

Dr. DARRAH. I would just like to add one thing to that health care/Tri-Care comment. One of the major things that my deployed service members came back with was the Tri-Care issue and having to switch insurances. Sometimes we over-estimate or underestimate the impact of that on the children of these deployed servicemen. They are changing doctors, they are changing their environment.

The CHAIRMAN. I am sorry, I am ignorant on that. What causes the switch?

Dr. DARRAH. When the employer no longer carries the health care, they have to move to Tri-Care, so they move from one insurance provider to Tri-Care, and then when they come back they move back into the corporate enforcement and the corporate health care.

The CHAIRMAN. And what happens often with kids who are dropped?

Dr. DARRAH. They are changing their doctor, their pediatrician, their dentist, et cetera, and they are going under a Tri-Care plan while deployed, the family. Then when they come back, they switch back.

The CHAIRMAN. Are the benefits about the same, or are they different?

Dr. DARRAH. It is not the benefit, it is the provider. The children want sameness.

The CHAIRMAN. I see. Thank you.

Yes?

Captain HANSON. Mr. Chairman?

The CHAIRMAN. Yes?

Captain HANSON. Since I am fairly close to the Tri-Care issue, the real problem that is faced for the National Guard and Reserve, and to even a lesser extent people coming off active duty, is the fact that the system does not allow for a smooth transition. You can have Guard and Reserve members who are in Tri-Care Reserve Select paying for their own health care insurance. They get mobilized, they have to unenroll in one and re-enroll in the pre-deployment coverage. Then they mobilize and go onto a different program.

They come off of mobilization and go into what they call the TAMP program, or Transitional Assistance Management Program, by unenrolling from Tri-Care and re-enrolling in TAMP. Then, if they go back into the Tri-Care Reserve selection, they have to unenroll from TAMP and re-enroll in Tri-Care Reserve Select. Because of this, you are going through a lot of hassles, a lot of bureaucratic hurdles, which is very discouraging for those who want to have a continuum of health care.

The CHAIRMAN. Right.

Captain HANSON. But for people, like the Doctor explains, going from civilian to military, it is much headache.

The CHAIRMAN. Well, what is the solution? I mean, it sounds like it is callous.

Captain HANSON. Well, the irony is, all of this information is in the DEER system already.

The CHAIRMAN. The DEERS? I am sorry.

Captain HANSON. The DEERS system? I apologize for not giving a full explanation. It stands for Defense Eligibility Enrollment Reporting System. But basically that is the database for the military that lists all individuals, active and retired, and their family members, including spouses and dependents. Theoretically, you should be able to make a phone call, have someone do a little check in the box and transition automatically, but instead you are forced to physically fill out application forms and resubmit this paperwork, which slows the process and provides a lot of headaches for the beneficiary.

The CHAIRMAN. That sounds like an unnecessary set of complications. Let us see if we can look into that.

Captain HANSON. Yes, sir. We would be more than willing to work with you.

The CHAIRMAN. Thank you.

This Burr bill. What is the Senator Burr bill that somebody mentioned? Maybe you did?

Captain HANSON. Yes, sir.

The CHAIRMAN. What is that?

Captain HANSON. This bill is—let me get to the right piece of paper here, sir. This is the Children of Fallen Warriors AMT Relief.

The CHAIRMAN. Oh. It is the AMT relief. Yes. Right.

Captain HANSON. And this is to try to correct a situation where the income that is transferred to dependent children is impacting when it comes to income tax.

The CHAIRMAN. Right. We are trying to correct that. But you said there is an unintended consequence, if I recall correctly.

Captain HANSON. Yes, sir. The first unintended consequence is in that it is considered earned income. It comes up to the AMT limitations.

The CHAIRMAN. Right.

Captain HANSON. I am sorry, that was unearned income is the first step. But by changing it to earned income, then you run into problems with the Social Security Survivor Insurance income limitations, which bumps up against that limitation. So the solution that TMC suggests is simply to exempt the SBP annuity from the AMT rules, and we would not have that problem.

The CHAIRMAN. I think that is what we are thinking of doing. I was unclear. I did not know that Senator Burr also is trying to address that issue.

It seems like this 100-mile limit is a no-brainer.

Captain HANSON. Yes, sir. [Laughter.]

The CHAIRMAN. Why even limit it to 50?

Staff Sergeant NOYCE MERINO. That is an excellent question. I do not think there should be any limit at all, sir.

The CHAIRMAN. I mean, two Senators, and I know they are good Senators, suggested 50. I am just wondering why 50 should be a limit at all. It seems like, if you are traveling, the costs—I think

the simpler way is to get a voucher for your expenses. Next, you should get the above-the-line deduction for your expenses.

Staff Sergeant NOYCE MERINO. Absolutely, sir.

The CHAIRMAN. Yes.

Captain HANSON. The challenge for the voucher of expenses is the fact that it comes out of DoD funding at that point.

The CHAIRMAN. Right. Right.

Captain HANSON. We are facing a lot of concerns on that side because, as Secretary Gates himself has emphasized, they are looking at ways of saving money. Unfortunately, they are hesitant to give more benefits to National Guard and Reserve members at a time that they are looking at cutting back in other areas.

The CHAIRMAN. Yes.

Captain HANSON. Now, prior to the 1986 changes to the law, any costs for military training used to be above-the-line deductions for National Guard and Reserve members, and then the 2-percent rule came in, which placed all that under business expenses, and it was only until 2004 that made that adjustment to allow the 100-mile rule to come in.

The CHAIRMAN. Right.

Captain HANSON. As TMC, we ask for the 50-mile rule, but we would love to see it drop below that. We are just trying to be realistic in our request.

The CHAIRMAN. I appreciate that.

Specialist Dobyns, can you give me a little more flavor of what resources you have? I guess I have another question. How much do service men and women know about either tax provisions or other provisions that are available to them? It kind of sounds like there is lots of, not misinformation, but lack of information, maybe to service men and women, and also to employers as to current credits or deductions that are available, let alone other provisions that are needed.

Specialist DOBYNS. Well, in my opinion, sir, the lack of knowledge is a problem that needs to be fixed. In my experience, I have seen literally every day, people go, really? I get a lot of, really? I did not know that. I do not know why. I cannot diagnose that at this point. But I can tell you that we are doing everything we can to get resources in people's mailboxes, and we are doing everything we can at our events to make ourselves available for their questions.

Our Yellow Ribbon program, which we have been very successful in, in pre-deployments and post-deployments, covers a lot of information that we have been talking about here. That has been one of the most successful things that we have ever done, just for deployed members, but there are still a lot of people out there in Montana who do not know.

As I travel and as I go, I do everything I can to get in touch with people. Like I said, I get a lot of, "Really? I did not know that." Or they call me and say, "Well, I heard I could get a discount on my car registration." "Yes, you can." "I have been in the Guard for 10 years, and I did not know that." I get a lot of those.

The CHAIRMAN. What is the biggest "really?"

Specialist DOBYNS. The biggest "really?"

The CHAIRMAN. Yes.

Specialist DOBYNS. It is usually with health care. It is usually trying to figure out how to jump those hurdles. Also, another big “really” is, we have to juggle a lot of different situations. It is like, every service member is different. This person is National Guard, this person is Reserve, this person is Navy, this person is Marines. In Montana, we do not have an active-duty base, per se.

The CHAIRMAN. Right.

Specialist DOBYNS. We have an Air Force base, Malmstrom, but we do not have, like, a really big base. On the active-duty bases, they come away from that, and they are just out there in these rural towns, and they just have nobody. So we have developed these Family Assistance Centers. We only have six of them. If I could have more of them, I would take them. They are the centers people call to get their information.

I make sure that the staffs there are sharp and they are accurate. The more people are getting exposed to those Family Assistance Centers, the better care they are getting. I mean, they are on the phones 8 to 5. I work with them every day. I am really proud of them because they do a really good job.

The CHAIRMAN. So how many do you have working with you?

Specialist DOBYNS. We have six Family Assistance Centers.

The CHAIRMAN. Right.

Specialist DOBYNS. And so those people specifically manage the phones, and then on top of that, our Family Program staff. I would say probably maybe up to a dozen, a little less than that. I mean, I could employ so many more.

The CHAIRMAN. But instead of just trying harder, is there just some other kind of way to get—

Staff Sergeant NOYCE MERINO. Sir, I would really like to answer that.

The CHAIRMAN. Yes. Sure.

Staff Sergeant NOYCE MERINO. I actually was involved in teaching financial literacy when I returned from Iraq, and I can tell you that the financial literacy rate of soldiers in general is extremely low. Something that does not exist in the military, that I have never seen and needs to exist, is a financial literacy counselor, at least one in every State, one in every major post.

We need to be able to have classes that teach these soldiers not only about the tax issues, but about how to maintain their credit when they are deployed, how to watch out for identity theft. All these financial issues fall under one umbrella. If we could assign one person, even per State, to be fully versed on all these issues and to go out and teach these classes, we could cover the entire State. We could fix this problem. It would be an enormous help.

I know soldiers who do not know how to get their credit report; I know soldiers who do not know about the Servicemen Civil Relief Act. They do not know anything about taxes. I did not know anything about taxes until I started doing research for this testimony. There is a void of information. This is part of where the financial hardship comes from.

The average soldier in Montana does not know that you can get a deduction for travel to drill, so that is something that we could do. Just by assigning a single person who was fully trained, we would resolve a lot of these issues.

If it is all right, I would like to go back and talk about these travel vouchers for drill travel.

The CHAIRMAN. Sure.

Staff Sergeant NOYCE MERINO. Yes, I understand it is a huge financial burden, but if you look in my written testimony I talk about, there is the standard mileage rate that the IRS sets, and then there is a GSA rate, and they are usually very similar. Right now it is 55 cents for the IRS, and the GSA rate this year is 50 cents.

When you are talking about drill travel, if we refunded half of that rate to lower enlisted soldiers with a cap, that would almost solve the problem 100 percent right there. For me, I traveled 300 miles to drill. If I could get 25 cents a mile, that would be \$75. That would not pay my vehicle bill, but it would pay for the fuel, it would pay for an oil change and all the maintenance that it took me to get back and forth to drill. So this is something that we really need to try to push to the right people and to get the attention of the right people, because it is causing hardship for our lower enlisted soldiers, and they are the ones who are least able to compensate for that hardship.

The CHAIRMAN. That is a very good point. I appreciate it. Thanks for jumping in, too. I appreciate that, taking the initiative.

Well, I, unfortunately, have another engagement I have to get to here. Is there anything any of you want to say that has not been said yet that should have been said? Something in the back of your mind that, boy, I have to get this out?

Staff Sergeant NOYCE MERINO. I would like to say, sir, I appreciate wholeheartedly the fact that this committee is paying attention to these issues and is willing to open the door for people like us to come up here and testify. It means the world to me. It shows me as a soldier that you guys pay attention and that you are listening to issues, and I thank you so much for your efforts now and for your efforts in the future.

The CHAIRMAN. I appreciate that very much. Really, the thanks go to all of you. You are the ones who are really going the extra mile and have been working so hard.

Yes, Mr. Embree?

Mr. EMBREE. And sir, if I could, just one last time, just plug the importance of getting these things done before the October recess.

The CHAIRMAN. Yes.

Mr. EMBREE. Right now we have enough time to bring these issues to the floor, and IAVA, as well as the other veterans service organizations, have been working closely. We will get there. If the Senate makes that first step and gets them to the floor, we will help you get the votes. We will get these through the House, and we will get these to the President's desk before October to get these signed.

The CHAIRMAN. We will do our very, very best to try to accomplish that objective.

Yes, Captain?

Captain HANSON. And sir, I think I will do a final plug for The Military Coalition and the fact that, with over 32 different associations, the representatives who attend the meetings bring in a collection of different subject matter experts. So we have a knowledge

base that can be shared with your committee to address a lot of issues. For example—I cannot go into details—this year there is a reimbursement for Inactive Duty Training travel that is expiring, but unfortunately DoD placed it only under those who are affected by BRAC and that policy. But we help write a lot of these laws that come into place, so we can help bring this expertise and corporate knowledge to assist your staff.

The CHAIRMAN. I deeply appreciate that, because that is important to know. Frankly, we are not the Armed Services Committee here, so we are going to need a little extra help, and we are going to be calling on you to get the information that we need. Thanks an awful lot. We deeply appreciate your time in coming here, making the extra effort, getting prepared for the hearing, learning a little bit more about the subject. Thanks so very much. I have learned a lot, I can tell you right now. I hope to learn more in the next couple of weeks so we can get something done here.

Thank you all very, very much.

The hearing is adjourned.

[Whereupon, at 11:23 a.m., the hearing was concluded.]

A P P E N D I X

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

Hearing Statement of Senator Max Baucus (D-Mont.) Regarding the Effects of Tax and Fiscal Policy on the Military and Veterans Community

In a fireside chat during World War II, President Franklin Roosevelt honored America's troops "fighting our enemies in distant parts of the world."

Today, America's armed forces are once again fighting our enemies in distant parts of the world. And once again, we should honor these brave men and women.

But there is much that we can do to support their efforts. That is our task today, and every day. During today's hearing, we will work to identify new ways that we can help.

Our troops bear a heavy burden. They deploy for months — sometimes even years — at a time. They often leave much behind — spouses, children, jobs.

Members of the National Guard and Reserves leave their careers. And too many come home to face financial or marital problems.

In spite of these challenges, our armed forces still answer the call. They bear this burden, because they love their country.

My home state of Montana sends a higher share of its population to serve in Iraq and Afghanistan than almost any other state. This week, hundreds of Montana National Guardsmen said goodbye to their families and began a year-long tour in Iraq. For many, this was their second or third deployment.

In April, I had the honor to meet with members of our armed services in Afghanistan. I saw our brave troops in action.

These men and women work under the most difficult conditions. They serve every day — weekends and holidays — anniversaries and birthdays — 24 hours a day — seven days a week. Our troops are some of the hardest working Americans there are.

They patrol the mountains. They fix trucks. They fire artillery.

They are warriors. And they are diplomats.

They organize meetings known as shuras with local leaders and village elders.

I was struck by their professionalism, their courage, and their tenacity.

