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NATIONAL BUREAU OF STANDARDS-1963-A

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MILITARY COMPENSATION: PAST, PRESENT and FUTURE

A136576

Volume 2
(Appendix)

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Military Compensation Task Force
Directorate of Human Resources Development
Office of the Deputy Chief of Staff for Personnel
U.S. Army

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20. ABSTRACT (Continue on reverse side if necessary and identify by block number) - A cost-benefit analysis to determine the "ideal" military compensation necessary to attract, motivate, and retain an appropriate number and quality of military personnel to provide the Nation with a viable Armed Force. The factors of effectiveness, efficiency, economy, equity, and psychosocial were the five bases of analysis and synthesis.			

MILITARY COMPENSATION: PAST, PRESENT and FUTURE

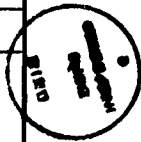
Volume 2
(Appendix)

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1976

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(Not used)

Appendix 2 : The Army and the Army Community
(Not used)

Appendix 3 : The Pay and Allowances System
(Not used)

Appendix 4 : Basic Pay
(Not used)

Appendix 5-A

CONCEPTUAL COMPARISON OF PRESENT AND ALTERNATIVE
MILITARY CASH FOOD ALLOWANCE SUBSYSTEMS

FOOD SUBSYSTEMS		EFFECTIVE	ECONOMICAL	EFFICIENT	EQUITABLE	PSYCHO-SOCIAL
Present	Different officer/enlisted rates at Government arbitrarily established amounts	xxx	xxx	xxx	xxx	xxx
	Equalize officer/enlisted BAS rates at Government arbitrarily established amounts	xxx	xxx	xxx	xxx	xxx
Alternatives	Equalize officer/enlisted BAS rates at raw food costs	xxx	xxx	xxx	xxx	xxx
	Equalize officer/enlisted BAS rates at civilian food cost rates	xxx	xxx	xxx	xxx	xxx

SOURCE: US Army Military Compensation Task Force, The Pentagon, Washington, D.C.

APPENDIX 6-A

HISTORY OF THE RELATIONSHIP BETWEEN THE DEPENDENTS ASSISTANCE ACT AND THE CAREER COMPENSATION ACT

As mentioned in Chapter 6, in 1950 the Dependents Assistance Act was enacted in order to provide enlisted members with extra compensation to aid their families and prevent financial hardship. This act temporarily substituted new BAQ rates for the permanent enlisted BAQ rates of the Career Compensation Act. The rates were graduated by number of dependents to the maximum rate for any member with over two dependents. The act also suspended the "no dependent" rule that barred junior enlisted personnel from qualifying for BAQ on behalf of actual dependents. To be entitled to BAQ an enlisted member with dependents had to effect a monthly allotment for the support of his dependents (Class Q Allotment). Although the Dependents Assistance Act initially had an expiration date of 30 April 1953, it was extended six times and completely governed enlisted BAQ entitlements until 1 January 1963 and partially governed them until 1 July 1973. Public Law 88-771 (1950).

In 1952 officer and enlisted member BAQ rates were raised to compensate for higher living costs. Public Law 82-346 (1952).

In 1962 Congress authorized further increases in officer and enlisted member BAQ rates to bring them up to the Federal Housing Administration (FHA) median for housing expenses of comparable income groups in the United States. In addition, this act put the enlisted BAQ entitlement under the provisions of the permanent Career Compensation Act for pay grades E-4 (over four years of service) through E-9. This act kept the BAQ entitlement of pay grades E-1 through E-4 (four years or less of service) under the Dependents Assistance Act. This act also changed the enlisted within pay grade differentials of those pay grades placed under the Career Compensation Act from a graduated structure based on number of dependents to a differential based only on whether members are with or without dependents. Public Law 87-531 (1962).

In 1971, Congress increased BAQ rates authorized under both the Career Compensation and Dependents Assistance Act to approximately 85 percent of the FHA median for housing expenses of comparable income groups. It also changed within pay grade differentials in enlisted Dependents Assistance Act rates from a graduated structure based on number of dependents to a differential based only on whether members are with or without dependents. Public Law 92-129 (1971).

In 1973 Congress converted the remaining temporary Dependents Assistance Act rates into the permanent Career Compensation Act rates and the Dependents Assistance Act was allowed to expire. This law also repealed the provision that required junior enlisted personnel to be considered as without dependents at all times. Public Law 93-62 (1973).

Appendix 6-B
MAXIMUM AUTHORIZED SQUARE FOOTAGE
STANDARDS FOR CONSTRUCTION OF FAMILY QUARTER^a

<u>Pay Grade</u>	<u>Square Footage</u> ^b	<u>Number of Bedrooms</u>
0-7 through 0-10	2100	4
0-6	1700	4
0-5 and 0-4	1550	4
	1400	3
0-1 through 0-3	1550	5
	1450	4
	1320	3
	950	2
W-1 through W-4	1550	5
	1450	4
	1320	3
	950	2
E-7 through E-9	1550	5
	1450	4
	1350	3
	950	2
E-1 through E-6	1550	5
	1350	4
	1200	3
	950	2

a 10 U.S.C. 4774

b Square footage is net floor area which does not include basements, service areas, closets, attics, garages or carports and stairwells.

