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BY THE U.S. GENERAL ACCOUNTING OFFICE

Report To The Secretary Of Defense

Military Overseas Housing Allowances Should Be More Realistic

Station housing allowances paid to military members overseas to reimburse them for excess housing costs often exceed the extra costs that members incur. The Department of Defense should set the allowances at amounts by which overseas housing costs exceed costs in the United States. Various indicators of domestic housing costs are available which, if used, would result in savings that could be used to remedy other inequities between junior and senior personnel who receive the allowances.



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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

FEDERAL PERSONNEL AND
COMPENSATION DIVISION

B-196937

The Honorable Harold Brown
The Secretary of Defense

Dear Mr. Secretary:

This report summarizes the results of our review of military station housing allowances overseas. We have discussed our findings and recommendations with officials of your office and of the military services.

Our recommendations to you are set forth on page 16. As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Chairmen, House and Senate Committees on Appropriations and Armed Services, and the Chairmen, House Committee on Government Operations and the Senate Committee on Governmental Affairs.

Sincerely yours,

A handwritten signature in cursive script that reads "H. L. Krieger".

H. L. Krieger
Director

D I G E S T

Military members residing in private housing overseas can be reimbursed in addition to receiving normal quarters allowance for excess housing costs. These payments, known as station housing allowances, were about \$200 million in fiscal year 1979 and have risen 500 percent in 9 years and 70 percent in the last year alone. (See p. 1.)

GAO recommends that the method of calculating station housing allowances be changed so that the allowances more accurately represent the difference between housing costs in the continental United States and overseas. The Department of Defense should also revise procedures for determining the amount of each person's allowance.

In 1970 the Congress amended the authorizing legislation to permit the allowance to be set at the difference between basic allowance for quarters (BAQ) and overseas housing costs. The following year the Congress also set BAQ at amounts that could be reasonably related to housing costs in the United States.

Although annual pay increases to overall military compensation (basic pay and allowances since that time) have been generally comparable to private sector increases, the portion of the increases allocated to BAQ has not kept pace with rising housing costs in the United States or overseas.

Studies show that military personnel in the United States pay as much for private housing as others with comparable incomes and that those costs are much higher than BAQ. As a result of not allocating more of the increases to BAQ, it is not now a reasonable standard for determining excess housing costs overseas. (See p. 4.)

Military members' housing costs are sometimes lower overseas than in the continental United States. At 92 overseas locations where station housing allowances were paid, average housing costs for about half of the officers and a fourth of the enlisted personnel were less than what their peers were paying in the United States.

Allowances should be based on the difference between domestic and overseas costs just as associated cost-of-living allowances for extra costs other than housing are computed. There are several available sources of information on housing costs in the United States which could be used as a reasonable basis for computing the extra costs of overseas housing. These include data from the Federal Housing Administration; the Bureau of Labor Statistics, Department of Labor; the Bureau of the Census, Department of Commerce; the Department of Defense; and private organizations. (See p. 7.)

Station housing allowances are further distorted because they are more directly related to the rank of an individual rather than what that person actually pays for housing. As a result, senior officers and senior enlisted personnel tend to receive more than what they spend for housing and junior personnel tend to receive less. In addition, overseas costs under the system are determined through a massive questionnaire system that is prone to reporting and mathematical errors.

To solve the equity issue between junior and senior personnel and to remedy the questionnaire problems, the Department of Defense is considering an improved method for setting and paying station housing allowances. One key feature under consideration is that members' station housing allowances would be based on actual housing costs rather than rank.

Use of housing costs in the United States to set station housing allowances will substantially reduce the allowances--from \$50 million to nearly \$150 million a year, depending on the standard used. Payment of more housing costs above the new standard, particularly for junior personnel, would offset this reduction and would mitigate decreases experienced by individual members. (See p. 11.)

GAO believes the Department proposal could result in important improvements to the system and should be adopted. At the same time the standard for determining station housing allowances should be replaced with one that is representative of housing costs in the continental United States. (See p. 16.)

Department officials do not agree that station housing allowances should be reduced because they help offset inequities (limited opportunities to have second jobs or own homes) that members could experience overseas. GAO believes that these factors are not intended to be covered by overseas allowances or would be experienced by relatively few personnel.

Department officials also felt that military compensation had fallen below compensation in the civilian sector, and, therefore, allowances should be increased rather than reduced. The military compensation system has no standard for judging whether military members are overpaid or underpaid, and, as a result, there is no consensus that military pay is below private sector pay. Other Department officials have reported to the Congress that military compensation is substantially comparable. In either case, station housing allowances are intended to be reimbursements of expenses and should not be confused with regular military compensation. (See p. 17.)