We Montanans — and all Americans — are so proud of these men and women. But we must do more than just express our support. We must act to take care of our soldiers, marines, sailors, and airmen when they get home.

So today, this committee will take a hard look at how we can improve tax and fiscal policy to make life better for our military and their families.

We did much in 2008 with the Heroes Earnings Assistance and Relief Tax Act. That law eliminated many obstacles in the tax laws that created problems for veterans and service members.

Among other changes, we made permanent the law that combat duty income counts for EITC purposes. We guaranteed that family members of fallen soldiers can take advantage of tax-favored accounts. And we provided disabled veterans with an extra year to claim tax refunds.

But I know that there's more to do.

Today, we will hear how the tax code does not always make allowance for the unique circumstances that our troops and their families face during times of war.

Surviving children of our troops are sometimes subjected to higher tax rates on benefits paid to them.

National Guard and Reserve Troops regularly pay out of their own pockets to drive hours to military training and do not receive reimbursement or a tax deduction for these expenses.

Small businesses who hire guardsmen and reservists see their employees deployed again and again, but are not compensated for their loyal support for their employees.

We need to address concerns like these, and more.

George Washington once said: "The willingness with which our young people are likely to serve in any war, no matter how justified, shall be directly proportional to how they perceive the veterans of earlier wars were treated and appreciated by their nation."

We have a sacred responsibility here. Our armed forces have answered the call. They have shouldered their responsibility. Let us do so as well.

Let us honor the members of America's armed services who have borne this heavy burden. Let us do our part to help those who fight our enemies in distant parts of the world. And let us do what we can to show them that they are appreciated by a grateful nation.

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**Senate Committee on Finance- Hearing Regarding the Effect of Tax and
Fiscal Policies on the Military Community**

Wednesday, September 22nd, 2010
Room 215 of the Dirksen Senate Office Building

Mark I. Darrah, Ph.D.
President and CEO
Athena GTX
Des Moines, Iowa

Executive Summary

We appreciate the opportunity to address this committee. The background of Athena GTX, a small business, is offered as a key to understanding our company's position in this matter. Our company is developing state of the art wireless miniature electronic medical vital signs monitoring devices for use on injured humans, from point of injury back to the treatment center. The initial development of these vital signs monitors began with close contacts in various military branches. These devices can be used in the civilian emergency markets as well, and after initial production of recently FDA cleared product is supplied to the military, the civilian market will be introduced. The founders and long term employees of our company have a long history of working with various branches of the military, and therefore may have a unique understanding of the importance of this option for serving the country. Several employees are retired service members or have served in reserve and National Guard units. Many have been recalled and/or served.

It is our testimony that the personnel deployment impacts 1.) compensation and tax incentives, 2.) health care, 3.) emotional stability, and 4.) re-assimilation upon return. These impacts affect both the soldier and the company. The soldier and his/her family, and the corporation/business, are affected before the deployment, during the deployment and, by our experience, after return from duty. Additionally, these impacts for the corporation/business become more deleterious as the overall size of the company decreases, and the long term impacts more serious as the importance of the individual's role in the small business increases. Finally, these impacts become greater for younger single employees and young married employees than they may be for older and married employees.

It is our belief, and our corporate policy, that no pressure has, and never will, be put on any employee serving in the National Guard or as a reservist to resign. Our business has benefitted tremendously from employment of past and present active duty, retired, reservist and Guard affiliated employees. However it remains cost prohibitive to continue to provide compensation including wages, health care or PTO (Paid Time Off such as sick and vacation accrual) benefits to those called up. We suggest a full understanding of these impacts on both those put in harm's way and those left behind would lead to possible legislative changes benefitting both. Possibilities include: a.) travel expense deductions for any related period that the employee is called away from corporate duties regardless of the distance travelled; b.) tax credits for businesses hiring temporary workers to fill in for deployed personnel, especially when such temporary employee also has direct military ties (such as a spouse or relative of a deployed soldier); c.) tax credits to continue health care benefits to deployed personnel and their family as an option for TRICARE, d.) when and as possible consideration of continued part time employment benefitting both the employer, employee and employee's family, e.) tax incentives for employers hiring returning soldiers especially when wounded, and finally, f.) consideration for continued tax breaks for returning soldiers in need of extended medical and psychological treatment during re-assimilation into the workforce.

Discussion

The basic vision and mission of Athena is to create new wireless medical products for the US military with a focus out at the point of injury or wounding through treatment, transport and disposition. As such it is important for Athena's teammates to understand the high technology of biomedical sensing, medicine, triage, and wireless communication electronics and to have in depth experience with or an understanding of the environment and users. To succeed in this space, Athena is focused on being fast to develop prototypes, and has a basic philosophy that younger electronics and bioengineers with military experience and work ethics make the best employees and consultants. Hence, it has not been uncommon that a majority of the development engineers and relationships are or have been tied to the military as well as many of our strategic partners and consultants. Knowing this we also recognize that if these employees remain active as reservists or National Guard the potential for recall and possible deployment for extended periods of time remains. Athena is not unaware of the risk but severely underestimated the impacts.

The history of Athena recalls the following deployments and recalls and "almosts". One Army National Guard employee was recalled and deployed to Utah to backfill a unit deployed to Iraq. At the time this was our Lead Software Engineer. He is still with us. One Marine reservist was recalled and deployed to Iraq serving for 6 months. He came back "different". It took him over a year to begin to recover in our opinion. At the time of deployment he was a Program Lead electronics engineer on an innovative medical product for medical triage in the military called MIDDAS- a sensor glove that took vital signs by laying the hand on the wounded soldier. In retrospect we had some real issues with him and he never quite returned to his former or pre-deployment capabilities and eventually left us. When these two were recalled it took 50% of my critical development team away and seriously impacted our performance. Frankly, it killed us technically and slowed down all of our efforts substantially.

One Army National Guard reservist was informed of his recall but left us before the decision was formalized and his deployment date was finalized. In our opinion, his productivity and attitude went sour upon the notice as he had just signed a new apartment lease, moved out of his parents house and was starting his life after school. He developed a belligerent attitude and we replaced him. One Marine Special Forces reservist was recalled but was able to get a Special disposition and Honorable Discharge only one month prior to unit deployment. Two times he was recalled; the first time into a stand-by position and the second time he was able to avoid the deployment since his discharge came through. He had already deployed twice before these recalls. Our Special Forces medic had retired and joined us, and almost immediately struggled with recall notices and rumors of same. These seriously hindered his ability to do what he was hired to do. He eventually structured a reservist role to train medics rather than deploying and had to work part time for us. As a Business Development Specialist the impact was a major change in our role for him and his ability to complete tasks. He is retained only part time now and continues in his reservist duties.

There have been several articles and hearings concerning the effects of Reserve Call-Ups on civilian employers. Upon review of these documents and studies by both government commissions and university institutes, and based upon the experience of our company, it is clear that this is a complicated issue. It may distill down to the attitudes of the reservist and employer on how to accommodate this important service to our country. It is not clear to us that one policy or law will meet the broadest of personal stories and applications for these individuals nor meet broadly the needs of various corporations doing a variety of different services when facing such recalls. However, some basic guidelines and thoughts are provided primarily from only our business and perspectives.

Compensation, HealthCare, and Tax Incentives

Our world has forever changed with global wireless communications and the World Wide Web. It is not uncommon for our company to continue to communicate with deployed customers and employees when deployed even in remote areas of the world. Many of our customers will continue to communicate with us and maintain a decision making perspective even when deployed. If possible and depending on the duties during deployment and the military branch, some employees may be able to continue to work at least part time for the company. When such work lessens the financial burden of the employee and also lessens the burdens associated with the loss to the employer, it has a really good stabilizing impact for both. In these cases, continuing the employee's compensation and benefits is a very good idea. Perhaps employers that are able to do so should benefit by tax breaks for the cost of doing so and the income these soldiers earn can be viewed with less tax burden.

Recalled employees suffer significant loss of income once gone if they cannot continue to work. Employers often cannot continue to pay employees when they are gone but may be willing if the government provides some measure of significant tax benefit to do so. This is true for both pay and for health insurance for the employee and family as well as for other benefits such as vacation accrual. These benefits to the employee are obvious but the benefit of the tax break for the business has to be a high enough return to remain cost effective. Additionally, a possible tax credit to the company when backfilling a deployed employee with a military employee; a temporary worker or a military family member of someone deployed could be considered. One way to do this is would be to maintain a data bank of deployed soldiers' spouses or family members needing temporary employment to offset loss of income.

We believe that any reasonable transportation cost to serve in the Guard or reservist capacity should be considered a tax deduction regardless of the distance travelled or reasonable costs. A simple way to do so is to reimburse at the government per diem rate for direct expenses. In our case the deployed Utah employee did travel considerable miles to spend time with the family and kids at his own expense whenever possible. The employee kept his family strong during his deployment though he often traveled long distances without a break. Although this was a personal choice, the soldier returned and his family stayed strong and together and appear to be thriving. His sacrifice to serve both the country and his family during deployment should set an example for others and our support of such sacrifices should not go unmeasured.

HealthCare for deployed employees is more critical for those with families and ongoing medical treatment than it is for single individuals. An option to retain the employers insurances has to be established without putting the burden solely on the company. Perhaps the intangible here is emotional but the volatility of switching health care systems and providers for the family is disruptive. Constant health care providers and sameness, especially for younger children is important for the family and for the soldier.

Finally, the cost of serving the country often lasts well after return. For employees and companies recognizing issues with returning soldiers, whether emotional or physical, some sort of tax incentive should be provided to assist in re-acclimating the individual back into the workforce. The decreased productivity could be handled with adequate consideration for the healthful return of the soldier over time.

Emotional

One of the most damaging issues for the National Guard employees subject to recall is simply "not knowing for sure". Our experience is that few soldiers/employees will "wear this emotion on their sleeve" but it certainly does exist. Our employees were often not really sure if they were going to be called up or not. For a married couple this is probably hard enough but for an employer this is devastating. The

employee is refocused about “if” and “when”, and the employer doesn’t know whether to interview or not; when or if to start interviewing. Few companies have flexible schedules to allow for last minute decisions, lay a significant risk on the table when hiring without due process, and most simply do not have the ability to act in a timely manner. For Athena, the process of finding the right engineer is a timely and highly critical task involving both a technical and team oriented review process. Additionally, upon return of the replaced employee from duty, where does the company put them? We are not big enough to utilize two in the same capacity and it would be nearly impossible to hire a temp without knowing when the deployment will end. In addition, without at least a chance of continuity, the temporary employee never totally committed to the job. The reality of a pending deployment or call up often results in employee’s loss of focus. Performance and attitude drop significantly. It can be a substantial financial burden, as well as seriously damaging strategic schedules/growth for a firm that is too small to absorb the impact.

During deployment there is less emotional burden on the business, except for ties to the remaining family, and the bonds of his/her teammates in the company. It would be wonderful to be able to offer more to the family and children of those serving. Part of this is only reassuring the spouse of our intent to rehire and helping financially as much as possible.

Here are some of the emotional difficulties involved for the individual relayed by our deployed employees:

- Less pay – especially for degreed engineers that make a very good wage. This is more dramatic for single soldiers who make MUCH less money than married soldiers when deployed
- Health care changes caused by companies stopping the health care and forcing a switch to Tricare. Then, switching back when they came back.
- Some people in the National Guard are not as prepared as active duty personnel for deployment and being away from their family. This was obvious to us in terms of decreased focus leading up to deployment
- It takes a while to assimilate back into the company when returning and companies change a bit too in the months soldiers are gone, which was oddly one of the biggest issues for returning military personnel returning; they seek familiar roles and responsibilities which may be outdated.
- Employees deployed feel they are abandoning their team and this is contrary to what their military training teaches them. This is a large emotional burden on them as they feel they left with a large void. It does and they know it. Ideally bringing in a non-threatening replacement before they leave helps to ease this burden for them but not the replacement. For companies that do this perhaps a tax break would help offset the cost.

Re-assimilation

Upon return we will need to employ more wounded warriors with a wide variety of issues and injuries that are both physical and emotional. We believe that we have seen some of this in returning employees, but not to the extent of physical injuries such as amputation and burns. We feel the incentives to hire these veterans and their families must be a priority. Employing such returnees is possible and the right thing to do with proper support. We believe there is no greater way to encourage their assimilation back into a viable workforce than to support them and surround them with their peers; others that have walked in their shoes. Our company will continue to produce innovative products to save lives on the battlefield and we will employ these returning vets with emotional and physical issues in the program we call “Still Serving those that Serve”. Such programs throughout this nation will need your continued support, incentives and tax breaks.

Senate Finance Committee Hearing
“Tax and Fiscal Policy: Effects on the Military and Veterans Community”
September 22, 2010
Responses to Questions for Mark Darrah

Questions from Senator Grassley

Under the Uniformed Services Employment and Reemployment Rights Act of 1994 (“USERRA”), all employers throughout the United States must re-employ returning service-members in the job that they would have attained had they not been absent for military service, with the same seniority, status, and pay, as well as other rights and benefits determined by seniority. USERRA also mandates that reasonable efforts (such as training or retraining) be made to enable returning service members to refresh or upgrade their skills to help them qualify for reemployment.

I supported and still very much support USERRA.

- 1) Have you heard of employers deciding not to employ members of the reserves or national guard because of the burden placed by USERRA? Or, whether you have heard of that or not, do you think it likely that happens much at all?*

Response: The majority of knowledge I have on this potential issue with USERRA discrimination occurring has come from Associations and their lobbying members and interestingly not from veterans or any companies with which we have dealt over the last ten years. I do not know of any employee, employer or military customer with whom I have had contact with in business or socially that has told me of this happening to them or anyone they know. Although my contacts are not exhaustive it strikes me as strange to never have heard of one instance of such discrimination except from such lobbying groups. Therefore, based on my testimony I can only respond accordingly.