SOURCE: US Army Military Compensation Task Force, The Pentagon, Washington, D.C.

Appendix 6-C
STANDARD SQUARE FOOTAGE FOR BACHELOR QUARTERS^a

O-3 through O-10	400	One person per room, living room, private bath and access to kitchen or closed mess.
W-1 through O-2	250	One person per room, living/sleeping room, private bath.
E-7 through E-9	200	One person per room and private bath.
E-5 and E-6	90	Two persons per room and central latrine.
E-1 through E-4 except recruits	90	Not over four persons to a room, central latrine.
E-1 (recruit) ^b	72	Open bay, and central latrine.

a DOD Inst. 4165.47 "Adequacy, Assignment and Occupancy of Bachelor Housing (I&L), October 23, 1974, Encl 1.

b This standard is for E-1 recruits and trainees. The bulk of E-1s are in this category.

SOURCE: US Army Military Compensation Task Force, The Pentagon, Washington, D.C.

APPENDIX 6-F
DOD QUARTERS SYSTEM
RESOURCES, COSTS, AND COST ALLOCATION

Resource Cost Elements	a Cost		Present Cost Allocation		Proposed Cost Allocation	
	b,c,d Amount	Perce- ntage	Nation	Military Member	Nation	Military Member
Land and Buildings:	\$358.42	12		x	x	x
Buildings (construction thereof)	111.5			x	x	x
Building Improvements	22.73			x	x	x
Debt Payments	190.02			x	x	x
Leases	34.14			x	x	x
Furnishings	87.20	03		x	x	x
Furnishings	87.20			x	x	x
Labor:	77.49	03		x	x	x
Military Personnel	30.34			x	x	x
Civilian Personnel	47.15			x	x	x
Maintenance	332.88	11		x	x	x
Maintenance of Dwellings	140.06			x	x	x
Repair of Dwellings	140.06			x	x	
Maintenance and Repair of Exterior Utilities	19.63			x	x	
Maintenance and Repair of Other Real Property	31.74			x	x	
Alterations and Additions	1.4			x	x	x
Utilities:	279.73	10		x		x
Utilities	230.76			x		x
Services	48.97			x		x
Cash BAQ:	1772.7	61		x		x
Single Members	147.5			x		x
Family Members	1625.2			x		x
Rebate Payments	13.4	00		x		x
Sub-standard Family Housing	13.4			x		x
Total	\$2921.82	100				

a. Costs in millions of dollars.

b. Does not sum exactly due to rounding.

c. Furnishings, labor, maintenance and utilities information obtained from OSD-OMB, Military Housing Study, Oct '75, p.86.

d. Land, buildings, cash BAQ, and Rebate Payment, information obtained from, OASD(M&RA), Memorandum, Subject: Basic Allowance for Quarters and Government Furnished Quarters, Apr '76, p.18.

SOURCE: US Army Military Compensation Task Force, The Pentagon, Washington, D.C.

Appendix 6-F
MONTHLY AVERAGE TOTAL COST QUARTERS IN KIND (QIK) RATES

<u>PAY GRADE</u>	<u>WITHOUT DEPENDENTS</u>	<u>WITH DEPENDENTS</u>
<u>Commissioned Officers:</u>		
O-10	\$126.00	\$513.00
O-9	126.00	486.00
O-8	126.00	456.00
O-7	126.00	426.00
O-6	81.60	363.00
O-5	81.60	330.00
O-4	81.60	330.00
O-3	81.60	249.00
O-2	64.50	225.00
O-1	64.50	216.00
<u>Warrant Officers:</u>		
W-4	64.50	279.00
W-3	64.50	279.00
W-2	64.50	279.00
W-1	64.50	279.00
<u>Enlisted Members:</u>		
E-9	54.00	285.00
E-8	54.00	285.00
E-7	54.00	285.00
E-6	24.30	264.00
E-5	24.30	240.00
E-4	24.30	219.00
E-3	24.30	216.00
E-2	24.30	210.00
E-1	24.30	210.00
E-1 (Recruit)	15.84	210.00

SOURCE: US Army Military Compensation Task Force, The Pentagon, Washington, DC.