C o n t e n t s

		<u>Page</u>
DIGEST		i
CHAPTER		
1	INTRODUCTION	1
	Authority for station housing allowances and method of computation	1
	Scope of review	3
2	BAQ IS AN UNREALISTIC STANDARD FOR DETERMINING EXCESS HOUSING COSTS	4
	BAQ--a poor indicator of housing costs	4
	Inequities from using BAQ to measure excess costs	5
	Computation of station housing allowance should be similar to cost-of-living allowance	6
3	MORE ACCURATE STANDARDS FOR MEASURING EXCESS COSTS ARE AVAILABLE	7
	FHA data	7
	Bureau of Labor Statistics data	7
	Defense housing survey data	8
	Maximum allowable housing cost	8
	Bureau of the Census data	8
	Private sources	8
	Comparison of BAQ with the various standards	9
4	ADMINISTRATIVE PROBLEMS	11
	Senior personnel benefit most	11
	Errors and unverified costs	12
	Rent plus--an alternative method	14

CHAPTER

5	CONCLUSIONS, RECOMMENDATIONS, AND AGENCY COMMENTS	16
	Conclusions	16
	Recommendations	16
	Agency comments	17

APPENDIX

I	Comparison of basic allowance for quarters with U.S. housing cost indicators--monthly dollars (1978)	19
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ABBREVIATIONS

BAQ	basic allowance for quarters
BLS	Bureau of Labor Statistics
DOD	Department of Defense
FHA	Federal Housing Administration
MAHC	maximum allowable housing cost

CHAPTER 1

INTRODUCTION

As part of their regular compensation, military personnel are provided with Government living quarters or a non-taxable cash allowance to obtain private housing. The allowance, called basic allowance for quarters (BAQ), varies according to rank and whether the member has dependents, but it does not vary by geographic location. BAQ for members with dependents varies by rank from \$161 to \$479 a month. Outside the conterminous 48 States, an additional housing allowance may be paid to cover increased housing costs encountered overseas. This is known as a station housing allowance and it varies according to the cost of private housing in each locality and also by rank and dependency status.

AUTHORITY FOR STATION HOUSING ALLOWANCES AND METHOD OF COMPUTATION

~~Section 405 of title 37, United States Code,~~ authorizes payment for excess housing and other living costs overseas. It states that the station housing allowance in an overseas area may consist of the difference between BAQ and housing costs in the area. Since 1959 the Department of Defense has set the allowances at the difference between BAQ and overseas housing costs, but this method was not authorized in the legislation until 1970. At that time the law was amended to satisfy our objection that the Department's method of calculating the allowance did not fulfill the purpose of the statute, which was to authorize payment for excess housing and other living costs overseas. BAQ did not, in our view, represent the cost of housing in the United States and, therefore, should not have been used to measure excess costs overseas.

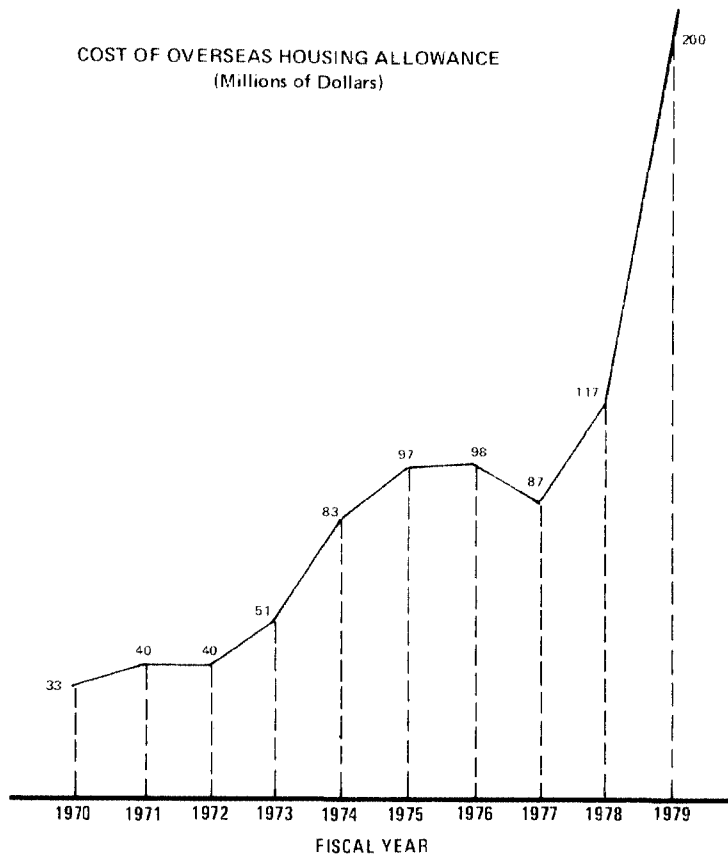
The Congress therefore amended section 405 (~~by Public Law 91-486~~) to sanction the Department's computation method. Reasons given were that (1) this method had been in use for 11 years and was well understood, (2) BAQ approximated at least some U.S. housing costs, and (3) any savings that a change would offer the Government would be offset by the effect on morale of reducing service members' take-home pay.