From an employer’s perspective, it is important to note that the hiring of technically competent, effective and efficient employees that are skilled at what they are asked to do is a detailed and time consuming process. Good employees are a valuable asset and the military training and experience, in our opinion, improves the quality, character and drive of the employee. On the other hand, it is not guaranteed that any company or any employee is always going to find that desired match and continue to progress and add value to the organization commensurate with their payscale. A company has to benefit from an employee’s talents regardless of whether the employee is tied to the military in any capacity, or not. If it doesn’t benefit, things have to change regardless of whether the employee has any military ties. I conclude that not employing due to USERRA requirements could be biasing data regarding some individuals that have a potential for recall and deployment find it hard to find work. USERRA in this instance is perhaps blamed but has no direct role in the decision and statistics.

It is also important to note that USERRA may allow training and retraining of employees to re-acclimate them into the workforce. This can be troublesome if there are underlying medical

(physical and/or psychological) conditions impacting the employee's post-deployment job performance. From an employer's perspective, forcing a company to re-employ a deployed soldier without due consideration of this potential (especially after observing such a handicap) is a recipe for disaster. This has happened at Athena GTX. The return of one employee did not cause immediate departure, but the behaviors and contributions were not equivalent to before deployment status upon return to work. He chose to leave, but was clearly unhappy when he did. In his unhappiness, it is reasonable to conclude that from his perspective "Athena changed" while in reality he could not handle the same responsibility as per his pre-deployment abilities. Forcing the company to put him in this role with the problems seen would have significantly and negatively impacted our performance to task.

- 2) *Do you think it appropriate that the federal government offer greater relief to offset any potential burdens placed on employers by USERRA? And if so, do you think that greater relief should be through some tax benefit, or through some other provision?*

Response: My opinion is perhaps biased by the fact that I see no burden from USERRA. As I stated in my testimony and oral answers, I think it is a prudent and honorable choice to hire these soldiers when they return and incentivize employers that hire and retain such individuals, their spouses and families to the maximum extent possible. I outlined in my previous testimony for the Committee specific ideas directed at ways to do this and will therefore not restate them in this answer. However, I do not believe that the government can or should force this issue on unwilling employers. Instead, the government can increase incentives for those that choose to do so.

For all of the businesses like Athena GTX who regularly deal with the DoD, it appears dismal when we see program dollars shrinking that are directed at assisting these soldiers to do their jobs better. Less money being spent by our primary customers means less money to the companies who depend on it; less money to their suppliers and, in turn, less money and possible profit to re-invest, grow and employ *anyone*, regardless of military ties. In our case, business is better for Athena GTX today than it was before the recession. Our markets are flourishing because of the type of work we do and what programs we endeavor to secure. Thus, we will continue to seek and employ such individuals. On a side note, it would be inappropriate to assume that businesses dealing with markets/sales depending on excess capital (like home improvement, construction or, perhaps specifically, flooring or home remodeling) would agree.

So, it is my testimony that incentives to hire veterans would be a wonderful way to assist companies like Athena GTX to continue in their strategic initiatives and not be of value to those that do not. To us, we believe this is fair and a good policy. Offer the incentive, perhaps improve the incentives, but do not force the policy.

Question from Senator Bill Nelson

- 1) *I am deeply concerned that this period of economic weakness and high unemployment is having especially severe consequences for veterans, Reservists, and Guardsmen. Tax incentives to encourage the hiring of veterans or the continued compensation of activated Reservists are only useful if employers know they are out there and available. From the*

testimony presented, it appears that employer lack of awareness is a major problem that is hurting the effectiveness of the tax credits. Please provide your views on the most effective and efficient ways that we can publicize and get the word out that these tax incentives are available.

Response: If incentives exist for the employer, in my opinion as a business owner, it requires hiring a competent tax advisor/CPA and/or firm specializing in the applicable tax codes and laws. As an employer, we “assume” our professional CPAs and tax preparers are familiar with the incentives. Over our ten year history we have proven that hiring competent advisors clearly pays for itself. However, if incentives exist for the employees with military ties, it is much more complex. In many cases our experience has taught us that “word of mouth” works inside the company. Most of our team, including those with military ties, use qualified tax preparers and CPAs. If an employee chooses not to do so, or wishes not to spend the money for tax preparation, this committee cannot force them to do so nor would it be the company’s responsibility to do so. However, at the local unit level, on base, such consultation is, and can continue to be, made available as well as timely release of fliers and literature mailed and posted in the applicable areas.

The reason why those employees that should, but choose not to, use informed tax professionals is probably directly proportional to income, experience and education. Education can be impacted by timely information releases to the unit level through focused leadership allowing for such dissemination and dedicated professionals on base. But, in my opinion, such consultation cannot be mandated. Experience can be impacted by focus and peer groups if the information is presented in what we suggest as a less than “legal sounding” paper and web based release. Make it simple and direct and refer to available programs, consultation and assistance. One interesting option may be to use social media such as Twitter, Face Book, instant messaging and email.

Questions from Senator Ensign

Nevada has some of the highest levels of unemployment and house foreclosures in the nation. Many people owe more on their mortgages than they have equity in the house. This means they are locked into keeping their homes even though they may want to move.

- 1) *To what extent have military personnel been caught in this problem given they may be required to transfer and thus forced to sell their homes at the bottom of the market?*
- 2) *There is a military program to assist people, but has that been enough? What do you suggest?*

Response: I can only assume that the ratio of military foreclosures is not significantly different than the general population in a broadest sense, but dominates in selected areas only where specific base closures or relocation/deployment occurred. My personal experience comes from the San Antonio, Texas area and not Nevada, where relocation of military personnel in and out of the area is high and the number of homes unsold is extreme. Base Realignment and Closure (BRAC) has hit some areas hard, but this is certainly not exclusive to military personnel. There is undoubtedly a fairly substantial civilian structure supporting the military endeavors in these areas. From those in the services industries, schools, shopping, restaurants

and countless other employers that provide jobs to family members, BRAC is more far reaching than simply housing.

The military Housing Assistance Program (HAP), of which I am only slightly familiar with, was created to financially compensate military *and DoD employees* who were relocated from military bases where home prices were reduced due to base closure or reassignment. If a military homeowner found it necessary to sell his/her home for less than what was owed on the mortgage and in a market that was depressed due to base closure, HAP would pay a portion of this difference. HAP does not, to my understanding, cover that amount in full and it may not apply to those that are then classed as veterans or have left the services. The amount is examined on a case by case basis to determine how much HAP will cover and it requires that the housing be sold to someone before HAP is engaged. This is a good deal if the house actually sells (which in many markets is the issue). However, although this is a wonderful plan for those tied directly to BRAC and the military, clearly the plan offers more than the average homeowner without military ties, suffering potential foreclosure, would see. In my opinion, it is enough. One possible addition would be to extend the HAP to those that retired or are now veterans and those that are foreclosed upon after returning because they could not find suitable work. Finally, if managed properly, HAP could also be extended to cover some of the cost of paying mortgage while deployed and covered by negative equity additions to the mortgage balance.

TESTIMONY OF SPECIALIST DAN DOBYNS
DIRECTOR, STATE FAMILY PROGRAMS, MONTANA NATIONAL GUARD

Mr. Chairman, Ranking Member, and members of the committee, thank you for this opportunity today. My name is Specialist Dan Dobyms, State Family Program Director for the Montana National Guard. I am a full-time federal technician with the Montana National Guard at Ft. Harrison, Helena, MT. I was born and raised in Montana and am familiar with the unique challenges faced by Montana's Military Families.

Today I want to put a human face on Service Members in Montana. I want to look at a few important stats, but I really want all of us to realize the people behind the stats. In Montana, life is much different than other states. We are the 4th largest in the US and from East to West is over six hundred miles. Many of our roads are covered in ice for many months and many of our residents live in rural isolated areas. The average income for a family is between \$20-30K, gas hovers around three dollars a gallon, and employment opportunities are the lowest they have been in decades. These are facts from Montana. However, I want you to not just look at the facts. I want you to hear some stories of people impacted by the facts.

Late on a Saturday night I received a very distressed call from an eighteen year female taking care of four young children. Her mom, who is a member of the Army National Guard, was gone for Annual Training. Annual training is a mandatory 2 week training for Guard members. The power had been turned off since the bill had not been paid. Since the power was turned off all the refrigerated food in the house spoiled and

they had almost nothing to eat. They were down to a loaf of bread. Five military children with one loaf of bread left. The mother was an extremely hard worker balancing two sometimes three jobs at a time. She had been traveling her one weekend a month required by the National Guard more than four hours away. That's an eight hour round trip. Her rank as an E-4 only paid enough to cover her travel expenses for the weekend. Like I said earlier, Montana is a big state and with gas prices it cost too much for an E-4 to have any drill money left over to pay her electrical bill. Her husband, who is also in the National Guard, had been at Basic Training for over 4 weeks but his pay as an E-1 doesn't even come close to covering the costs of a family living in Montana.

As the director of Family Programs in Montana I have great resources at my disposal to help families like this. We have six Family Assistance Centers statewide that I call for situations just like this. I called the Family Assistance Center in their area and a Family Programs staff and I started to work up possible solutions for this family. We went to a local grocery store and provided the family with groceries since that was the most important need. Next, we provided the family with resources to assist them paying their power bill. Family Assistance Centers have access and knowledge to resources to help families financially. The family had their power turned back on after they received financial help.

The primary mission of any Family Assistance Center (FAC) is to provide information, guidance, and referral to Military Family members. FACs provide resources for financial help, health insurance, legal issues, and even family counselors to contact. The FACs are excellent resources when accurate information is needed. All

information provided at a FAC is official, validated, and verified through the appropriate chains. All Military Families are welcome at the FAC, whether Guard, Reserve, or Active Duty.

Another family I would like to make real for you today is a family we just recently helped. The couple I am about to tell you about showed up at my office at Ft. Harrison in Helena. They were very frustrated. They had been working four jobs between the two of them after being laid off their original jobs they had obtained with college degrees. They were coming up short to pay their bills. The wife joined the National Guard for the opportunity to further her education and for a chance to earn more income, but the opposite happened. Before she left for 9 weeks of Basic Training they saved as much as they could; however, since she had to travel every drill weekend so many hours they actually lost money on her drill weekends and her pay at Basic Training was actually lower than her civilian employment. So their income took a drastic cut because she became a member of the National Guard. They were faced with two months of rent that couldn't be paid even with his two jobs and her income while at basic. To add to that, she discovered after her 9 week training she was being deployed. Not only was her absence a huge emotional stress on their three kids, but once again her income while being deployed is not enough to cover the bills they had.

Right away I helped them get in contact with the Family Assistance Center in their area and we got them financial help not only for the time she was going to be gone for Basic Training but also for the time she was going to be deployed. We put them in touch with organizations and financial programs available to military families and they were very grateful to us for taking the time to help.

Many other Montana Service Members like the ones I have mentioned are undergoing financial challenges as we continue to deploy and train our military. Families are being impacted in serious ways because of the military way of life and deployments. One such family involves an Active Duty Service member who while on training out of state encountered legal issues with his three year old daughter. He had left her in the care of her grandparents while gone for training hoping to be home soon. While he was gone his parents picked up the extra expenses including daycare and healthcare. They even took on two jobs to support her. After the Service Member flew home he met with his local Family Assistance Center and worked out legal custody issues with his daughter. He then was informed he would be deployed soon, and this really impacted his parents because now they would be required to care for his daughter for 12 more months. Once again, these grandparents worked two jobs to cover expenses. They even went to a food bank at one point and were denied food since their son was not a qualified veteran yet. Our FAC could only take care of small needs but we need to do more for families like this.

I strongly suggest we all take a closer look at how we can reduce the financial stress on our Montana families who serve in the military. I believe that many of you respected leaders already have the ideas needed to relieve our hardworking military families.

Montana is made of hardworking Service members. One that comes to my mind is a Service member who financially supported her family while she was deployed. Not only did she pay her bills but she supported her parents. Her parents lived in an area in

Montana that has been struck with huge economic downfall. They were completely bankrupt and to make matters worse her mother was diagnosed with a deadly physical illness. One of our Family Programs staff discovered this family in a monthly outreach call. She discovered they had no health insurance and overwhelming bills. Through financial referral and counseling Family Programs was able to pay three months worth of bills. The Service member had to take emergency medical leave from her job to care for her mother. They are still hundreds of dollars in debt and the Service member continues to sacrifice and do what she can to help. We are meeting small needs but we need to consider doing more. There are families like this who cannot be overlooked. There are situations, like this one, where our Service members are doing everything they can financially and emotionally.

Today I have tried to put human faces to Montanans who are members of our military. I have tried to help all of us look at the people behind the statistics. I strongly suggest we all take a closer look at how we can reduce the financial stress on our Montana families who serve in the military. Whatever those ideas are, please consider these stories I have shared. I do believe that you as leaders of our country have the ideas and know the laws well enough to help. Thank you for your time and thank you for supporting hardworking Montanan military families.



IRAQ *and* AFGHANISTAN VETERANS *of* AMERICA

U.S. SENATE COMMITTEE ON FINANCE
"TAX AND FISCAL POLICY: EFFECTS ON THE MILITARY AND VETERANS"

SEPTEMBER 22, 2010
TESTIMONY OF TIM EMBREE
IAVA LEGISLATIVE ASSOCIATE

Chairman Baucus, Ranking Member Grassley, and members of the committee, on behalf of Iraq and Afghanistan Veterans of America's nearly two hundred thousand members and supporters, thank you for allowing us to testify before your committee. My name is Tim Embree and I served two combat tours in Iraq with the United States Marine Corps Reserves. Veterans of Iraq and Afghanistan are facing record unemployment and America is missing out on the opportunities of this next "greatest generation." IAVA welcomes the privilege to discuss veteran employment with you today.

Executive Summary

America's newest veterans face serious employment challenges. The difficult process of returning to civilian life is even tougher in the most hostile economic environment in decades. Furthermore, many Iraq and Afghanistan veterans, leaving the active-duty military, find civilian employers do not understand the value of their skills and experience. Other veterans cannot afford the necessary job training. As a result, unemployment rates for Iraq and Afghanistan veterans are staggering.

Additionally, the National Guardsmen and Reservists, who leave behind their civilian lives to serve alongside active-duty troops, are inadequately protected against job discrimination. Many lack proper assistance to rebuild their own businesses when they return home. The experiences of previous generations of veterans, who faced similar situations, suggest that today's veterans will continue to struggle for decades to come, unless we act immediately.