Appendix 6-G
DIFFERENCES BETWEEN MONTHLY DIK AND BAQ RATES

<u>PAY GRADE</u>	<u>WITHOUT DEPENDENTS</u>	<u>WITH DEPENDENTS</u>	<u>AVERAGE DIFFERENCE WITHIN GRADE</u>
<u>COMMISSIONED OFFICERS:</u>			
O-10	-129.3	+193.8	-32.25
O-9	-129.3	+166.8	+18.90
O-8	-129.3	+136.8	+0.75
O-7	-129.3	+106.8	-11.25
O-6	-153.0	+76.8	-38.10
O-5	-138.0	+65.4	-36.30
O-4	-116.4	+91.2	-12.60
O-3	-93.9	+32.4	-30.75
O-2	-89.1	+30.3	-29.40
O-1	-56.1	+59.1	-01.50
<u>WARRANT OFFICERS:</u>			
W-4	-126.6	+48.6	-39.00
W-3	-107.7	+66.6	-20.55
W-2	-87.3	+86.4	-00.45
W-1	-72.9	+100.8	+13.95
<u>ENLISTED MEMBERS</u>			
E-9	-90.9	+81.0	-04.95
E-8	-81.0	+94.2	+06.60
E-7	-61.8	+106.2	+22.20
E-6	-81.9	+97.8	+07.95
E-5	-78.3	+86.4	+04.05
E-4	-66.0	+84.6	-09.30
E-3	-55.8	+99.9	+22.05
E-2	-46.5	+93.9	+23.70
E-1	-42.3	+93.9	+25.80
<u>AVERAGE DIFFERENCE AMONG ALL GRADES</u>	-94.0	+91.2	-1.40

SOURCE: US Army Military Compensation Task Force, The Pentagon, Washington, DC.

APPENDIX 6-H
COMPARISON OF PRESENT AND ALTERNATIVE QUARTERS SYSTEMS

Alternative Systems	ELEMENTS OF COMPARISON							
	Group Cohesion Support	Mission Readiness Support	Mission Accomplishment Support	Costs	Within Pay Grade Equity	On-Post Equity and Incentive	Off-Post Equity and Incentive	On Versus Off Post Efficiency
Quarters In Kind (QIK)	GT BAQ	GT BAQ	GT BAQ	EQ BAQ	EQ BAQ	-	-	GT BAQ
Present QIK System (PQ)	EQ AQ	EQ AQ	EQ AQ	LT AQ	EQ AQ	LT AQ	-	-
Alternative QIK System (AQ)	EQ PQ	EQ PQ	EQ PQ	GT PQ	EQ PQ	GT PQ	-	-
Basic Allowance for Quarters (BAQ)	LT QIK	LT QIK	LT QIK	EQ QIK	EQ QIK	-	-	LT QIK
Present BAQ System (PB)	EQ AB	EQ AB	EQ AB	LT AB	EQ AB	-	EQ AB	-
Alternative BAQ System (AB)	EQ PB	EQ PB	EQ PB	GT PB	EQ PB	-	EQ PB	-

NOTE: GT= Greater Than, LT= Lesser Than, EQ= Equivalent

SOURCE: US Army Military Compensation, Task Force, The Pentagon, Washington, D.C.

APPENDIX 7-A

LEGAL BASES OF CLOTHING ALLOWANCE

SOURCE: All information in this Appendix was extracted from applicable US Public Laws, as indicated.

(P.L. 82-476) Armed Forces Reserve Act of July 9, 1952:

"Section 243(a): An officer of a reserve component or of the Army of the United States without component or the Air Force of the United States without component shall be entitled to an initial sum not to exceed \$200.-as reimbursement for the purchase of required uniforms and equipment, either--

"(1) upon first reporting for active duty for a period in excess of 90 days; or

"(2) upon completion, as a member of a reserve component, of not less than 14 days active duty or active duty for training; or

"(3) after the performance of 14 periods of not less than two hours' duration each, of inactive-duty training as a member in the Ready Reserve of a reserve component: Provided, That only duty requiring the wearing of the uniform shall be counted for the purpose of this section: Provided further, That any initial uniform reimbursement or allowance heretofore or hereafter received as an officer under the provisions of any other law is a bar to the entitlement for any initial sum authorized under the provisions of this section: And provided further, That any individual who has served on active duty as an officer of a regular component of the armed forces of the United States may not be qualified for entitlement under this section by duty performed within two years after separation from such regular component.

"(b) An officer of a reserve component is entitled to an additional sum of not to exceed \$50.- for reimbursement for the purchase of required uniforms and equipment, upon completion of each period after July 9, 1952, of four years of service as prescribed in section 1332(a) (2) of Title 10, U.S. Code, performed in an active status in a reserve component and which shall include at least 28 days of active duty or active duty for training: Provided, That any period of active duty or active duty for training for a period in excess of 90 days shall be excluded in determining the period of four years required for eligibility under this subsection: Provided further, That a person who receives or has heretofore received a uniform reimbursement or allowance as an officer is not entitled to the reimbursement provided in this subsection until the expiration of not less than four years from the date of entitlement to the last reimbursement or allowance: And provided

further, that until four years after July 9, 1952, an officer may elect to receive the uniform reimbursement not to exceed \$50.-to which he may be entitled under existing regulations issued pursuant to section 302 of the Naval Reserve Act of 1938, as amended, or section 11 of the Act of August 4, 1942, as amended.