The station housing allowance for each area is determined by surveying military members living there in private housing. All such personnel fill out a detailed questionnaire showing their actual housing costs. The forms, by

geographic location, are submitted to and reviewed by the Department's Per Diem, Travel, and Transportation Allowance Committee, Alexandria, Virginia. This Committee computes the station housing allowance for the area.

The computation is made by first determining the average housing cost for all members in private housing in the area. This average is then divided by the average BAQ received by the same members. The resulting index determines what the allowance will be; for example, if housing costs are 125 percent of BAQ, the station housing allowance for members will be 25 percent of BAQ. Thus the station housing allowance is designed so that a member who has average housing expenses will have these expenses fully covered by BAQ and the station allowance. Indexes are computed for enlisted members and officers separately and for all personnel combined. The separate or combined indexes are adopted at the discretion of the Allowance Committee. Surveys are taken at least annually and more often if warranted by rapidly changing housing costs.

In fiscal year 1979 about 106,000 military personnel received an estimated \$200 million in station housing allowances. Costs have increased 500 percent since 1970 and 70 percent last year as shown in the following graph.



SCOPE OF REVIEW

The large increased costs since Public Law 91-486 was passed in 1970 have led us to again examine station housing allowances. We

- reviewed the legislative history and regulations pertaining to station housing allowances,
- determined how BAQ rates have been affected by adjustments to military compensation since 1971,
- identified and compared several indicators of housing costs in the United States with BAQ,
- reviewed the detailed Allowance Committee's calculation of station housing allowances,
- evaluated a Committee proposal to revise station housing allowances, and
- discussed these matters with knowledgeable Department officials.

CHAPTER 2

BAQ IS AN UNREALISTIC STANDARD FOR DETERMINING EXCESS HOUSING COSTS

Several factors have contributed to the large increase in station housing allowances. Rising housing costs overseas and declines in the value of the dollar against foreign currencies are a major cause. In addition, although annual pay increases to overall military compensation are generally comparable with private sector increases, the portion of the increases allocated to BAQ has not kept pace with rising housing costs in the United States or overseas. Using BAQ to set station housing allowances overstates the extra cost associated with living abroad and is also inconsistent with the method for setting cost-of-living allowances.

BAQ--A POOR INDICATOR OF HOUSING COSTS

A variety of policies and approaches were used to set BAQ over the years. In 1949 rates were established to approximate amounts at which 75 percent of civilians in comparable income groups could expect to find housing. In 1952 these rates were adjusted to show changes in the cost of living, and in 1963 they were raised to the median of housing expenses for comparable income groups receiving Federal Housing Administration (FHA)-insured mortgages.

A major change in the pay adjustment mechanism was made in 1967 whereby military pay was to be adjusted each time Federal civilian pay increased. But all increases were required to be applied to basic pay with no adjustment to BAQ from 1967 through 1973. To remedy the lagging BAQ and as part of the all-volunteer force legislation, the Congress in 1971 authorized BAQ rates equal to 85 percent of FHA costs of new housing. This one-time action was the last to set BAQ at a specific reference point in relation to housing expenses in the United States.

The Congress changed the paysetting process in 1974 to require that basic pay and the allowances (BAQ and subsistence) receive equal percentage increases. In 1976 the law was changed again to allow the Department to allocate more than an equal share of the pay adjustments to the allowances and correspondingly less to basic pay. In an effort to eventually bring the allowances into a reasonable relationship with rising food and housing costs, the Department allocated more than an equal share of the 1976 and 1977 pay

adjustments to the allowances. However, this proved unpopular because it decreased basic pay raises. In 1978 and 1979 the normal pay raises were reduced by the President. So as not to further limit increases in basic pay, the raises were again equally distributed among basic pay and the allowances those 2 years.

BAQ is now much less than the standard that was used to set it in 1971, as illustrated by the following examples.

<u>Monthly \$ (1978)</u>			
	<u>Income group</u>	<u>BAQ</u>	<u>85 percent of ex-</u>
	<u>(pay grade)</u>	<u>(with dependents)</u>	<u>penses for compa-</u>
			<u>rable income group</u>
			<u>(FHA new homes)</u>
Officers	04	318	436
	03	286	401
	02	255	362
Enlisted	E7	232	362
	E6	213	333
	E5	196	295
	E4	173	272

Notwithstanding the lower BAQ rates, overall military compensation or "salaries" (basic pay, regular allowances, and the tax advantage on the nontaxable allowances) have received increases generally comparable to compensation increases in the private sector, and housing surveys show that military personnel pay as much for housing as others with comparable incomes. The station housing allowance is not a component of military compensation; it is an expense reimbursement and, as such, should be based on the extra expenses incurred.