IAVA recommends, to this committee, the following measures to combat veterans' unemployment:

- Pass S. 3447, commonly known as New GI Bill 2.0, before the October recess. This bill extends Post-9/11 GI Bill benefits to veterans who enroll in: apprenticeships, On-the-Job-Training (OJT), and vocational programs.
- Pass S. 3398, the "Veteran Employment Transition Act," before the October recess. S. 3398 expands the Work Opportunity Tax Credit, which incentivizes businesses to hire Iraq and Afghanistan veterans.
- Provide small businesses owners in the National Guard and Reserves with tax relief and additional access to capital, insurance, and bonding.

Veterans' Employment Status

*"I have had to move my family 2-3 times in search for employment...
I have had LOTS of difficulty finding employment."
- IAVA Member & Veteran*

The unemployment rate among recently discharged veterans is 11.5 percent. This rate has significantly increased in the last 2 years. According to the Bureau of Labor Statistics, in 2009, the average unemployment rate for Iraq and Afghanistan-era veterans was 10.2 percent. In comparison, unemployment rates in 2007 and 2008 were 6.1 percent and 7.3 percent, respectively. The unemployment rate of Reserve and National Guardsmen, who often leave behind civilian jobs or their own businesses when they deploy, has more than quadrupled since 2007, skyrocketing to 10.6 percent.

The situation is even more troubling, because so many veterans are unemployed for so long. In 2009, 75,000 Iraq and Afghanistan-era veterans suffered from long-term unemployment, 15 weeks or more. This represents more than 45 percent of all unemployed new veterans in 2009.

*"All the jobs I found that would hire vets were security jobs
that pay 8 bucks an hour." - IAVA Member & Veteran*

Finding a job for a returning veteran is a challenge, but finding quality employment is extremely difficult. Sixty-one percent of employers do not believe they have "a complete understanding of the qualifications ex-servicemembers offer."ⁱⁱ Recently separated servicemembers with college degrees earn, on average, almost \$10,000 less per year than their civilian counterparts.ⁱⁱⁱ Experience has shown that this wage gap could continue for decades. Vietnam veterans earned significantly less than their civilian peers until they were in their fifties.

*"First interview question was 'Are you going to be hired and then have
to leave again?'" - IAVA Member & Veteran*

Finding a job is not just a concern for veterans who have recently separated from active-duty. Employers are growing increasingly wary of hiring or reemploying National Guardsmen and Reservists, because of unprecedented mobilization rates. Tens of thousands of reservists, returning from combat, are not being promptly reemployed. When reemployed, they are not receiving the pay, pensions, healthcare coverage, and other benefits they are entitled to. More than 40 percent of Guardsmen and Reservists lose income when they are mobilized.^{iv} Self-employed reservists suffer a 55 percent loss in earnings when they are activated.

Job Training through GI Bill Benefits

Thousands of young veterans want to build on the skills they learned in the military, but they cannot afford the training. Today's newest veterans deserve the right to use their hard-earned New GI Bill benefits for the job training they desperately need. The New GI Bill 2.0 (S. 3447) gives veterans the ability to pursue valuable job training. The Senate must pass this vital legislation before the October recess.

*"After approximately 30 interviews and temporary positions,
I chose to attend school under the new GI Bill."
-IAVA Member & Veteran*

The Post-9/11 GI Bill was the greatest investment in veterans and their families since World War II and it couldn't have come at a better time. Veterans, facing tough economic times and high unemployment rates, are heading to universities to make themselves more competitive in the workforce. The Post-9/11 GI Bill has enabled over 340,000 students^v to attend first-rate colleges and universities.

*"This was a huge disappointment to me when I found out my schooling
was not covered under the new GI Bill... I am a mechanic by vocation;
there are no 4-year degree programs for people like me."
-IAVA Member & Veteran*

Unfortunately, a significant number of veterans have been short-changed under the bill, because important job training is excluded from this great benefit. There are no provisions for apprenticeship and OJT programs in the Post 9/11 GI Bill, although both types of programs were covered under the old GI Bill.

Also, non-degree granting schools, exclusively vocational schools, are specifically excluded from the Post-9/11 GI Bill. Veterans pursuing vocational training should not be penalized for going to a strictly vocational school. The WWII GI Bill sent more than 8 million veterans to school. Nearly three quarters of those veterans were not seeking a college degree; they participated in some type of vocational training. Unfortunately, nearly 16,000 of today's veterans, pursuing vocational training, are not able to access the new GI Bill.

The New GI Bill 2.0 upgrades the Post-9/11 GI Bill to include all of these valuable job-training programs.

Job Placement through Tax Credits

IAVA recommends this committee immediately report out Senator Baucus's S. 3398, the "Veteran Employment Transition Act," and push for a floor vote before this Congress recesses in October. The American Recovery and Reinvestment Act authorized a two-year tax credit for employers who hire unemployed Iraq and Afghanistan-era veterans. This tax credit, valued up to \$2,400 per unemployed veteran, was created to incentivize employers to hire veterans. But the tax credit was poorly advertised and was not structured well enough to help the veterans it was designed to target. S. 3398 expands and simplifies this tax credit.

*"Many employers say they 'value veterans', but sometimes it's just about the bottom line. Providing monetary or tax incentives may make employers think more about employing Veterans."
- IAVA Member & Veteran*

IAVA and many other veteran service organizations lauded this tax credit when it passed. We believe this tax credit should be expanded and extended indefinitely. Given the current state of the economy and the fact that other populations, such as ex-convicts, are permanently eligible for the same tax credit, expanding and extending it for veterans is the right thing to do and a sound investment for our economy.

"My employer knew nothing about tax benefit for hiring disabled vet until after I was hired." - IAVA Member & Veteran

This tax credit was designed to encourage hiring veterans, but few employers know about it. This makes it ineffective. IAVA believes there must be a coordinated outreach effort by the Department of Veterans Affairs (VA) and Department of Labor to educate employers and veterans about this cost saving, job placement benefit.

Help Small Business Owners

Many veterans choose self-employment over unemployment by starting their own small business ventures. It is not surprising that veterans represent 14.5 percent of small business owners nationally, greater than our representation in the overall population.^{vi} Our entrepreneurial spirit, determination, and unrelenting focus make us natural self-starters. For reservist and veteran business owners, looking for technical or financial assistance, support is available through the Small Business Administration (SBA) and the VA. Unfortunately, assistance through the SBA and VA is insufficient for Reservists and National Guard members facing multiple deployments. Clients leave, new competitors move in, and revenues dry up while veteran small business owners are activated. Veterans returning from repeated

deployments need additional access to capital, insurance and bonding programs, and tax relief, to assist in restarting a dormant business or launching a new one.

*"My business was shut down for approximately 18 months.
Rightfully so, most of my clients moved on to other attorneys."
- IAVA Member & Veteran*

Last year, the SBA assisted more than 180,000 veterans, reservists, active servicemembers and spouses through its entrepreneurial counseling and training services.^{vii} The agency offers low-interest capital through the new Patriot Express Pilot Loan program. The SBA Office of Veterans Business Development also operates five veteran-specific business outreach centers and provides federal contracting assistance to veterans, although it has limited resources to do so.

*"During my deployment I had to totally shutter the doors on my
construction business. It put my family in a very difficult position"
- IAVA Member & Veteran*

IAVA believes that the DOL, SBA and VA must work to mitigate the effect of frequent and lengthy deployments by providing small businesses owners in the National Guard and Reserves with tax relief and additional access to capital, insurance, and bonding. The Center for Veterans Enterprise must receive appropriate funding and resources to achieve this goal.

Conclusion

The veteran unemployment rate remains consistently higher than that of the general population and threatens to destroy our country's next "greatest generation." History has shown the importance of investing in our country's veterans and IAVA applauds the great work this committee continues to do on behalf of our nation's veterans and their families. We need jobs.

The causes of veteran unemployment are complex, but there are some excellent immediate remedies. They are right in front of us and ready to go. IAVA calls on this committee finish the work it has begun and bring "Veteran Employment Transition Act" (S. 3398) to the floor for a vote now. By passing S. 3398 and supporting the New GI Bill 2.0, the members of this committee will be taking an important step towards solving the critical problem of veteran unemployment. Now is the time. The members of this committee must act before the October recess and show our country's newest veterans that the 111th Congress has our back.

Thank you.

^{vii} Military.com, "Military.com Study Reveals Profound Disconnect between Employers and Transitioning Military Personnel," November 5, 2007: http://www.military.com/aboutus/twocolumn/0,15929,PRarticle110507_00.html.

ⁱⁱⁱ Abt. Associates, Inc. "Employment Histories Report, Final Compilation Report," March 24, 2008: http://www1.va.gov/vetdata/docs/Employment_History_080324.pdf.

^{iv} "41 percent of drilling unit members reported income loss [when mobilized for a contingency operation]." GAO-03-573T, "Military Personnel: Preliminary Observations Related to Income, Benefits, and Employer Support for Reservists During Mobilization." March 19, 2003: <http://www.gao.gov/new.items/d03549t.pdf>.

^v Spring 2010 GI Bill Benefit Processing, <http://gibill.va.gov/spring2010.htm>

^{vi} **Characteristics of Veteran Business Owners and Veteran-owned Businesses** Chapter 5 of The Small Business Economy for Data Year 2006, A Report to the President, http://www.sba.gov/advo/research/sbe_07_ch5.pdf

^{vii} Small Business Administration, FY 2009 Performance Report, page 66, http://www.sba.gov/idc/groups/public/documents/sba_homepage/fy_2011_cbj_09_apr.pdf



**IRAQ and AFGHANISTAN
VETERANS of AMERICA**

**Senate Finance Committee Hearing
"Tax and Fiscal Policy: Effects on The Military and Veterans Community"
September 22, 2010
Responses to Questions for Timothy Embree**

Questions from Senator Grassley

I am glad you have told the Committee about returning warriors and the problems they face in finding employment upon their return.

Federal Government Agencies have been directed by Congress to have a preferential option in hiring for veterans. Surely this should help.

- 1) Do you think returning veterans are aware of this congressional mandate to Federal Government Agencies?

Answer: The Federal Government hires three times the percentage of veterans as the private sector¹ and therefore plays a critical role in combating veterans' unemployment. Unfortunately, our country's newest veterans are either not aware of the congressional mandate for a veteran's hiring preference or they are confused by how preference program actually helps their job prospects.

*"I searched usajobs.gov, submitted applications but never heard from them.
I guess there is a magic way to write your job description." –IAVA Vet*

The veteran preference program is poorly publicized and we believe that recently separated veterans must be better educated about these types of hiring programs. The VA must create an ongoing dialogue with these men and women before and after they leave the service. Currently, once a servicemember leaves the DOD there is little to no way to contact these new veterans unless they enroll in the VA. VA enrollment is not mandatory and fewer than half of our newest veterans are choosing to take advantage of their veterans' benefits. IAVA believes that the federal government must begin making enrollment in the VA automatic upon discharge, while concurrently increasing their coordination with The Military Coalition and individual Veteran Service Organizations (VSOs). This would help to create a lasting means of educating veterans and their families about benefits such as the federal hiring preference program.

- 2) Do returning warriors find this Federal Government Agency hiring preference program helpful to them?

Answer: There has been improvement but some veterans are still confused and frustrated by the Federal hiring process. Last November President Obama issued an executive order outlining the Veterans Employment Initiative.¹¹ This order required enhanced recruitment and promotion of employment opportunities for veteran within the Federal government and established a Council

on Veterans Employment. The Federal government has already stood up the website, www.fedshirevets.gov and released a strategic plan to implement this goal of increasing the number of veterans working in the Federal government. Despite these initiatives, our members still complain of not hearing back from the federal government once they have applied for government positions. Also, many young veterans are frustrated that their skills and experience do not easily translate to the federal job descriptions. We are happy to see the Office of Personnel and Management (OPM) has made great strides in this process and we are encouraged by the amount of cooperation between the OPM and the VSO community. We still feel strongly that more effort must be made to translate the skills and experience of servicemembers to the skill and experience requirements for federal employment.

3) How do you think the word could be gotten out to veterans better?

Answer: The federal government must begin making enrollment in the VA automatic upon discharge with an option to unenroll after an initial period of time. Also, the federal government must increase their coordination with The Military Coalition and individual Veteran Service Organizations.

Questions from Senator Bill Nelson

1) I am deeply concerned that this period of economic weakness and high unemployment is having especially severe consequences for veterans, Reservists, and Guardsmen. Tax incentives to encourage the hiring of veterans or the continued compensation of activated Reservists are only useful if employers know they are out there and available. From the testimony presented, it appears that employer lack of awareness is a major problem that is hurting the effectiveness of the tax credits. Please provide your views on the most effective and efficient ways that we can publicize and get the word out that these tax incentives are available.

Answer: This Congress and Administration must engage private groups such as the US Chamber of Commerce, professional associations and trade unions to ensure that employers and hiring managers are aware of the different incentives available for hiring veterans. The Department of Labor recently partnered with the U.S. Chamber to encourage veteran hiring; this can serve as a model for other future public/private partnerships promoting veteran hiring programs. Also, VSOs want to be an asset and should be utilized by the federal government to get information concerning these programs out to veterans and their families. IAVA alone can reach out to hundreds of thousands of veterans and their families and we have a strong earned media presence, which we are willing to utilize to promote any robust new veteran employment program. Additionally, the VA must become the DOD alumni association. By engaging servicemembers before they become veterans we can educate our newest veterans on the many benefits and services available to them, such as work opportunity tax credits.

Questions from Senator Ensign

Nevada has some of the highest levels of unemployment and house foreclosures in the nation. Many people owe more on their mortgages than they have equity in the house. This means they are locked into keeping their homes even though they may want to move.

- 1) To what extent have military personnel been caught in this problem given they may be required to transfer and thus forced to sell their homes at the bottom of the market?

Answer: As recently as 2008, foreclosure rates in military towns were increasing at four times the national average and many servicemembers are paying more than half of their income towards housing. Many veterans and servicemembers were targeted by subprime mortgage lenders and bypassed the more structured VA home loan program due to the offer of lower initial interest rates and widespread availability.

- 2) There is a military program to assist people, but has that been enough? What do you suggest?