"(c) An officer of a reserve component or of the Army of the United States without component or of the Air Force of the United States without component entering on active duty or active duty for training on or after June 25, 1950, shall be entitled, for each time of such entry or reentry on active duty or active duty for training of more than ninety days' on active duration to a further sum not to exceed \$100.-as reimbursement for uniforms and equipment required on such duty: Provided, That the reimbursement provided by this subsection is not payable to any officer who, under any provision of law, has received an initial uniform reimbursement or allowance in excess of \$200.-during his current tour of active duty or within a period of two years prior to entering on his current tour of active duty: Provided further, That the reimbursement provided in this subsection is not payable to any officer entering on active duty or active duty for training within two years after completing a previous period of active duty or active duty for training of more than ninety days' duration.

(P.L. 87-649) Act of September 7, 1962"

To revise, codify, and enact Title 37 of the U.S. Code, entitled "Pay and Allowances of the Uniformed Services."

Section 415: Uniform allowance: officers; initial allowance:

(a) Subject to subsections (b) and (c) of this section, a reserve officer of an armed force or an officer of the Army, or the Air Force, without specification of component, is entitled to an initial allowance of not more than \$200.-as reimbursement for the purchase of required uniforms and equipment.-

(1) upon first reporting for active duty (other than for training) for a period of more than 90 days;

(2) upon completing at least 14 days of active duty as a member of a reserve component; or

(3) upon completing 14 periods, each of which was of at least two hours' duration, of inactive-duty training as a member of the Ready Reserve.

(b) An officer who has received an initial uniform reimbursement or allowance under any other law is not entitled to an initial allowance under subsection (a) of this section.

(c) An officer who has served on active duty as an officer of a regular component of an armed force may not, on the basis of any duty performed within two years after his separation from that component, qualify for an initial allowance under subsection

(a) of this section.

(d) An allowance of \$250.-for uniforms and equipment may be paid to each commissioned officer of the Public Health Service who is --

(1) on active duty;

(2) required by directive of the Surgeon General to wear a uniform; and

(3) is entitled to the basic pay of grade O-1, O-2, O-3.

An officer is not entitled to more than one allowance under this subsection.

(e) An enlisted member of the Navy, Marine Corps, or Coast Guard who is initially appointed as a temporary officer under section 5596 or 5597 of Title 10 or section 435 of Title 14, as the case may be, is entitled to a uniform allowance of \$250.-.

Section 416. Uniform allowance: Officers; additional allowance:

(a) In addition to the initial uniform allowance authorized by section 415 (a)-(c) of this title, a reserve officer of an armed force who has not become entitled to a uniform reimbursement or allowance as an officer during the preceding four years is entitled to not more than \$50.-as reimbursement for the purchase of required uniforms and equipment, upon completion of each period, after July 9, 1952, of four years of service, as prescribed by section 1332 of Title 10, in an active status in a reserve component, including at least 28 days of active duty. However, periods of active duty of more than 90 days may not be included in computing that four years of service.

(b) In addition to the allowance provided by section 415 (a)-(c) of this title and subsection (a) of this section, a reserve officer of an armed force, or an officer of the army, or the Air Force, without specification of component, is entitled to not more than \$100.- as reimbursement for additional uniforms and equipment required on that duty, for each time that he enters on active duty for a period of more than 90 days. However, this subsection does not apply to a tour of active duty if --

(1) The officer, during that tour or within a period of two years before entering on that tour, received, under any law, an initial uniform reimbursement or allowance of more than \$200.-; or

(2) The officer enters on that tour within two years after completing a period of active duty of more than 90 days duration. Section 417. Uniform allowance: officers; general provisions:

(a) Subject to standards, policies, and procedures prescribed by the Secretary of Defense, the Secretary of each military department may prescribe regulations that he considers necessary to carry out sections 415 (a)-(c) and 416 of this title within his department. The Secretary of the Treasury, with the concurrence of the Secretary of the Navy, may prescribe regulations that he considers necessary to carry out those sections for the Coast Guard when it is not operating as a service in the Navy. As far as practicable, regulations for all reserve components shall be uniform.

(b) Under regulations approved by the Secretary of Defense, or by the Secretary of the Treasury with respect to the Coast Guard when it is not operating as a service in the Navy, and subject to sections 415(a)-(c) or 416 of this title, a reserve officer of an armed force who has received a uniform and equipment allowance under sections 415 (a)-(c) or 416 of this title, may, if a different uniform is required, be paid a uniform and equipment reimbursement upon transfer to, or appointment in, another reserve component.

(c) For purposes of section 415 (a)-(c) and 416 of this title and subsections (a) and (b) of this section, an officer may count only that duty for which he is required to wear a uniform.

Section 418. Clothing allowance; enlisted members:

The President may prescribe the quantity and kind of clothing to be furnished annually to an enlisted member of the armed forces or the National Guard, and may prescribe the amount of a cash allowance to be paid to such a member if clothing is not furnished to him.

(P.L. 88-624) Act of October 3, 1964:

To authorize Reserve officers to combine service in more than one reserve component in computing the four years of satisfactory Federal services necessary to qualify for the uniform maintenance allowance.