INEQUITIES FROM USING BAQ
TO MEASURE EXCESS COSTS

Since BAQ is not indicative of housing cost, its use as a standard to set station housing allowances creates inequities and overcompensates for extra costs of overseas housing.

The Department also surveys military personnel at many installations to determine installation housing needs. We reviewed the results of the 1978 surveys at 133 installations in the continental United States and at 92 overseas installations where station housing allowances were paid.

The average housing costs at 21 of the 92 overseas locations were lower than the average costs for military renters in the United States. If purchased homes are included, the United States average for military personnel is higher than costs at 83 of the 92 overseas locations. Yet they all qualify for station housing allowances to cover "excess" housing costs.

About 49,000 personnel in the continental United States and 30,000 personnel overseas were included in the 1978 surveys. About 28 percent of the renters (50 percent of the officers and 25 percent of enlisted personnel) receiving the housing allowance were paying less than their average peer in the continental United States.

Overcompensating personnel for housing overseas could foster an unrealistic view of domestic housing costs and lead to financial shock and dissatisfaction upon return. For example, in a 1978 survey nine grade O2s stationed in Augsburg, Germany, reported an average of \$236 in housing costs. Each received \$242 in BAQ and \$63 in station housing allowances for a total of \$305. Had they returned to the continental United States and obtained housing at the average of their pay grades it would have cost \$299, for a monthly loss of \$126, \$63 for increased cost and \$63 for loss of the allowance.

COMPUTATION OF STATION HOUSING
ALLOWANCE SHOULD BE SIMILAR TO
COST-OF-LIVING ALLOWANCE

Under the same legal authority covering station housing allowances, the Department also provides a cost-of-living allowance overseas to cover extra living costs other than housing costs. The Allowance Committee determines a separate rate for each area, which is based on the difference in prices between the overseas locality and the continental United States of a market basket of goods and services. Thus the cost-of-living allowance helps defray cost differential overseas. Station housing allowances should similarly make up for the difference in actual housing costs between the United States and the overseas locations.

CHAPTER 3

MORE ACCURATE STANDARDS FOR MEASURING

EXCESS COSTS ARE AVAILABLE

Several indicators of housing cost are available upon which station housing allowances could be based. These indicators vary according to their purpose and coverage, but any of them more accurately represents housing costs than does BAQ. Limiting station housing allowance payments to amounts actually in excess of domestic housing costs would result in a large savings to the Government--at least \$50 million a year, depending on the standard used. Following is a discussion of these indicators and a chart comparing the indicators to BAQ in 1978.

FHA DATA

FHA publishes statistics on housing costs experienced by home buyers having FHA-insured mortgages. As explained on page 4, the Congress in 1971 set BAQ at 85 percent of these costs for new homes. That standard represents a very small part of the housing market because (1) rentals are excluded, (2) FHA insures less than 10 percent of the home mortgages transacted each year, and (3) most FHA mortgages (over 80 percent) are for used homes. Even if used homes were included, this standard would tend to be higher than others because it reflects only the latest housing transactions. However, because military members constitute a transient population, it may be more appropriate for the standards to be based on recent purchases and rentals.

BUREAU OF LABOR STATISTICS DATA

Portions of the Consumer Price Index deal with housing. This index and a comprehensive consumer expenditure survey conducted during 1972-74 can be used to estimate current housing costs by income group. This indicator includes costs for recent purchasers as well as those who have owned or rented their homes for many years. The survey covered 20,000 families including retired persons and those at economic extremes, thus it may not adequately represent the housing situation of the active duty military population. Another possible disadvantage is that expenditure patterns (portion of income devoted to housing) may have changed considerably since the survey was taken in 1972 and 1973. However, the Bureau is updating the survey.

DEFENSE HOUSING SURVEY DATA

To determine the need for post housing, the Department periodically surveys its installations and gathers detailed housing information from military members in private housing. Although all locations are not surveyed, the coverage is widespread. The surveys are probably the best source for determining housing costs that military personnel actually experience.

MAXIMUM ALLOWABLE HOUSING COST

The Defense housing surveys use several criteria for determining whether private housing is adequate to be counted as available for military personnel. One is cost, referred to as maximum allowable housing cost (MAHC) which is 25 percent of a member's regular military compensation, or "salary" (basic pay, allowances, and the tax advantage on the nontaxable allowances). For purposes of determining on-post housing needs, private housing is generally considered too expensive for military members if its cost exceeds MAHC, which is generally comparable to FHA and Veterans Administration guidelines for determining what a person should be able to safely afford for housing. Thus MAHC is another possible standard for setting station housing allowances.