Answer: Last year, the American Recovery and Reinvestment Act extended protection to servicemember homeowners who were ordered to a permanent change of station (PCS) under the DOD Homeowners Assistance Program (HAP). This program assisted servicemembers who were PCS'd more than 50 miles away and owned a home that had lost at least 10% of its value from the date of purchase. This was a one-time benefit and unfortunately it was allowed to lapse as of September 30, 2010. This program should be extended for servicemembers PCSing until the end of the housing crisis.

¹ Office of Personal Management, "The Governmentwide Veterans' Recruitment and Employment Strategic Plan for FY 2010-FY2012," page 2, http://www.fedshircvets.gov/pdf/Vets_Initiative_Strategic_Plan.pdf

⁴ Executive Order, President Obama, November 9th, 2009, <http://www.whitehouse.gov/the-press-office/executive-order-veterans-employment-initiative>

Opening Remarks by Senator Chuck Grassley
Hearing, Tax and Fiscal Policy: Effects on the Military and Veterans Community
September 22, 2010

When our nation is at war, as it is now, we are often reminded of the tremendous sacrifices made on the battlefield by those who wear our country's uniform. I think of Salvatore Giunta, the Iowan who is about to receive the Medal of Honor for risking his life to aid his wounded comrades while fighting the Taliban in Afghanistan. The stories I read in the paper of the patriots from my home state who have given their lives for their country also bring home the tremendous price of freedom.

We can never thank enough those who are serving or who have served in the Armed Forces. However, we often overlook the many day to day sacrifices on the part of those who serve and their families.

I also want to acknowledge the small business owners, like Dr. Darrah, from my home state of Iowa, who seek to hire reservists even knowing that they could be called to active duty leaving the business in the lurch.

To the extent that it is possible to alleviate the extra stresses and strains on service members and veterans as well as their families and support networks, we have an obligation to explore policy options to do so.

I was pleased to support the Military Family Tax Relief Act of 2003 and the Heroes Earnings Assistance and Relief Tax Act of 2008 (otherwise known as the HEART Act). These both became law.

Among other provisions, included in these laws were a temporary tax credit for small employers of Reservists called to active duty, a permanent extension of an election to include combat pay as earned income for purposes of the earned income tax credit, an allowance for Reservists called up for active duty to withdraw unused funds from a health flexible spending account, and an exclusion from income payments made to offset adverse effects in housing values that result from military base closures.

The subject of the hearing is very important: We will consider to what extent the tax laws of this country need to be changed to alleviate the special hardships placed upon the military and veteran communities.

To the extent requirements of the Federal Government, as contained in USERRA (Uniformed Services Employment and Reemployment Rights Act) and elsewhere, place burdens on employers of those deployed in the military, we should determine the most appropriate way to alleviate those burdens.

This Committee should also consider the best way the unique burdens of the members of the military and veterans communities should be addressed by the tax laws. The Committee may also wish to determine the best way those burdens are addressed – by the tax law, or by some other way?

**STATEMENT OF THE MILITARY COALITION
(TMC)
before the
SENATE COMMITTEE ON FINANCE
concerning
Current Tax Policy
Affecting Veteran and Uniform Services Communities
September 22, 2010
Presented by**

Captain Marshall A. Hanson, USNR (Retired)
Legislative and Naval Services Director
Reserve Officers Association
Co-Chair, TMC Tax Committee

MR. CHAIRMAN AND DISTINGUISHED MEMBERS OF THE COMMITTEE, On behalf The Military Coalition (TMC), a consortium of nationally prominent military and veteran organizations listed below, representing more than 5.5 million members plus their families and survivors, we are grateful for this opportunity to express TMC views concerning tax issues affecting Active (AC) and Reserve Components (RC) and members of their families.

Air Force Association
Air Force Sergeants Association
Air Force Women Officers Associated
AMVETS (American Veterans)
Army Aviation Association of America
Association of Military Surgeons of the United States
Association of the United States Army
Association of the United States Navy
Chief Warrant Officer and Warrant Officer Association, U.S. Coast Guard
Commissioned Officers Association of the U.S. Public Health Service, Inc.
Enlisted Association of the National Guard of the United States
Fleet Reserve Association
Gold Star Wives
Iraq & Afghanistan Veterans of America
Jewish War Veterans of the United States of America
Marine Corps League
Marine Corps Reserve Association
Military Chaplains Association of the United States of America
Military Officers Association of America
Military Order of the Purple Heart
National Association for Uniformed Services
National Guard Association of the United States
National Military Family Association
Naval Enlisted Reserve Association
Non Commissioned Officers Association
Reserve Enlisted Association of the United States
Reserve Officers Association
Society of Medical Consultants to the Armed Forces
The Retired Enlisted Association
United States Army Warrant Officers Association
United States Coast Guard Chief Petty Officers Association
Veterans of Foreign Wars of the United States

The Military Coalition, Inc. does not receive any grants or contracts from the federal government.

Executive Summary

Authorize Tax Credits for Employers of Reservist/Employees - Support by employers of members in the Reserve Component enables the Total Force to accomplish today's missions. While the Uniform Services Employment and Reemployment Act (USERRA) provides protection for serving members and sanctions against violating employers, positive as well as negative incentives are needed.

Authorize Tax Incentives for Employers Hiring Demobilized Service Members and AC/RC Military Spouses - Service men and women need a smooth transition from military duty to civilian life, or when transferred between bases. Employment of military spouses as well as re-employment of the serving member is also considered a critical element in recruiting and retaining a high quality all volunteer force. TMC supports:

- Expanding the Workforce Opportunity Tax Credit to giving employers tax credits who:
 - Hire military spouses of both Active and Reserve Components
 - Hire demobilized service members
- Providing tax credit to offset expenses by military spouses who must obtain professional or trade license or certification when the Active or Reserve service member is relocated to a state where the spouse is no longer qualified to work in that profession or trade.

Increase the Alternative Minimum Tax Exemption (AMT) for Children Who Receive a Survivor Benefit Plan (SBP) Annuity - An SBP annuity received by a child is classified as unearned income and can be taxed at a higher AMT rate. TMC supports eliminating the punitive burden imposed by the AMT by increasing the exemption by adding the SBP amount received by the child, i.e., raising the exemption.

Improve Above-The-Line Deduction for Overnight Travel Expenses of Guard and Reserve Members - Restoration of full tax-deductibility of non-reimbursable expenses related to military training allowing that "the deductions be allowed...for any training period during which such individual is more than 50 miles away from home in connection with such services."

Other TMC Tax Goals

Provide Combat Zone Tax Credit to USPHS and NOAA Officers

Authorize Pre-Tax Deductions for Premiums Paid on Health Insurance

Implement Uniformed Service Member Flexible Spending Accounts (FSA)

Authorize Pre-Tax Deductions for Long Term Care (LTC) Premiums

Reform the Windfall Elimination Provision (WEP) and Government Pension Offset (GPO)

DISCUSSION

Authorize Tax Credits for Employers of Reservist/Employees - TMC would like to thank this committee on legislation passed by Congress in 2008 resulting in a first-ever tax credit for certain small businesses that pay a wage differential to Guard -Reserve members called to active duty (P.L. 110-245). The authority unfortunately lapsed on 31 December 2009.

Congress should make this tax credit permanent and expand employer tax credits as a means to help offset costs associated with employees' Guard or Reserve activities and reinforce employer support.

TMC is pleased to note that this employer benefit recognized the enormous burdens that America's employers bear under operational reserve policy. Employers of Guardsmen and Reservists are often burdened with extra costs to support the nation's defense through the participation of their employees in the military. Business efficiencies are reduced, and there are added costs hiring temporary replacements. Today's increased OPTEMPO makes employer support more important than ever. Providing tax credits for employers of mobilized Reserve Component employees is simply prudent fiscal policy and would offset these extra accrued business expenses.

The stress of nine years of deployments has been exceptionally challenging for reservists families and civilian career opportunities. Despite legislative safeguards under the USERRA, reservists face direct and indirect pressure from their employers prior to and after an operational call-up. Most employers want to be supportive of the nation's operational reserve policy, but there is little or no reciprocity from the government for their own bottom-line sacrifices for hiring and retaining reservists.

Employer pressure is listed as one of the top reasons why reservists quit. The following tax credits will help offset employer costs associated with employees' Reserve activities and reinforce employer support.

- A permanent tax credit for employers continuing to pay activated Guard and Reserve employees up to 2 years
- A tax credit for businesses owners who hire temporary workers to fill-in for activated employees
- A tax credit to help small business owners to continue an employee's healthcare, providing an option to TRICARE in areas not covered by the military health network

An operational Reserve Component has proven to be a key element to maintaining the all-volunteer force. While American employers are very patriotic, there is a risk that deployment fatigue may set in as the duration of operational contingencies continues. Even with the withdrawal of combat forces from Iraq, the Guard and Reserve will continue to play an important role Afghanistan as well as in peace keeping in Bosnia, Kosovo, and the Sinai.

While USERRA may provide employment protections, it also provides sanctions against employers who violate it. The Coalition has heard from employers who say they need positive incentives as well.

Authorize Tax Incentives for Employers hiring Demobilized Service Members and AC/RC Military Spouses – Facing the risk of multiple call-ups, reservists are beginning to find reemployment difficult for this reason. Anecdotes about employers refusing to hire or employ individual reservists or returning veterans are surfacing as operations in Iraq and Afghanistan continue.

Reports of unemployment among returning deployed units are high. Following their return from Iraq, the 41st Infantry Brigade Combat Team out of Oregon suffered a 51 percent unemployment rate in June 2010. The National Guard (NG) Bureau reported that in April 2010 there was 30 percent unemployment for the California Army NG and 41 percent unemployment for the Ohio Army NG. Incentives are needed to help Guard and Reserve members to be hired by new employers.

As veterans, service men and women need a smooth transition from military duty to civilian life, or when they and their families are transferred between bases. The service man or woman's family is an integral part of that transition and their financial stability is essential to retention. Employment of military spouses as well as re-employment of the serving member is considered a critical element in recruiting and retaining a high quality all volunteer force. TMC supports:

- Expanding the Workforce Opportunity Tax Credit to giving employers tax credits who:
 - Hire demobilized service members and veterans
 - Hire military spouses of both Active and Reserve Components
- Providing tax credit to offset expenses by military spouses who must obtain professional or trade license or certification when the Active or Reserve service member is relocated to a state where the spouse is no longer qualified to work in that profession or trade.

While a two-year tax credit in the American Recovery and Reinvestment Act incentivized hiring Iraq and Afghanistan veterans, it needs to be extended beyond 2010, hopefully permanently. This tax credit allowed up to \$2,400 per unemployed veteran.

The unemployed veteran tax credit is accompanied by a permanent tax credit for the hiring of disabled veterans, worth up to \$4,800 per disabled veteran. However, the VA and the Department of Labor VETS program have done a poor job communicating either of these tax credits to potential employers and job seeking veterans.

Improve Above-The-Line Deduction for Overnight Travel Expenses of Guard and Reserve Members – National Guard members essentially subsidize a lot of their own training paying for some of their own training equipment and often are required to travel beyond normal commuting distances to get to the Individual Duty Training (IDT) each month. The cost to attend these IDT “drills” can exceed their monthly pay.

The Tax Reform Act of 1986 eliminated reservists' tax deductions on travel, lodging and food expenses incurred while on duty and in transit. Unless the expenses claimed were greater than 2 percent of a soldier's adjusted gross income, federal guidelines prohibited qualifying them as deductions. The fiscal year 2004 National Defense Authorization Act partially restored the tax deduction for above-the-line deductions for Guard and Reserve members performing military duty at locations at least 100 miles from their residence.

TMC notes that other government agencies are authorized to use a 50-mile minimum for travel compensation.

A reservist who travels more than 100 miles away from home in the performance of military duty can deduct some travel expenses as an adjustment to gross income. The amount of expenses that can be deducted is limited to the regular federal per diem rate and the standard mileage rate.

TMC recommends a change to the law restoring the full tax-deductibility of non-reimbursable expenses related to military training more than 50 miles from home in connection with such duty. This simple change would align treatment of our nation's operational reserve forces with what is allowed for Federal workers in other agencies of the government.

Increase the Alternative Minimum Tax Exemption (AMT) for Children Who Receive a Survivor Benefit Plan (SBP) Annuity - Survivors of fallen warriors who have dependent children are often faced with harsh realities in securing a reasonable income for their families. Normally, the DoD Survivor Benefit Plan (SBP) annuity is offset dollar-for-dollar by VA Dependency and Indemnity Compensation (DIC).

Recognizing that this offset undermines the purpose of providing an additional indemnity payment to surviving families whose military sponsors died as a result of serving, Congress included a provision in the FY2004 Defense Authorization Act allowing surviving spouses of members who died on active duty to transfer the SBP entitlement to surviving children, if any, while the spouse retained the DIC entitlement. Many spouses understandably exercised this option.

However, subsequent experience has revealed that such a transfer can unintentionally result in the child's *unearned income* triggering the punitive Alternative Minimum Tax (AMT), a provision designed to discourage parents from transferring income-producing assets to a child to achieve tax savings.

Many surviving spouses are unaware of the rules concerning the AMT and make the SBP child designation at a time of great emotional stress and often without sound tax counseling. The designation of a child as the SBP annuitant is not intended to "hide" income producing assets. Rather, it was specifically authorized by Congress for survivors of members who died while on active duty to mitigate the insidious effects of the VA Dependency and Indemnity Compensation (DIC) offset on the surviving family's income.

Senator Burr's bill seeks to negate the punitive AMT provisions by defining a surviving child's SBP annuity as *earned income*. We strongly support the intent of this much-needed bill and thank Senator Burr for his efforts to aid survivors and their families. However, we have

subsequently learned that the designation of the annuity as *earned income* would have its own unintended adverse impact on a surviving family.

In this regard, Social Security Survivor Insurance (SI), an insurance benefit formulated on the contributions of the deceased military member, cannot be paid to a child who *earns* more than the yearly exempted amount. The 2010 exemption is \$14,160 per year according to the *Social Security Administration Handbook* § 1803.