The amendments made by this Act do not entitle an officer to an allowance for any four-year period of service completed prior to the effective date of this Act.

(P.L. 88-647) Act of October 13, 1964:

Added regular officers appointed after completing advanced training as specified under section 2106 of Title 10, U.S.C. or serving in the financial assistance program under section 2107 of Title 10, U.S.C.

(P.L. 91-278) Act of June 12, 1970:

Entitled an enlisted member appointed to permanent warrant officer in the Regular Coast Guard as set forth in section 213 Title 14, U.S.C.

Appendix 8-A
ANNUAL FEDERAL INCOME TAX DIFFERENTIALS

<u>Officers</u>		<u>Enlisted</u>	
Pay Grade	Annual Amt* \$	Pay Grade	Annual Amt* \$
0-10	1,309		
0-9	2,022		
0-8	2,735		
0-7	2,978		
0-6	1,501		
0-5	1,412	E-9	643
0-4	1,157	E-8	515
0-3	1,137	E-7	423
0-2	820	E-6	449
0-1	451	E-5	401
W-4	753	E-4	335
W-3	587	E-3	312
W-2	632	E-2	318
W-1	636	E-1	287

* The amounts shown are actual weighted averages by pay grade, using pay rates and tax rates effective 1 Oct 1975, which assume that married servicemen file joint returns and servicemen take the standard deduction.

SOURCE: Derived from computer printouts prepared for Department of Defense, Third Quadrennial Review of Military Compensation, Washington, D.C.

Appendix 9 : Special Pays and Allowances
(Not used)

Appendix 10 : Modernizing the Pay and Allowances System
(Not used)

APPENDIX 11-A

COSTS OF CONVERTING TO THE MILITARY SALARY SYSTEM

SOURCE: All information in this Appendix was extracted or derived from DOD Quadrennial Review of Military Compensation, Staff Information Paper, Cost Estimates of Converting to a Salary System, 1 April 1976..

Purpose. This paper presents preliminary cost estimates of converting to a salary system under four different approaches, based on October 1975 pay rates. The estimates provide a reasonable range of costs, but the approaches used are not to be considered as the best approach for a salary system. The method of implementation--of transition from the present pay and allowances system--is not discussed. It would have an impact on cost. Transition is assumed to be instantaneous, with only saved pay cost resulting.

The four approaches result from various combinations of salary pay table constructs and various collection plans for in-kind government quarters and subsistence. In each approach, the salary pay table construct is based on a calculation of average regular military compensation (RMC) classified by pay grade and longevity step (as the longevity steps now exist). The differences in the average RMC's result from varying the treatment of quarters rates as one of the elements of RMC. The approaches are:

Salary #1. The salary table construct is based on current basic pay rates, current BAQ rates for those currently drawing BAQ, QRMC Staff quarters valuations for those not drawing cash BAQ, current BAS rates for all, and the tax differential. The collection plan for those living in government-provided quarters is based on the QRMC Staff quarters valuations (single members on sea duty are not charged). Subsistence is collected from single enlisted not drawing BAS at the current subsistence rate (\$2.53 per day). The subsistence collections were adjusted for those single members who choose not to eat in government mess halls. This adjustment was based on raw food cost of a daily ration, currently a rate of \$2.69 per day, times the historic mess hall absentee rate.

Salary #2. The salary table construct is based on current basic pay, current cash BAQ rates for all members, current cash BAS rates for all members and the tax differential. The collection

plan for those occupying government-provided quarters is based on the QRMC Staff quarters valuations. Those single members on sea duty are not charged for government quarters. Single enlisted members not drawing BAS are charged the current subsistence rates (\$2.53 per day) for meals eaten in government messes. The subsistence collections were adjusted for those single members who choose not to eat in government mess halls. This adjustment was based on raw food cost of a daily ration, currently a rate of \$2.69 per day, times the historic mess hall absentee rate.

Salary #3. The salary table construct used in this approach is based on current basic pay rates, current cash with dependents BAQ rates for all members and the tax differential. The collection plan for those members living in government-provided quarters is based on the QRMC Staff quarters valuations. Collections are not made for those single members on sea duty. Collections from single enlisted members not drawing BAS and eating in government messes is based on current cash subsistence rates (\$2.53 per day). The subsistence collections were adjusted for those single members who choose not to eat in government mess halls. This adjustment was based on the raw food cost of a daily ration, currently a rate of \$2.69 per day, times the historic mess hall absentee rate.

Salary #4. The salary table construct of this proposal is based on current basic pay rates, current with-dependents cash BAQ for all members, current cash BAS rates for all members and the associated tax differential. The collection plan for members with dependents occupying government quarters is based on the current with dependents cash BAQ rates. Collections from members without dependents occupying government quarters is based on one-half the with dependents cash BAQ rates for these quarters. Members without dependents on sea duty are not charged for quarters. The subsistence collection plan for single enlisted members not drawing BAS is based on the current cash BAS rate (\$2.53 per day). The subsistence collections were adjusted for those single members who choose not to eat in government mess halls. This adjustment was based on the raw food cost of a daily ration, currently a rate of \$2.69 per day times the historic mess hall absentee rate.