BUREAU OF THE CENSUS DATA

The Bureau annually surveys 76,000 households in the United States for the Department of Housing and Urban Development to help it assess the quality of the nation's housing and set goals and policies. The survey covers all types of old and new housing, and the data can be easily summarized and adjusted to suit the needs of the user. For example, housing costs can be summarized by income group, and the data can be adjusted to exclude households usually unlike active duty military households--such as those headed by retirees and persons 50 years of age or older and homes without kitchen facilities, indoor plumbing, or electricity.

PRIVATE SOURCES

Private companies with employees stationed overseas customarily reimburse them for housing and other living costs in excess of United States levels. Several private consulting and research organizations provide services for identifying costs in the United States and abroad to assist firms in designing compensation plans for overseas employees. Included in this information is the identification of

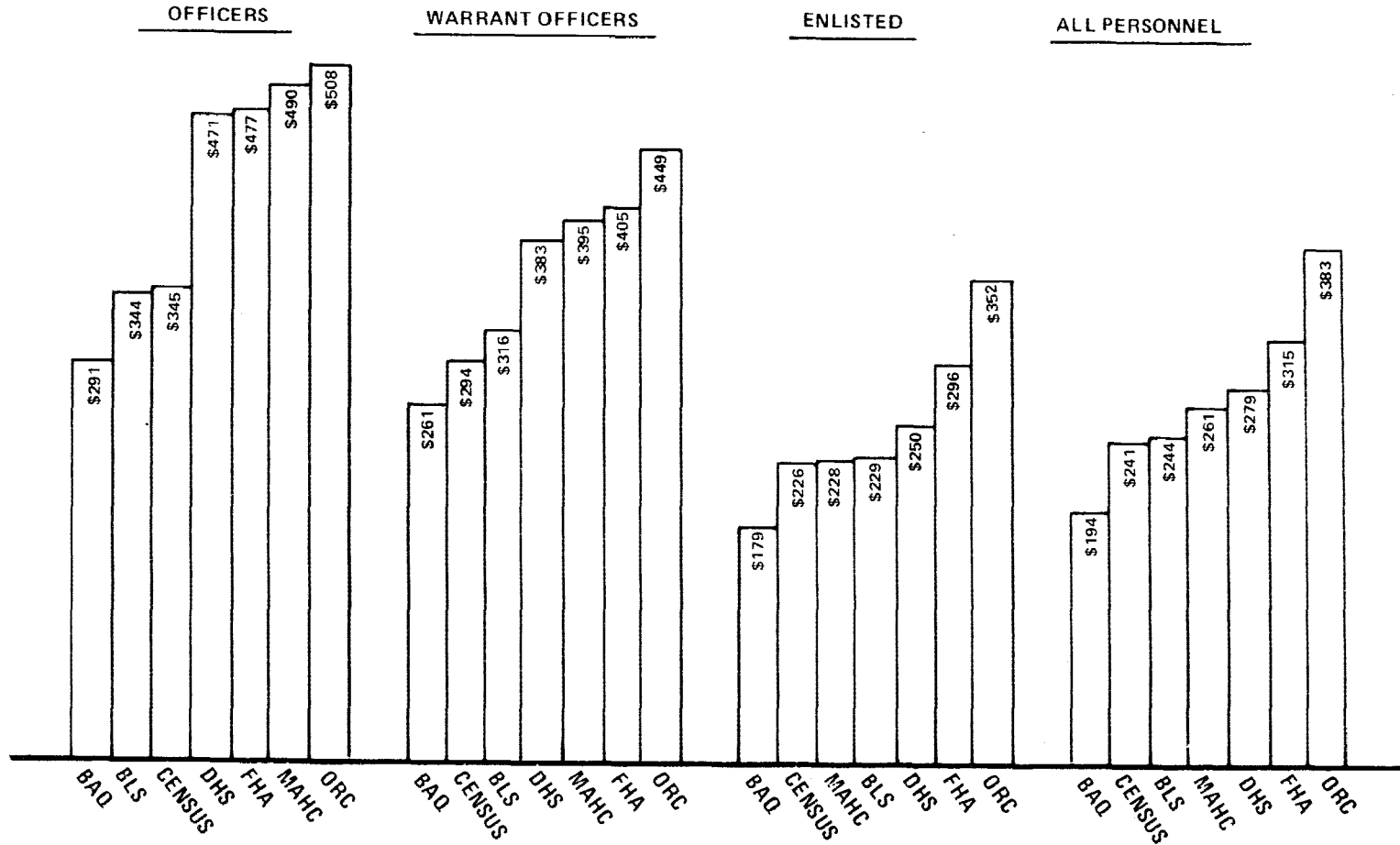
United States housing costs by income group. Some organizations offering these services are Associates for International Research, Organization Research Counselors, and Business International Corporation. Their standards are often designed for mid- and higher level employees and, therefore, may have limited application for lower ranking military personnel.