Therefore, TMC requests S. 3334 be amended to simply exempt the child designated SBP annuity from the AMT rules. Specifically, TMC has worked with Sen. Burr's staff to propose amending Title 26 USC § 59(j) (AMT provisions) by adding the following paragraph:

"Increased Exemption for Child SBP Beneficiaries. In the case of a child to whom this section 1(g) applies, the exemption amount calculated under the paragraph (j)(1) of this section shall be increased by the amount received by the child from the SBP established under Chapter 73, Subchapter II of title 10."

This would remove the SBP annuity from an unintended punitive tax provision and make it subject to normal tax rates. The action would fulfill the intent of the FY2004 Defense Authorization Act change by ensuring that qualifying children received both the SBP annuity and social security benefits, without disproportional tax penalties.

The Coalition very much appreciates the Committee's sensitivity to the extraordinary and extended wartime sacrifices being borne by members of the uniformed services and their families.

Other TMC Goals:

Provide Combat Zone Tax Credit to USPHS and NOAA Officers - Officers of the PHS and NOAA Commissioned Corps serve alongside their armed service peers in combat zones around the world. The Department of State is currently seeking additional PHS physicians for service in Iraq and Afghanistan. Yet PHS and NOAA officers were inadvertently omitted from legislation years ago establishing a tax credit for armed services members serving in combat zones - a rare exception to the compensation and benefits parity among the seven uniformed services normally the intent of the Congress.

Authorize Pre-Tax Deductions for Premiums Paid on Health Insurance - Seek legislation allowing service members, retirees and survivors to pay health insurance premiums for TRICARE supplements and the DoD sponsored TRICARE dental plans, on a pre-tax basis as is already permitted for Federal civilian and those who participate in a "cafeteria plan" offered by a civilian employer. Also, seek authorization for TRICARE Prime enrollment fees for retired beneficiaries to be paid on a pre-tax basis.

Implement Uniformed Service Member Flexible Spending Accounts (FSA) – Seek legislation directing DoD to implement Flexible Spending Accounts for service members enabling military families to pay health care (insurance deductibles, pharmacy co-pays, glasses

and contacts, dental deductibles/co-pays, over-the-counter medications, etc.) and childcare expenses with pre-tax dollars. Federal civilians are authorized to have these accounts. Additionally, authorize FSA claims filing for a prior reporting year after return from active duty for mobilized Guard and Reserve members.

Authorize Tax Deductions for Long Term Care (LTC) Premiums - Group long term care insurance has been approved for federal employees and uniformed services members - active, reserve, and retired. Their family members also need protection against the unforeseen cost of custodial care services that might be needed as a result of a disabling condition. LTC is a self-funded program. In order to promote enrollment in a commercial or the new government LTC insurance plan, it has been suggested that the cost of premiums be allowed as a deductible expense on federal income tax for qualified long-term care insurance plans.

Reform Windfall Elimination Provision (WEP) and Government Pension Offset (GPO) - Repeal or reform the WEP and GPO Social Security penalties for federal employees and spouses (many of whom are military retirees and spouses) under the Civil Service Retirement System and certain state retirement systems. WEP reduces Social Security benefits earned by these members and spouses from military service or other employment. The GPO reduces or in some cases eliminates Social Security survivor benefits for spouses who are also federal/state retirees.

CONCLUSION

Once again The Military Coalition would like to thank the Committee for its due diligence in supporting the extraordinary and extended wartime sacrifices being borne by members of the uniformed services and their families

Senate Finance Committee Hearing
“Tax and Fiscal Policy: Effects on The Military and Veterans Community”
September 22, 2010
TMC Responses to Submitted Questions

Questions from Senator Baucus

- 1) One of the Military Coalition’s goals is to improve the Above-The-Line Deduction for Overnight Travel Expenses of Guard and Reserve Members.

- a) Do you have any statistics on the percentage of servicemembers that have left the Guard\Reserve, or transferred to other units because of travel expense related issues?

Answer. The member associations of The Military Coalition (TMC) are not resourced to maintain statistics on retention for the various services in the National Guard and the Reserve. The information we have is feedback from our members. We have heard complaints on how junior members pay most if not all of their monthly income just to go to their training site in order to serve. The Reserve Chiefs and the National Guard Bureau could possibly provide the statistics behind these reports.

- b) How large of an impact do you estimate these expenses have on military recruitment for the Guard and Reserve?

Answer. The Services would testify that they are not having a problem with retention. High retention rates are offsetting any challenges to recruitment that the Services may have. The poor economy is shoring up retention rates, once the economy improves challenges to recruiting and retention will return.

Yet when expense consumes earnings, some people serve for country without income. Evidence of this impact is demonstrated by a higher turnover in the more junior enlisted and officer ranks that are paid less, creating a more senior and older Reserve Component. The Army and the Marine Corps have admitted to a gap in their O-2 to O-4 officer ranks.

- c) Does your organization believe that it’s better for members to receive this benefit through a tax deduction instead of through the Department of Defense budget?

Answer. If additional funds were appropriated an ideal situation would be for the drilling reservist to submit a travel reimbursement at the time they attended their monthly training. But, with DoD looking at its funding remaining level, and its costs going up, this is an improbable solution. While Congress authorized a \$300 travel reimbursement in 37 USC (United States Code) § 408a, Pentagon policy was to limit this only to serving members who were affected by Base Closures and who had to travel over 100 miles one-way. This authorization is also expiring on December 31, 2010.

Allowing a tax deduction would permit more individuals who are affected by traveling longer distances to their monthly training sites to take advantage of recovering some of the expense paid. Congress has provided an “above the line”

deduction for one-way travel of 100 mile or more, TMC would like to see this reduced to at least a 50 mile distance, if not lower.

- 2) The Servicemembers' Group Life Insurance (SGLI) program provides low cost group life insurance through the Department of Veterans Affairs.

This program is operated through a contract with the life insurance company, Prudential. Press reports allege that upon the death of a SGLI policy holder, Prudential sends a "checkbook" which includes checks that can be drawn against the benefit owed to the beneficiary rather than providing a lump-sum payout.

According to a class action suit filed July 29, 2010, for the year 2009, Prudential collected over \$144 million on investment income through the SGLI program alone, indicating a 5.69% return. However, Prudential paid beneficiaries only 1% interest on the income.

- a) What do you think about this practice? Should we be making any changes in this practice?

Answer. TMC believes the transparency of the program should be improved. The Department of Veteran Affairs is also currently investigating this practice and once completed TMC will be reviewing findings in that report.

The VA Form SGLV-8283, which a SGLI/VGLI claimant must file for death benefits, lacks clarity regarding payment options. The form provides two options: a lump sum payment or 36 equal monthly installments. The form is then submitted to the Office of Servicemembers' Group Life Insurance (*Prudential Insurance*) for payment.

The VA form should be amended (1) to authorize an electronic transfer of monies to the claimant's bank account; (2) to disclose the nature of *Alliance Account*; and (3) to disclose that interest is earned, both by Prudential and the beneficiary (survivor) if the money is retained in the *Alliance Account*. The VA does this already for claims for Traumatic Service Group Life Insurance via VA Form SGLV 8600. These improvements will likely to lead to a more informed decision by the claimant.

In the interest of objectivity, the interest paid by Prudential does not appear inconsistent with what beneficiaries would earn from other money market sources if the payment were taken as a lump sum and invested elsewhere. Prudential has asserted that it does not make any profit on SGLI. Earnings are offset by the costs of the mortality and investment risks for the SGLI program. The contract with the Department of Veterans' Affairs requires that Prudential absorb all credit losses on the assets backing all Servicemembers Group Life Insurance (SGLI) program reserves. TMC is concerned that higher interest payments to beneficiaries might lead to imposition of increased premiums for SGLI coverage.

TMC believes Congress should consider tasking the GAO to examine the entire SGLI "payout" process as it is currently executed and to assess whether the government

should subsidize the interest that is paid on sums retained in *Alliance Account Services* or whether other options/actions are warranted regarding interest payments.

- b) In your experience, what's the best practice to follow when paying survivor benefits to a family who has just lost a loved one?

Answer. There is no singular best practice per se as every survivor experiences grief differently and often has unique circumstantial demands. TMC strongly supports improving communications with survivors who are eligible for SGLI distributions and providing services which could address the individual needs of survivors. The SGLI program offers professional financial counseling at no cost to the survivor. Unfortunately, the program has not been emphasized in the past and it needs to be stressed as an essential tool in the future. The survivor then could choose the best course of action to meet their needs.

- c) What other options do servicemembers have for life insurance?

Answer. Private insurance coverage similar to SGLI is offered by a number of commercial and private organizations. In some cases, premiums for such coverage may be lower for certain segments, such as non-tobacco users. SGLI is essential to servicemembers because it offers guaranteed-issue coverage, it's "opt-out" implementation protects servicemembers and their families against inadvertent financial risk due to delayed decisions, and because the government subsidizes coverage for the extra hazard of military service.

- d) We've heard that there will soon be three primary options for payments, lump sum, these checkbook accounts, or equal payments over 36 months. Which of these do you think is the best option? If the family does not select one of these options, what should be the default?

Answer. The SGLI payment process today lacks clarity regarding payment options. The claim form SGLV-8283 provides two options: a lump sum payment or 36 equal monthly installments. In either case Prudential notifies the beneficiary of the establishment of an *Alliance Account* containing the SGLI proceeds and issues a checkbook/draft for it. The beneficiary may then "write a check for the entire amount and close the account, or [you] may write checks as [you] need the money."

The option of choosing 36 equal monthly installments starts with the first payment due as of the date of death.

TMC believes beneficiaries have different needs at different points in the grieving process. They need clarity as to the payment options, i.e., lump sum payment, establishment of an *Alliance Account* and the distribution of the proceeds in set amounts over a specified timeframe. Additionally they need to access the financial counseling that the VA offers.

Questions from Senator Grassley

- 1) It sounds like at least part of the problem is the 2% floor required for miscellaneous itemized deductions.

That is, under current law, if a Guard or Reserve Member does not meet the 100-mile minimum to claim the above-the-line deduction, then the Member's only deduction-possibility is to claim a miscellaneous itemized deduction. However, there will be miscellaneous itemized deductions allowed only to the extent such deductions exceed 2% of such Member's Adjusted Gross Income.

More often than not, this will mean that no deduction can be claimed.

Perhaps the problem is that there is the 2% floor. That is, if one were allowed a miscellaneous itemized deduction from the first dollar of such deductions, rather than waiting until one has cleared 2% of one's adjusted gross income (AGI), which might take care of this strange feature of the law.

- a) Have you Captain Hanson given this some thought?

Answer. Respectfully, as a traditional Reservist, I gave thought to this matter every time I filled at my income tax forms. The 2 percent floor is indeed a barrier to Guard and Reserve members from seeking deductions for non-reimbursed expenses when they travel to fulfill their monthly expenses. In addition, Reserve Component members also pay for the costs of uniforms, and some needed equipment to meet military expectations.

- b) Has The Military Coalition taken a position on this?

Answer. Yes. Exempting reservists from the 2 percent restriction on non-reimbursed expenses would help offset these personal expenses. Increasing demands on the Guard and Reserve to perform national security missions at home and abroad has shown that the compensation system is inadequate, and individuals incur many out of pocket costs.

- 2) Under the Uniformed Services Employment and Reemployment Rights Act of 1994 ("USERRA"), all employers throughout the United States must re-employ returning servicemembers in the job that they would have attained had they not been absent for military service, with the same seniority, status, and pay, as well as other rights and benefits determined by seniority. USERRA also mandates that reasonable efforts (such as training or retraining) be made to enable returning servicemembers to refresh or upgrade their skills to help them qualify for reemployment.

I supported and still very much support USERRA.

- a) Have you heard of employers deciding not to employ members of the Reserves or National Guard because of the burden placed by USERRA? Or, whether you have heard of that or not, do you think it likely that happens much at all?

Answer. The member associations of the TMC are hearing more and more about incidents where Reservists and National Guard members are not being hired, or even being fired because they are subject to recall and deployment. Most incidents are subtler, involving pay raises and promotions. Individual associations have voiced concerns that employer fatigue is setting in because of the duration of the conflict and the frequency of call-ups.

- b) Do you think it appropriate that the federal government offer greater relief to offset any potential burdens placed on employers by USERRA? And if so, do you think that greater relief should be through some tax benefit, or through some other provision?

Answer. TMC supports additional incentives to assist employers who support their activated Guard and Reserve employees as reflected in our written testimony. Individual associations have reported to TMC that employers are requesting positive reinforcement as an offset to USERRA, which is viewed as a negative enforcement.

Questions from Senator Schumer

The shortage of affordable housing is an issue at Fort Drum and several other installations as well. Congress helped address this in the 110th Congress by including a provision in the Housing and Economic Recovery Act corrected a flaw in our tax law that prevents military families from access to affordable housing units through the Low Income Housing Tax Credit program.

The Internal Revenue Service denied Fort Drum's request to be added to the basic housing allowance exclusion list because the agency used inaccurate population data provided by the Department of Defense.

I have introduced legislation to address this problem by expanding the provision to include ALL military installations or facilities. I believe this will give military installations like Fort Drum another chance to be placed on the IRS's basic housing allowance exclusion list.

So by making more military families eligible for LIHTC housing developments, it will increase affordable housing options for civilians as well.

Captain Hanson, what's your reaction to this issue? Is this something that the organizations you represent have been hearing about? Do you believe that we need legislation, or do you have suggestions on other ways to address the housing shortage issue around Fort Drum and other installations?

Answer: The Military Coalition does not have a position on the relative desirability of establishing an across-the-board exclusion of the basic allowance for housing from income to qualify for low-income housing. Captain Hanson will be answering this question under a separate cover.

Congress has worked hard to match housing allowance rates with actual locality-based costs. The Coalition believes section 3005 of Public Law 110-289 was intended to help address near-term housing shortages at localities affected by a rapid surge in the military population growth. Our hope is that the housing allowance adjustment process would recognize longer-term housing cost needs. The Coalition is grateful for the multi-year effort to raise housing allowances to cover 100 percent of servicemembers' median housing costs, by grade and location.