Differences between each approach deal with the quarters portion of the salary construct and the collection plan for in-kind quarters. These differences are summarized below:

<u>Salary</u>	<u>Salary Construct</u>	<u>In Kind Collection Plan</u>
#1	Actual BAQ Rates and QRMC Staff developed quarters valuations	QRMC Staff developed quarters valuations
#2	Assume all cash BAQ at with and without dependents rates	QRMC Staff developed quarters valuations
#3	Assume all cash BAQ payments at with dependents rate for all	QRMC Staff developed quarters valuations
#4	Assume all cash BAQ payments at with dependents rate for all	Cash BAQ rates for married members: 1/2 of with-dependents BAQ rates for single members

Funding the Tax Differential. Under each approach the current levels of basic pay, quarters and subsistence allowances, and the tax differential that accrues because the allowances are not subject to Federal income taxes are converted into salary constructs, as described. This translation into a fully taxable pay system means that DoD would fund the tax differential. But on the other hand, the Treasury should be collecting these amounts back as increased taxes.* The costs are estimated as follows:

Cost of Funding the Tax Differential
(\$ Millions)

<u>Salary</u>	<u>DoD</u>	<u>Government</u>
#1	1,228	-0-
#2	1,291	-0-
#3	1,420	-0-
#4	1,420	-0-

Funding Increased Government Contributions to Social Security (FICA). The DoD must match individual contributions to FICA accounts. These member contributions are based on basic pay only.

* Since tax differential is calculated using the standard deduction, a 100% efficiency in collection of taxes is not expected but we have assumed the efficiency to be 100%.

On conversion, the full salary will be subject to FICA tax, and the government's contribution will increase accordingly. The increased matching costs to DoD and the government are estimated as follows:

Cost of Increased FICA Contributions

<u>Salary</u>	<u>\$ Millions</u>
#1	\$286
#2	310
#3	345
#4	345

Funding Increased Disposable Income (Cash After Taxes). Aggregate disposable income will increase under each of the four approaches for a variety of reasons:

<u>Assumption</u>	<u>Salary</u>			
	<u>#1</u>	<u>#2</u>	<u>#3</u>	<u>#4</u>
Single members on sea and field duty not charged for occupying government quarters	X	X	X	X
BAQ equalized at the with-dependents rate			X	X
Single enlisted members formerly not authorized BAS but who did not use government messes will receive BAS even if they elect not to eat in government messes	X	X	X	X
QRMC Staff quarters valuations equated to cash for those occupying government quarters	X			

These increases must be funded by both DoD and the government. The return of income through taxation is discussed above.

<u>Salary</u>	<u>\$ Millions</u>
#1	\$ 491
#2	724
#3	1,188
#4	764

Funding Saved Pay. The salary costs of each approach are based on averages for each pay grade and longevity step. Some members

in each pay grade will fall below the average salary for the pay grade. This will result in some members receiving a reduced income upon conversion. To prevent any member from receiving a reduction in disposable income, a saved pay factor was included in each salary conversion construct developed. The number of members who will receive saved pay upon conversion and the costs are:

<u>Salary</u>	<u>Number</u>	<u>\$ Millions</u>
#1	970,000	\$654
#2	1,174,400	624
#3	1,060,000	440
#4	1,174,400	146

Continuing Costs. All the costs of each of the approaches will be recurring except for the saved pay costs. It is estimated that the saved pay costs will be eliminated within 2 or 3 years due to pay raises, promotions and longevity step increases.

The total costs of the four approaches are:

	<u>Costs</u> <u>(\$ Millions)</u>	
<u>Salary</u>	<u>DoD</u>	<u>Government</u>
#1	\$2,658.54	\$1,430.70
#2	\$2,951.64	\$1,660.72
#3	3,392.23	1,972.26
#4	2,674.39	1,254.42

These costs do not include costs that may result from new bases selected for other pay-related items such as reserve component drill pay, retired pay, and the like.

APPENDIX 11-B

COMPARISONS OF MILITARY AND CIVILIAN FAMILY SIZE

SOURCE: All information in this Appendix was extracted and copied from DoD Quadrennial Review of Military Compensation, Fact Sheet, "A Comparison of Military and Civilian Marital Status and Average Family Size," dated 28 Jan 1976.

It has been suggested that the current military compensation system leads to "larger" families because fringe benefits such as health care, commissary and exchange benefits favor large families. A study published by the Brookings Institute "The Military Pay Muddle" presents data to show that "this incentive structure, by making a military career relatively more attractive to those with families, has contributed to the recent marked growth in the proportion of military personnel who are married and in the average total number of military dependents."* The study states "The increase in the proportion of new volunteers who are married is particularly noteworthy; only about 7 percent of Army recruits were married in 1955. But about 22 percent were married in 1974. Since only 9.3 percent of all males in the target population (ages 18-19) were married as of March 1973, the military seems to be relatively more attractive to those who are married."**

The proportion of military personnel married and average family size have grown. Unfortunately, these statements concerning relative marriage rates are based upon a comparison of dissimilar groups, since the civilian data includes non-working students and unemployed persons whose low income level could be expected to help defer marital plans.