COMPARISON OF BAQ WITH THE VARIOUS STANDARDS

The following graph shows the relationship between BAQ and housing costs in the United States according to the housing cost indicators discussed above. The amount specified for each indicator is the average monthly amount spent for housing by people who have incomes equivalent to the average regular military compensation ("salary") of officers, warrant officers, enlisted personnel, and all personnel. MAHC is simply 25 percent of average regular military compensation for these groups. (App. I contains a detailed comparison by individual rank.)

COMPARISON OF BAQ WITH HOUSING COST INDICATORS IN THE CONTINENTAL UNITED STATES
1978

10



BAQ-BASIC ALLOWANCE FOR QUARTERS
BLS-BUREAU OF LABOR STATISTICS
CENSUS BUREAU OF THE CENSUS

DHS-DEFENSE HOUSING SURVEYS
FHA-FEDERAL HOUSING ADMINISTRATION
MAHC-MAXIMUM ALLOWABLE HOUSING COST
ORC-ORGANIZATION RESEARCH COUNSELORS

Use of one of these other standards would bring station housing allowances more in line with excess overseas housing costs and result in significant savings. We estimate that if one of the Government data sources were used, the savings could range from \$52 million to \$146 million annually:

<u>Standard</u>	<u>Annual savings</u>
	(millions)
Bureau of the Census	\$ 52
Bureau of Labor Statistics	59
MAHC	90
Defense housing surveys	108
FHA	146

These savings are based on the difference between BAQ and domestic housing costs under each standard multiplied by the staff years of housing allowance paid in 1978. The amounts are not exact because of minor incompatibility of data (for example, Census data does not include monthly maintenance costs) and because under one standard a breakdown of costs was not readily available for income groups comparable to the highest ranking officers. Accordingly, these are approximations of the potential effect of adopting a refined standard of domestic housing costs. Also, as explained in the next chapter, the Allowance Committee is considering new administrative procedures for calculating the allowance. Before the new procedures can be implemented a decision will be required as to whether the general level of coverage of overseas housing costs will be raised from current average excess cost to coverage of excess cost for a majority of the members. An increase in the general level of coverage would reduce the estimated savings above. This is discussed further in chapter 4.

CHAPTER 4

ADMINISTRATIVE PROBLEMS

Aside from the standards problem previously discussed, the administrative process for translating cost data into allowance rates is also deficient. The most serious deficiency is that the rates payable are more directly related to the rank of an individual rather than to what that person actually pays for housing. As a result, senior officers and senior enlisted personnel tend to receive more than what they spend for housing, while junior personnel receive less. Other problems include reporting and mathematical errors in the data which affect the accuracy of the rates.

The Department is aware of these problems and is considering a better method for calculating and paying the allowance. However, before the new method can be adopted, a decision on the level of cost coverage must be made which would affect the cost of the program.

SENIOR PERSONNEL BENEFIT MOST

The allowance rate payable to a member is a percentage of the individual's BAQ. There may be one percentage for all personnel or separate percentages for officers and enlisted members. In either case, because BAQ is graduated by rank, station housing allowances also increase with each successively higher rank. As a result, junior personnel tend not to be reimbursed for their full housing costs, while senior members receive more than their costs.

For an indication of the extent of this effect, we compared housing costs to total housing reimbursements (BAQ plus station housing allowance) by rank at 43 randomly selected locations overseas where station housing allowances are paid. The table below is based on 12,272 personnel and shows that, with few exceptions, the lower the rank within each group, the more personnel there are who incur costs that exceed their BAQ and station allowances.

<u>Group</u>	<u>Number in sample</u>	<u>Percent of personnel whose</u>		<u>Net average windfall or (penalty) in \$ per month (over or under (-))</u>
		<u>Costs exceed allowances (penalty)</u>	<u>Allowances exceed costs (windfall)</u>	
Officers:				
06	34	100	0	\$-20
05	162	16	84	24
04	338	30	70	10
03	688	32	68	9
02	194	60	40	-09
01	168	80	20	-45
Warrant officers:				
W4	25	40	60	14
W3	58	55	45	2
W2	73	74	26	-28
W1	41	90	10	-44
Enlisted:				
E9	50	18	82	43
E8	223	5	95	54
E7	839	1	99	42
E6	1,699	11	89	21
E5	3,110	16	84	19
E4	3,319	74	26	-11
E3	1,036	86	14	-32
E2	196	93	7	-32
E1	19	58	42	-04

The Military Compensation Subcommittee, House Committee on Armed Services, is aware of this problem and directed the Department to examine alternatives to the present method of computing the allowance. One solution is to compute a separate index for each rank or group of ranks. Another solution would be a "rent plus" housing allowance system, which is discussed on page 14.