A chief reason that housing allowances fall short is that rates are based on standards that assume only senior enlisted members and midgrade and senior officers should live in single-family housing, with most enlisted members and junior officers living in apartments or townhouses. Yet in an all-volunteer force, many junior members join already having families.

Questions from Senator Bill Nelson

- 1) I am deeply concerned that this period of economic weakness and high unemployment is having especially severe consequences for veterans, Reservists, and Guardsmen. Tax incentives to encourage the hiring of veterans or the continued compensation of activated Reservists are only useful if employers know they are out there and available. From the testimony presented, it appears that employer lack of awareness is a major problem that is hurting the effectiveness of the tax credits. Please provide your views on the most effective and efficient ways that we can publicize and get the word out that these tax incentives are available.

Answer. The administration is already working on a hire the vet campaign. A collaboration between federal agencies, military and veteran service organizations (such as those in TMC) and the business community can heighten awareness of incentives through articles in industry and association publications, public service announcements, and even social networking. Within TMC there are several military and veteran associations that have experience that could be shared in developing such a campaign.

Additionally, the U.S. Chamber of Commerce and the Office of the Assistant Secretary of Defense for Reserve Affairs could work together to help get the word out. Further, the Committee could send a letter to the Secretary of Defense requesting attention and comment on these ideas.

Questions from Senator Ensign

Nevada has some of the highest levels of unemployment and house foreclosures in the nation. Many people owe more on their mortgages than they have equity in the house. This means they are locked into keeping their homes even though they may want to move.

- 1) To what extent have military personnel been caught in this problem given they may be required to transfer and thus forced to sell their homes at the bottom of the market?

Answer. Armed Forces personnel and families are relocated more frequently than the national average as they are transferred to new bases under permanent change of station orders every two to three years. Such moves are forcing members to sell homes at much lower prices than they were bought at, which is creating financial hardships, and creating credit complications. If unable to sell a property, armed forces personnel might have difficulties affording two houses, even if one is just a rental, and if forced into foreclosure, financial insolvency might affect their security clearances. The military is trying to take into account financial problems when an armed forces member is unable to sell a property because they are ordered to relocate, but for the more junior enlisted and officers a house foreclosure could cause a cascade of financial failure.

- 2) There is a military program to assist people, but has that been enough? What do you suggest?

Answer. The 2009 American Recovery and Reinvestment Act temporarily expanded DoD's Homeowners Assistance Program (HAP) to assist armed forces members who would suffer financial losses due to the decline the real estate market expanded the eligibility temporarily to military members who were doing permanent change of station as well as wounded warriors, and survivors and must sell their primary residence. The HAP authorizes the government to reimburse the homeowner for a loss on the sale up to 95% of the original value, or to purchase the home for up to 90% of the original value. Limitations were placed on it:

a) It was extended only to certain military homeowners who bought homes before July 1, 2006 and who sell the homes before Sept. 30, 2012, and,

b) HAP funding falls woefully short of covering the needs of all service members, wounded warriors, and survivors affected by the mortgage crisis,

c) DoD has included only \$16.5M in the MILCON bill (HR 5822/S 3615) vice the \$323M that was appropriated for 2010.

H.R.6272 was introduced by Rep. Gabrielle Giffords (Az.) to remove the Secretary of Defense's discretion to end the program prior to Sept 30, 2012, but it appears that the Pentagon doesn't plan to fund the program.

Given the popularity of the program, the higher than anticipated level of submitted claims, and the ongoing weak real estate market, TMC is concerned about the adequacy and duration of funding as it appears by its funding request that the Pentagon does not plan to continue the program into Fiscal Year 2011. Serving members and their families will continue to receive orders, and they should not be expected to sustain losses to fulfill their duties. An alternative would be to develop some type of tax adjustment.

Senate Finance Committee**Effects of Tax and Fiscal Policy on the Military Community****Testimony of SSG Michael Noyce Merino**

Senators, Elected Representatives of the People and of our Great States, I am honored to have the opportunity to testify before you as a member of the military community. I will be testifying today based on my experience and my honest opinion, and will be representing the interests of my population with accuracy and in good faith.

I entered military service when I was 19 years old, in the summer of 2001. I joined out of a desire to serve my country and as a test of my own strength. When I joined the Active Duty Army, I had no knowledge of what challenges faced me or what Army culture was all about. I quickly learned, as my childish habits gave way to a military mindset. In the middle of my basic training, our nation was attacked on September 11. From then on, my training took on a new meaning as I prepared to be deployed to war. I enlisted as an Infantryman, a grunt, a ground-pounder. I learned the vital importance of teamwork and loyalty on the front line of battle. After I graduated Infantry training, I learned how to jump out of perfectly good airplanes and was assigned to the 82d Airborne Division. Five months after arriving at my unit, I was deployed to Afghanistan, where I served in combat for six months. I redeployed to the States and six months later was deployed to Iraq, this time for eight months. When I returned, I reenlisted and moved to be closer to my soon-to-be wife, Shelli. I was stationed at Fort Hood, Texas, as a member of the 4th Infantry Division, where I helped prepare a newly formed unit for deployment to Iraq. I deployed again in the winter of 2005, serving in Baghdad for 12 months.

Throughout my deployments, I witnessed all the facets of war, the camaraderie of brothers in arms, the isolation from family and familiar things, and the dangers and the losses of armed conflict. I gained a much greater perspective of the world and an enormous appreciation for my homeland. When I returned I saw the stresses deployment put on Soldiers and families, Soldiers survived injury and near death to face divorce and financial turmoil on their return, only to prepare to redeploy in a very short time. My wife and I spent our entire second year of marriage separated during deployment. Soldiers who had previously planned to make the military a career now were faced with a seemingly endless cycle of deployments which neither they nor their families felt would be a productive part of their lives. That was the case with my wife and I, we were faced with the possibility of stop-loss and the involuntary extension of my term of service by two years past the end of my enlistment. While my love of the Army and my desire to serve my country was still strong, my love for my wife and desire to have a family became my priority. I left Active Duty in August of 2007, six years after enlisting.

My decision to leave Active Duty was very difficult for me and I was full of conflicting emotions. I began to look for a way to continue to serve and be a part of the military, while still being able to build my family. The National Guard caught my attention, since the deployment tempo was much lower than that of Active Duty, and I would be able to live at home in Montana. I searched for a unit that was compatible with my Military Occupational Specialty (MOS), my job of Infantryman that I had trained in and practiced in combat. The only unit that I was able to find was 150 miles from my home, one way. I decided that being in the Guard was what I wanted and that I would be willing to drive the distance. I found my Guard unit to be professional and dedicated to the mission, contrary to stereotypes that circulated regarding National Guard Soldiers. I found a home in my unit, feeling that I had discovered the best of both worlds, with the ability to serve my state and country with the skills I had gained on Active Duty, and at the end of the duty period still have the ability to go home to my wife and my family ranch. I have been a proud member of the National Guard since, and I hope to continue my military career and retire as a Guardsman.

While I enjoy serving in the Guard, my service has not come without sacrifice, and not just my own. In the three years I have been in the Montana Guard so far, I have spent several months on some sort of orders, leaving the ranch in my sister's hands, my employer searching for a temporary replacement, and my wife to manage our lives without me. Even as I prepare this testimony, I am working late into the night, far from home, supporting my fellow Guardsmen who are mobilizing to spend a year away from their families. As volunteers, we are prepared to sacrifice, but it is often our families, employers, and communities that must sacrifice to fill the void we leave behind. My sister believed that I would come home from the Army and help her run the family ranch and the 200 plus cattle we have at any one time, each season with its own major task, whether it be calving, haying, moving the cattle, or maintaining the equipment. She has often had to replace me with a hired worker or do extra work herself as I left on military duty. She looks forward to the day I can retire from the military and become a reliable support to the family business. My wife has had to spend months away from me at a time as I left on short notice and for increasingly longer periods of time. My employer, UPS, who I cannot say enough good things about, had to hire a manager to replace me or rely on my peers to fill the times I had to be gone. As units around the state geared up to be deployed, extra work was given to non-deploying units to support the main effort. Every part of my support system; my sister, my wife, and my employer had to sacrifice so that I could do my job. That is part of what makes the Guard great, it is not just the Guardsman who serves, but the family and community as well, most often with the same dedication as the Guardsman himself.

As I look forward to the rest of my career in the Guard, I see some limiting factors. Perhaps the most significant is that I will likely retire at the same rank or only one rank higher than I am now. The reason for this is that the job opportunities in the Montana Guard become rare in my area at higher ranks and I would have to travel great distances or leave my homestead if I wanted to take a position with a higher rank. When faced with the decision of promotion with increased

travel, I choose to stay a lower rank so that I can stay close to my family. The travel involved with promotion would cause me hardship in the long run. I will gladly serve the rest of my career at whatever rank allows me to honor my dedication to the Guard and to my family at the same time. I have learned that the National Guard is much more family oriented than Active Duty, and my Guard leadership has shown me that the family is considered an important part of the Guardsman. For that reason, my family supports my continued involvement in the Guard, and my wife Shelli is even in the process of applying for a medical waiver so that she can join me in service.

I would like to thank you all for your support of the military over the last several years. I have seen our equipment improve greatly from the start of the war to the present, and the financial support you all have provided has increased our survivability many times. In more recent times, we Guardsmen have directly benefitted from this committee's actions to lower the cost of Tricare. I want to place great emphasis on this point, because currently Tricare Reserve Select is affordable to the lowest ranking enlisted Guardsmen with families, which hasn't always been the case. Many, many thanks for protecting this benefit to serving Citizen-Soldiers, and it is my sincere hope that this committee is successful in keeping this healthcare affordable to all reservists in the future. Speaking from experience, I can tell you that Tricare is so important to Guardsmen and their families that it is sometimes the very reason that we are able to retain our Soldiers. It is easy to be pessimistic about politicians that work far away, but it is very hard to deny results at the lowest level which benefit the most vulnerable members of the military community. Thank you for your support.

As a spokesperson for the National Guard Community, I intend to testify today about some of the hardships Guardsmen face as they volunteer to serve. I will demonstrate how current tax and fiscal policies create the possibility of a Guardsman in my state and in many other geographically large states having to pay money to serve in the Guard. I will propose two ideas, one which will be the best benefit to the average Guardsman, and one which will be the next best thing. In either case, I will urgently ask this committee to take action on an issue that affects every Guardsman I know and has become the reason many good Soldiers have chosen to end their careers with the Guard. I appreciate your attention and thank you for your consideration of the issues affecting our volunteer force.

Since the terrorist attack in 2001, the National Guard has been increasingly called upon to serve overseas as an operational reserve of the Army as the burden of carrying out our country's missions overseas has become far too much for the Active Army to bear alone. All over the country, volunteers have filled the ranks of Guard units, ready, willing, and able to serve in whatever way our country asks. My home state of Montana is a great example of this type of service, as we boast exceptionally high rates of military service and a large population of veterans. Montanans are very proud of their military men and women, and our history is full of military accomplishments and exemplary acts of service.

The idea of the Guard has changed, no longer “Weekend Warriors” or substandard members of the military, the National Guard of today is a ready force, fully equipped and prepared to deploy. Our support of the active military is crucial, and we get the same work done for a fraction of the price. For veterans of Active Duty like me, the Guard provides an opportunity to re-enter civilian life while still contributing from our experience and retaining quality personnel that would otherwise be lost. The National Guard has emerged as the right answer in so many ways. The Guard grows and becomes more and more utilized as it is proven effective time and time again. As with any enterprise, the organization has had growing pains and has had to change to meet the needs of its members. Fortunately, the Guard has been dynamic enough and has had the right kind of support to adapt to every challenge it has been faced with so far. I wholeheartedly believe that time will continue to show how useful and important the National Guard is, and that it is a resource worth cultivating and protecting. The Guard faces one more challenge that affects its most vulnerable members, who are also the ones with the greatest potential. I believe that it is appropriate that it is a Montana Guardsman that is testifying before you today, because Montana is especially affected by the issue of Guard drill travel and the hardship it places on lower enlisted Guardsmen.

When I joined the Guard, the distance I had to travel to attend drill was almost enough to keep me from joining, which would have ended my military career right there. I had been away from home for six years and now that I had an opportunity I wasn't going to live anywhere else but my family ranch. I chose to travel 300 miles round trip to attend drill once a month, with no reimbursement for my travel. My example is not the exception, nor is the distance I traveled much above average. Because of the vast geographical size of my state, we Montanans rarely refer to distance in miles. Instead, we use hours. “How far away is Missoula from where you live?” the response might be, “Oh, its two and a half hours away.” I know Guardsmen who travel three and four hours from home to drill. That equates to over 200 miles one way, on the Guardsman's dime. A great example is my wife, once she is successful in joining the Guard; she will drill in Billings, MT, over four hours from our home. These distances are equivalent to living in Boston and drilling in New York City.

You might ask why Guardsmen don't drill at the armory nearest them, like the armory in Butte, MT, half an hour north, or the Dillon armory, half an hour south of my ranch. The reason is that Guardsmen, like Active Duty Soldiers, train in a specific job, called their MOS. There are specific skills that must be learned for each job, and as in my case, if a Soldier has served on Active Duty in a specific job, the only available position for him or her might be on the other side of the state. It is possible for a Guardsman to change his job, but sometimes it means losing rank or learning a skill that a Guardsman has no interest in. Using myself as an example again, if my choices on leaving Active Duty had been to reclassify and lose rank or not joining the Guard, I would have become a civilian. Since there are limited positions at each armory, the only way a Guardsman can progress in his or her career sometimes means taking a promotion and moving to an armory even further away. Many Guardsmen come from rural areas, family ranches like

mine, hometowns miles away from major cities, and communities that are not large enough to support armories. For these volunteers to serve at all, even if they elect to learn the skills of the unit nearest them, requires them to drive a considerable distance.