Because of the implications of marital status to military manpower costs, available data was analyzed to determine the relative marital status of the military population compared to the civilian population. The marital status comparison was made with civilians of comparable age. The family size

* "The Military Pay Muddle," Martin Binkin, The Brookings Institute, Washington, D. C., 1975, p. 38.

**Ibid., p. 39.

comparison was made with civilians of comparable age and income levels. It was found that the military population shows lower relative marital status and family size values than the civilian "cohort."

a. Among military personnel, 55.0% are married, while 65.2% of civilian males ages 18 to 44 are married. Civilian males are chosen for comparison because over 95% of the military is male. Military personnel who are women have far fewer dependents than their civilian counterparts. Tabs A & B show this and related comparisons.

b. Comparing families of size two or more, military families have an average size of 3.54 while civilian families of comparable age and income have an average size of 3.96.* Tabs C & D show this and related comparisons.

c. One comparison in Tab C is of special interest. In general, young families with incomes less than \$1,000 (non-working students and unemployed are included in this group) have a smaller average family size than young families with incomes similar to military incomes. Specifically, for families headed by someone less than 25 years old, those earning less than \$1,000 have an average family size of 2.76, whereas those earning between \$6,000 and \$9,000 have an average family size of 2.90.

In comparison to overall U. S. population of comparable age and income levels:

- a. Military males are less frequently married and;
- b. Military personnel have smaller families.

It has been argued that "adopting a more equitable incentive structure--equal pay for equal work--could contribute to a reversal of this trend" (toward growth in average family size). The data included in Tabs A through D do not support inferences

* Note that identical family size data bases are not available. The civilian data includes only children under 18 years of age. The military data represents "dependents", a category which would include children 18 through 21 as well as dependent parents. The number of dependent parents is considered to be very small.

**Binkin, p. 39

of a relationship between the mix of salary and benefits and expected family size. The evidence indicates that military marriage rates and family size are somewhat less than the civilian population and any perceived increase in marriage rate and family size is probably attributable to the military population becoming more similar to the civilian population as the anomalies attributable to conscription are removed from the compensation system.

It therefore appears that proposals to modify the military compensation structure must carefully consider the risks of raising the average married-to-single ratio and average family size toward the national average, at increased fringe benefits cost to DoD.

Comparison of Officer, Enlisted and Male Civilian
Marriage Rates

<u>Age Group</u>	<u>Officer</u>	<u>Military* Enlisted</u>	<u>Total</u>	<u>Civilian Male**</u>
18-19	None	10.3	10.3	8.2
20-24	34.7	36.2	36.2	41.3
18-24	34.7	30.4	30.5	31.2
18-44	77.1	50.7	54.2	65.2
18-54	78.1	51.2	55.0	70.5

*Includes both men and women; women represent 4.6% of military.

**Includes only men, since military is predominantly male.

Source:

Military - Percentage married by age, June 30, 1974. Computer printout produced by actuary (Military Personnel Policy), OASD (M&RA).

Civilian - Marital status and living arrangements, March 1974, Table 1, Series P-20, No. 271, issued October 1974, Current Population Reports, Population Characteristics, Bureau of Census.

TAB A

Comparison of Male Military and Male Civilian Marriage Rates

<u>Age Group</u>	<u>Civilian Males*</u>	<u>Military Population*</u>
17	2.0%	4.0%
18-19	8.4	10.3
20-21	26.9	25.5
22-23	50.3	42.4
17-23	23.6	27.4
24-25	66.9	60.4
26-27	76.7	74.4
28-29	81.5	81.0
30-34	85.7	85.9
35-39	87.9	88.6
40-44	87.9	90.8
45-54	88.1	90.5
18-54	70.5	55.0

*Civilian male data used since military is predominately (95.4%) male.

Sources:

Civilian - Characteristics of the population, United States Summary, 1970 Census of the Population, issued June 1973.

Military - Military percentage married by age, 30 June 1974, Actuary, Military Personnel Policy, OASD (M&RA).

TAB B

Comparison of Number of Children in Military and Civilian Families

<u>Age of Family Head</u>	<u>Average Number of Children</u>	
	<u>Civilian*</u>	<u>Military**</u>
< 25	0.81	0.58
25-34	1.98	1.76
35-44	2.58	2.55
> 44	2.05	1.53

*Represents number of own children under 18 years of age for husband-wife families.

**Represents number of dependents (maybe over 18 years of age) in families of size 2 or more. Data by age of family head unavailable. Data based on grade of military member and average age for each grade. Following relationships used: <25:E-1 to 4 and O-1; 25-34: E-5 and 6, O-2 and 3; 35-44:E-7, 8 and 9, O-4 and 5.