ERRORS AND UNVERIFIED COSTS

We reviewed several hundred questionnaires processed by the Allowance Committee staff and found many errors

and questionable items. The Committee has specific instructions on how expenses are to be reported and included in the calculations, but these instructions are often not followed.

One of the most troublesome areas is the expense incurred by personnel in moving in and out. The Committee's policy is to provide for items that are normally included in American housing but are not supplied by landlords overseas or are required in a particular area because of local custom or because there are no standard American facilities. Examples include electrical transformers and converters, cabinets, shelving, utilities installation, and major repairs. The cost of major appliances is allowed if they are not normally provided in the area and the member (1) states that they are not being purchased with the intent of shipping them to the next duty station at Government expense and (2) includes an estimate of resale value at the end of the tour. We noted the following practices.

- There were several instances where appliance costs of hundreds of dollars were included in the calculations, although the required resale estimates were missing from the questionnaires.
- Other items were frequently treated inconsistently. For example, although carpeting is normally not an allowable expense, reported amounts up to nearly \$1,000 were accepted by the Committee staff and included in the allowance calculations, while carpeting costs reported by others at the same location were excluded.
- Several costs were included in the allowance computation which were either undefined or appeared inappropriate. These included amounts for garden maintenance; window washing; road tax; a television antenna; shower curtains; drapes and curtains; fireplace equipment; and "caution fees," which Committee staff members could not define.

Reported utility costs also varied widely at the same location, suggesting that some members may be misstating expenses. Finally, we noted many arithmetic errors. Among these was a case where a member in Germany stated his housing costs in dollars. The Committee technician assumed they were in German marks and converted the figures to "dollars" which were used in the allowance calculation. Although the Committee has a procedure for auditing the calculations, this error and numerous others were undetected.

RENT PLUS--AN ALTERNATIVE METHOD

Acknowledging that the individual reporting system is expensive, time consuming, and generally error ridden, the Committee proposed to the uniformed services an alternative method for determining and paying the housing allowances. This method, known as rent plus, is similar in concept to the lodgings plus per diem system where a Government employee on temporary duty travel is paid for nightly lodging (up to a maximum) plus a fixed amount for meals and incidental expenses. Applying that concept to the housing allowance, members overseas would receive their actual excess monthly rent (up to a maximum) plus a fixed sum to cover utilities, maintenance, and moving in and out expenses. Using this system would

- help avoid underpayments and overpayments discussed on page 11;
- reduce the burden of filling out questionnaires in the field and tabulating them by the Committee, plus the preparation of hundreds of allowance tables; and
- provide for timely adjustments when the value of the dollar changes with respect to foreign currencies and when housing costs change.

Details of how the system would operate have not been completely worked out. Based on the Committee's work, it appears feasible that the allowance determination could be worked into the military pay system. Members would present rent receipts or leases to the local command to establish the rent paid, which would govern the amount of the allowance payment. Reported rents could also be used to set maximum allowable rent under the system.

An alternative to relying on what members claim they are paying for housing would be to set the maximum through an independent survey of adequate housing customarily used by military personnel in an area. Customary utility rates and moving in and out expenses could be determined and monitored at the local levels through surveys and analyses of historical costs.

For the rent-plus method; Department officials need to decide at what point maximum monthly rentals should be set. Presently the housing allowance is based on the average housing cost reported by members in an area. Assuming that the mean and median are about the same, about half the members will have costs less than the allowance and half

will have costs above it. If under the rent-plus method maximum allowable rents are set at the average of reported costs, total allowances paid will decrease. Members paying above the average will receive the same allowance as under the current system, and those below the average, or maximum, will receive less than they do now. Raising the ceiling above the existing average will at some point increase total station housing allowance costs above current amounts. The Committee has tested data from certain locations using the rent-plus concept to determine what the costs would be if all excess housing costs were covered for 70, 80, or 90 percent of personnel. A variation would reimburse the excess costs of junior personnel and allow each higher rank to receive more, up to a ceiling which would be based on the ratio of the respective rank's BAQ to the BAQ of junior personnel.

Regardless of the method for setting ceilings, the standard for first determining what is excessive cost should be changed from BAQ to a realistic indicator of domestic housing costs. Savings resulting from adopting a more realistic standard could be used to extend reimbursement of all truly excess costs to a higher percentage of personnel.