The Guardsmen who are the most affected by the costs of travelling to drill are the lower enlisted, those who have recently joined the Guard and could be anywhere from 17 to 25 years old, have a high school level education, and meager financial means to accompany their desire to serve in the Guard. Young Guardsmen like these often struggle to pay for reliable transportation and failing to attend drill even with an excuse of poor transportation is the first step in a downward spiral which can end a Guard career. Sometimes Guard leaders will drive extra miles far out of their way, at their own expense, to support a young Guardsman by driving him to drill. While this gets the job done, it is an additional burden on the leader for whom there is no reward but a pat on the back. The absolutely hardest hit group is the lower enlisted Guardsman with a family who elects to pay for Tricare. Because the average drill pay for such a Soldier is barely over \$200, and the premium for TRS for the same Soldier is \$197.56, the drill pay serves to pay for the healthcare the Guardsman receives as a benefit for serving. If this volunteer drives anymore than a few miles to drill it actually costs him or her money to attend training. I personally feel that no Guardsman should have to pay money to serve his country, and that the healthcare he earns by serving should not prevent him from being compensated for the costs of attending training. Fortunately, this worst case scenario changes as the Guardsman is promoted and he is able to break even: service for healthcare. If the Guardsman is able to maintain service at a cost for long enough, he will, in a couple of years, be promoted to the point where he makes money for working during the weekend. Unfortunately, many Guardsmen do not last long enough to overcome the financial situation we put them in by asking them to drive long distances to drill without reimbursing them for their costs. They become discouraged and end their military career before it has even truly begun and we lose a volunteer and a potentially great Guardsman. I would like to propose two ideas which might solve this problem for good and protect our greatest resource in the military-the Servicemember.

I said earlier that I would present two ideas of how to reimburse Guardsmen for their travel to drill. The first idea is the best for the Guardsman, but it may not be immediately feasible. The second idea is one that this committee has the power to enact and would go a long way towards correcting the hardship we are placing on our volunteers. Because the lower enlisted Guardsman is often financially challenged, the absolute best way to compensate him or her for their travel would be to allow that Soldier to fill out a travel voucher and receive compensation for travel costs before the next drill date. That would ensure that there are enough resources, readily available, for the Guardsman to travel back and forth to drill. The compensation would not have to be excessive; even half the standard mileage rate would be enough to support driving to drill. There could be cutoff ranks, if necessary, to keep costs down. There could be a cap on how much a Guardsman receives for travel, regardless of how far they live from their drill location. What would do the most good is being able to offer lower enlisted Guardsmen something to keep

drill travel from becoming a financial hardship, as it is now for many of our volunteers. Ideally, any expense a Guardsman incurs from serving state and nation would be reimbursed in a timely manner. I can tell you that if I had received as little as twenty five cents a mile for the 300 miles I had to drive roundtrip for drill when I first entered the Guard, I would have felt justly compensated. This is the best solution I have seen for the current situation and perhaps one that will reach the right people so that it can someday become part of the way we take care of our Guardsmen.

In the absence of a perfect solution, I feel that there is still a way we can reimburse Guardsmen for the costs of serving and that is through the tax process. Currently, if a reservist travels 100 miles from home to attend training; his or her travel costs can be deducted from their income to change their adjusted gross income. The standard rate is 55 cents a mile, which means that for travel alone, a round trip of 200 miles would earn a deduction of \$110. I think this is a great way to reimburse reservists for their travel costs, and I credit this committee for the existence of that option. Unfortunately, there is a situation where reservists can be unfairly neglected for this reimbursement. For example, if a Guardsman travels just over 90 miles one way, his roundtrip to drill may be worth about \$100, using the standard mileage rate. Since the one way distance is less than 100 miles, the deduction no longer qualifies to affect adjusted gross income and must be counted as an itemized deduction. If this same Guardsman travels to drill 12 times in a year, the total standard mileage value of his travel would be \$1,200. Because of the 2% miscellaneous item deduction, this Guardsman would have to have an adjusted gross income of over \$60,000, which is far from average for lower enlisted Guardsmen. The end result is that the combination of the 100 mile minimum and the 2% miscellaneous item deduction limit penalizes reservists who live far from their drilling location and who have low income. **The rule creates hardship for those least able to compensate for it.** To correct this uneven burden, the 100 mile minimum could be eliminated, allowing all reservists who travel to be reimbursed for their mileage costs at tax time. This would protect the most financially vulnerable reservists and allow them to recover the costs of traveling to drill. It would go a long way towards sending a message to our volunteers that their service is appreciated and their sacrifices do not go unnoticed.

I hope that my testimony today was informative and helpful. I would like to again thank the committee for their time and continue to offer my limited experience as an example of some of the factors that affect military members. I sincerely hope that action can be taken on the issue of drill travel, which affects all reservists in geographically large states and in Montana especially. I know that the leaders in this room carry the burden of the interests of many groups of people and are constantly challenged to find the best answers for the greatest number. I would ask that you remember the Servicemember carries the same burden, and volunteers to risk his and her life to that end. This concludes my testimony, pending your questions.

Senate Finance Committee Hearing
“Tax and Fiscal Policy: Effects on The Military and Veterans Community”
September 22, 2010
Responses to Questions for Staff Sergeant Michael Noyce Merino

Question from Senator Bill Nelson

- 1) I am deeply concerned that this period of economic weakness and high unemployment is having especially severe consequences for veterans, Reservists, and Guardsmen. Tax incentives to encourage the hiring of veterans or the continued compensation of activated Reservists are only useful if employers know they are out there and available. From the testimony presented, it appears that employer lack of awareness is a major problem that is hurting the effectiveness of the tax credits. Please provide your views on the most effective and efficient ways that we can publicize and get the word out that these tax incentives are available.

Response to Senator Nelson

Senator Nelson,

There is a serious lack of awareness on both the side of the servicemember and the employer as to what benefits are available. I stated in my oral testimony that there must be a method of “pushing” information down to the lowest level. I researched the issue some more after my testimony and found what may be at least a partial answer. There is an organization, ESGR (Employer Support of the Guard and Reserve) which is currently tasked with informing both servicemembers and employers about USERRA. Most of the work that they do is to ensure servicemembers’ jobs are fully protected according to their rights under this law. While they do show their appreciation for the employers’ support, they generally do not offer the employer any tangible benefit. I spoke with the Public Affairs Officer for the national ESGR office and asked if she would be willing to create informational packets which could be used in each state to inform employers of the tax incentives for hiring servicemembers. Major Hance told me that she and ESGR would be more than pleased to communicate benefits to employers in any way they could, but that she was not currently aware of any such benefits. I would like to offer her information, with her permission, to the Committee, as a primary source of information distribution to both the employers and the servicemembers who would benefit from tax incentives to employers. MAJ Hance can be reached through the following means:

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<http://www.esgr.mil>

I believe that with some development, this could become an effective way of communicating benefits to employers. I still feel that more must be done to get information to servicemembers. There are numerous agencies, programs, and opportunities for veterans and reservists, but the awareness of available benefits is incredibly low among servicemembers. There are more and more "one-stop shops" like MilitaryOneSource, which can provide assistance in nearly every area of servicemember support, and can provide information on any program they do not cover. Unfortunately, many servicemembers have never even heard of this resource. I will continue to request from and recommend to all parties involved that a financial literacy/benefit education program be established which can reach every veteran, reservist, family member, and employer at least once a year to provide information and answer questions face to face. We almost have to advertise the benefits available to servicemembers in order to reach those who need it most. Thank you so much for your time and your concern for the military community.

Questions from Senator Ensign

Nevada has some of the highest levels of unemployment and house foreclosures in the nation. Many people owe more on their mortgages than they have equity in the house. This means they are locked into keeping their homes even though they may want to move.

- 1) To what extent have military personnel been caught in this problem given they may be required to transfer and thus forced to sell their homes at the bottom of the market?
- 2) There is a military program to assist people, but has that been enough? What do you suggest?

Responses for Senator Ensign

Senator Ensign,

The problem of devalued property affects active duty servicemembers more than any other military group. The reason for this is that active duty military are often ordered to transfer to other states every few years. That was my experience while I served in the active duty Army. I have seen Soldiers invest into a house near post, counting on either being able to stay in a particular location or to be able to sell their house without a loss if they were required to move. I can only imagine what active duty servicemembers are facing, in terms of loss of value in their homes as they are required to transfer and either sell or lose their home. Unfortunately, I believe that many servicemembers are losing their homes and their investments as they continue to serve. I personally experienced this problem, when I was stationed at Fort Hood, in Texas. I purchased a four-plex with the intent of living in one unit and renting out the others. Since I left active duty, the property has lost nearly half of its value and I am unable to sell it without incurring a loss. Since I am serving with the Montana National Guard, I cannot manage the property and have to pay someone to manage the building for me, as an alternative to selling it at a loss. The result is often a net loss each month. The National Guard and Reserve are not as affected by transfer as the active duty, since reservists have much more influence over their location and many more options than their active counterparts. They still feel the burden of the low housing market however, especially as they are called to deploy. As far as the programs that exist to help servicemembers retain the value they have built in their homes, I only know of a few, limited programs. The only possible answer I can think of to try to mitigate the damage that is being done is to revisit the VA home loan program and to try to adapt it to the current economy. Some options might be lessened or deferred payments to allow servicemembers to keep their homes as they serve. Payment flexibility would go a very long way towards supporting these men and women. I thank you and the entire Committee for your work in supporting us.

COMMUNICATION

Statement for the Record:

Reserve Officers Association of the United States

and

Reserve Enlisted Association of the United States

before the

Senate Committee on Finance

Tax and Fiscal Policy: Effects on the Military and Veterans Community

SD-215 Dirksen – Sept. 22, 2010



"Serving Citizen Warriors through Advocacy and Education since 1922."™



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The Reserve Officers Association of the United States (ROA) is a professional association of commissioned and warrant officers of our nation's seven uniformed services, and their spouses. ROA was founded in 1922 during the drawdown years following the end of World War I. It was formed as a permanent institution dedicated to National Defense, with a goal to teach America about the dangers of unpreparedness. When chartered by Congress in 1950, the act established the objective of ROA to: "...support and promote the development and execution of a military policy for the United States that will provide adequate National Security."

The Association's 65,000 members include Reserve and Guard Soldiers, Sailors, Marines, Airmen, and Coast Guardsmen who frequently serve on Active Duty to meet critical needs of the uniformed services and their families. ROA's membership also includes officers from the U.S. Public Health Service and the National Oceanic and Atmospheric Administration who often are first responders during national disasters and help prepare for homeland security.

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The Reserve Enlisted Association is an advocate for the enlisted men and women of the United States Military Reserve Components in support of National Security and Homeland Defense, with emphasis on the readiness, training, and quality of life issues affecting their welfare and that of their families and survivors. REA is the only Joint Reserve association representing enlisted reservists – all ranks from all five branches of the military.

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DISCLOSURE OF FEDERAL GRANTS OR CONTRACTS

The Reserve Officers and Reserve Enlisted Associations are member-supported organizations. Neither ROA nor REA have received grants, sub-grants, contracts, or subcontracts from the federal government in the past three years. All other activities and services of the associations are accomplished free of any direct federal funding.

Introduction

Mr. Chairman and distinguished members of the Senate Finance Committee, on behalf of 1.1 million Reserve Component members, the Reserve Officers Association (ROA) of the United States and the Reserve Enlisted Association (REA) of the United States expresses our appreciation for the opportunity to submit testimony about improvements to tax goals regarding the Reserve Components.

As contingency operations have brought about increased mobilizations and deployments, many outstanding citizen Soldiers, Sailors, Airmen, Marines, and Coast Guardsmen have put their lives, specifically their civilian careers, on hold while they serve their country in harm's way. Since September 11, 2001, more than 750,000 Reserve and Guard service members have been mobilized, with nearly one-third of those having been deployed more than twice.

The Reserve Components are being dramatically affected by their repeat deployments which are aggravated by the National economic and jobless problems. As these service members return home from serving their country they are encountering joblessness at an ever increasing rate, some because employers can't afford to retain them or employers go out of business, as well as for other reasons.

ROA's 2010 Legislative Goals

- Reset the whole force to include fully funding equipment and training for the National Guard and Reserves.
- Assure that the Reserve and National Guard continue in a key national defense role, both at home and abroad.
- Provide adequate resources and authorities to support the current recruiting and retention requirements of the Reserves and National Guard.
- Support warriors, families and survivors.

ROA's 2010 Legislative Tax Goals

Employer Support:

- Continue to enact tax credits for health care and differential pay expenses for deployed Reserve Component employees.
- Provide tax credits to offset costs for temporary replacements of deployed Reserve Component employees.
- Support tax credits to employers who hire servicemembers who served in the Global War on Terrorism.

Employee Support:

- Permit delays or exemptions while mobilized of regularly scheduled mandatory continuing education and licensing/certification/promotion exams.
- Continue to support a law center dedicated to USERRA/SCRA problems of deployed Active and Reserve servicemembers.

What Could Be Done for Employers

Some observers believe the burden for employing Reserve Component (RC) members have unduly swung onto the employer and business community. Though we may be a nation at war, an enormous burden falls on the RC members, their families, and their employers. It is important that the realities of a 21st century National Guard and Reserve, does not have a negative impact on employers of RC members.

In order to distribute the burden equitably incentives would serve to mitigate the load and encourage businesses to hire and retain Reservists. For example, different types of tax credits could be enacted, such as a credit at the beginning of a period of mobilization or perhaps even a direct subsidy for costs related to a mobilization such as the hiring and training of new employees.

Though, it is important to note that employers felt strongly, particularly for small businesses, that incentives arriving at the end of the tax year do not mitigate the costs incurred during the deployment period, according to an ROA Defense Education Forum study, "A New Employer-Reservist Compact: Initiatives for the Future."

Conclusion

With the duration of deployments there is anecdotal evidence that suggests an increasing number of employers are less enthusiastic about hiring Reservists. Employers point to problems associated with the lack of notice and unpredictability of when their employees may be mobilized, when they will return and subsequently, the financial impact on their business. While some progress has been made with initiatives undertaken, further steps should be taken to minimize these hardships and to enhance Employer/RC relations.

Furthermore, it is essential to ensure that the All Volunteer Force continues to be successful and durable, specifically for the Reserve Components, which are the linchpin. We owe not only the Reserve Component members, but also their employers a debt of gratitude and tangible assurances that they are valued.

The Reserve Officers Association and the Reserve Enlisted Association, again, would like to thank the committee for the opportunity to present our testimony. We are looking forward to working with you, and supporting your efforts in any way that we can.