CHAPTER 5

CONCLUSIONS, RECOMMENDATIONS, AND AGENCY COMMENTS

CONCLUSIONS

BAQ is no longer representative of housing costs in the continental United States, and its use significantly increases station housing allowances by overcompensating members for extra housing costs. At many locations where the allowance is paid, housing costs are less than what military personnel experience in the United States. Payment of the allowance under these circumstances creates perceived windfalls for persons transferring to station allowance localities and penalties for those leaving the allowance areas, and it is an unwarranted expense for the Government and for the taxpayers.

We believe there are several available sources of information on housing costs in the United States which could be used as a more reasonable basis for computing the extra costs of overseas housing. Use of these standards could result in savings of about \$50 million to nearly \$150 million annually. Savings could be offset somewhat by a revised and more equitable method of computing the allowance that the Allowance Committee is considering. The proposed rent-plus method offers several advantages over the current procedures. It would reduce errors and inconsistencies in processing data and do away with a large and time-consuming questionnaire system. More important, it would remedy an inequity inherent in the current calculation procedures whereby junior officers and junior enlisted personnel are penalized relative to senior personnel.

Because the Committee is proposing a fundamental improvement to the system, now is the appropriate time to also adopt a new standard of housing costs in lieu of BAQ.

RECOMMENDATIONS

We recommend that the Secretary of Defense

--adopt the rent-plus method for determining station housing allowances and

--under the rent-plus method, replace BAQ as a standard for measuring excess housing costs with one that is more realistic.

AGENCY COMMENTS

Defense officials believed that a rent-plus system could be made to work better than the gross averaging method currently used and intend to further examine the costs and benefits involved.

They did not agree that BAQ should be replaced with a different standard for determining excess costs overseas. They based this position on the belief that monetary factors, other than the difference in overseas and domestic housing costs, should be considered. These are:

- Reduced earnings opportunities overseas. In foreign areas it is more difficult for members to find a second job and for their dependents to find jobs.
- Lost home equity. Members overseas usually must rent and therefore lose the opportunity of building equity through home ownership.

Although some personnel transferring overseas could be adversely affected by these factors, it was never contemplated in the law that they be reimbursed through overseas allowances. At best, if loss of equity could be justified as a cost reimbursable by station housing allowances, it would be appropriate for only a limited number of personnel--excluded would be those who rent or occupy Government quarters in the United States and those who choose to rent out their houses in the United States while overseas.

Defense officials also disagreed with our statement that, overall, military compensation has increased as much as compensation in the private sector. They said that military compensation had fallen behind, citing a recent report prepared by Defense military compensation personnel which states that since 1972 military personnel have lost more purchasing power than wage and salary earners outside the Government and that some enlisted age groups earn less than their private sector peers. Officials therefore believe that increasing housing allowances in the United States would be more appropriate than decreasing allowances overseas.

The military compensation system does not have a specific standard indicating what pay levels should be compared to. As a result, there is no general agreement as to whether military members are overpaid or underpaid. For example, in July 1979 the General Counsel of the Department

of Defense reported to the Congress that the military compensation system featured substantial comparability and that the general level of active duty compensation for military personnel had increased during the last 10 years, compared to nonmilitary wage and salary levels.

In any case, station housing allowances are intended to be a reimbursement for the additional expense of overseas housing and should not be confused with the separate issue of the level of regular military compensation. If BAQ (a part of regular military compensation) had regularly been allocated a sufficient share of the pay raises to keep it in line with housing costs, the effect on station housing allowances would be the same as we are recommending in this report.

COMPARISON OF BASIC ALLOWANCE FOR QUARTERS WITH U.S. HOUSING

COST INDICATORS--MONTHLY DOLLARS (1978)

Income group (pay grade)	Basic allowance for quarters		Bureau of Labor Statistics	Bureau of the Census (note a)	Defense housing surveys	FHA	MAHC	Organization Research Counselors
	(January to September)	(October to December)						
06	\$371	\$392	\$484	\$469	\$633	(b)	\$817	\$696
05	338	357	394	390	581	542	671	618
04	302	318	355	392	537	499	553	550
03	271	286	355	353	468	447	466	498
02	242	255	303	273	387	384	374	438
01	194	204	239	238	312	315	279	371
W4	291	307	355	353	413	475	523	533
W3	265	279	355	315	410	447	432	477
W2	237	251	303	273	381	384	363	430
W1	218	230	271	273	335	351	321	400
E9	256	270	355	315	417	447	454	491
E8	236	249	303	315	391	419	387	446
E7	220	232	271	273	357	384	336	411
E6	202	213	271	238	323	351	286	376
E5	186	196	239	238	267	315	242	344
E4	164	173	223	216	223	272	211	318
E3	143	150	204	209	212	272	190	-
E2	143	150	204	209	207	272	182	(b)
E1	143	150	195	202	201	226	169	-

a/Does not include maintenance costs.

b/Not available.

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