Sources:

Civilian - Table 207, Characteristics of the Population, United States Summary, 1970 Census of Population, issued in June 1973, U. S. Department of Commerce.

Military - Developed from FY 76 President's Budget (Detailed Personnel Backup Data) and Number of Military Personnel by Pay Grade and Age, 30 June 1974, OASD (M&RA), Actuarial Consultant, 1 May 1975, Chart 1891.

TAB D

Appendix 12 : Military Absences
(Not used)

Appendix 13-A
MILITARY ESTATE PROGRAM

Appendix 13-A-1: Survivor Benefit Plan

Appendix 13-A-2: Servicemen's Group Life Insurance

Appendix 13-A-3: Social Security Retirement Annuity

APPENDIX 13-A-1
SURVIVOR BENEFIT PLAN

SOURCE: All information appearing in this Appendix was extracted and copied from DOD Quadrennial Review of Military Compensation, Staff Working Paper, dated 5 September 1975.

Survivorship

The Survivor Benefit Plan (SBP) effective September 21, 1972, is designed to protect the survivors of retired members of the uniformed services who so desire. Annuities may be payable to: (1) the surviving spouse of a member who remained on active duty after qualifying for retirement, (2) the designated survivor of a member who chose before retiring to participate, (3) the designated survivor of a member who (a) was unmarried when retiring but who, before retiring, elected coverage for an individual having an insurable interest in him or her or (b) chose to participate within 1 year after acquiring a spouse and/or dependent children, (4) the designated survivor of a member who retired before September 21, 1972, and chose to participate, and (5) certain widows of retired members who died before September 21, 1973, and were not SBP participants.

The benefit paid to the survivor is 55 percent of the base amount and is adjusted for changes in the CPI. The base amount can be any amount of retired pay between \$300 and the full amount of retired pay. This benefit is reduced by Veterans Administration dependency and indemnity compensation payments and by the social security survivor benefit attributable to military service. If children are eligible beneficiaries, the payment is divided equally among them.

The cost to the member of providing the survivor benefit to a spouse is 2-1/2 percent of the first \$300 of the base amount plus 10 percent of the remainder of the base amount. This cost continues for the life of the member. Cost for an annuity that flows to the spouse until the spouse becomes ineligible and then to the children is the same as for the spouse plus an actuarial charge which depends on the age of the member, the spouse, and the youngest child. Cost for an annuity for children only is based on an actuarial charge of about 3 percent of the annuity payable. The monthly cost of providing an annuity to a person with an insurable interest would be 10 percent of the member's full retired pay, plus an additional 5 percent of the member's full retired pay for each full 5 years that the named beneficiary is younger than the retiree; however, the total cost may not exceed 40 percent of the member's retired pay.

Appendix 13-A-2
SERVICEMEN'S GROUP LIFE INSURANCE (SGLI)*

1. General.

In 1965, the Servicemen's Group Life Insurance (SGLI) program was originally established. The law provided coverage of \$10,000 to active duty members of the uniformed services, P.L. 89-214 (1965).

In 1970, the law was amended to increase the amount of insurance to \$15,000. The amendment also extended coverage to members of the Ready Reserve. P.L. 91-291 (1970).

In 1974, the law was amended to increase the maximum amount of insurance for all members, above, to \$20,000. The previously established coverage was also extended to members of the Ready and Retired Reserves. The law also provided provision for automatic conversion of the SGLI policy to a five year non-renewable term policy to be known as Veteran's Group Life Insurance (VGLI). P.L. 93-289 (1974).

SGLI is a group life insurance policy purchased by the Veteran's Administration from a commercial life insurance company.

SGLI is term life insurance, that is, it is "pure" insurance. There is no cash or loan value as there is in other types of life insurance; e.g., ordinary or whole life insurance, limited pay insurance, single-premium insurance, or endowment insurance.

The maximum amount of full-time coverage is currently \$20,000. The coverage is automatic subject to the right of the member to waive, in writing, the coverage either totally or in \$5,000 increments.

The premium cost of the insurance is deducted from the member's pay.

3. Discussion.

The cost of SGLI is jointly shared by the member and the U.S. Government.

The member pays the premium for the normal cost of the insurance.

The extra cost due to hazards involved with service in the Armed Forces is paid by the Government.

* Title 38 United States Code, 765-779. VA Handbook 29-75-1 dated July 25, 1975 contains details of coverage eligibility.

4. Conclusion.

Since the group insurance costs are borne by the insured member and the extra costs attributable to hazards of military life are paid by the Government as cost-of-doing-business, the SGLI program is not a compensation benefit.

APPENDIX 13-A-3

SOCIAL SECURITY RETIREMENT ANNUITY

SOURCE: All information appearing in this Appendix was extracted and copied from DOD Quadrennial Review of Military Compensation, Staff Working Paper, dated 5 September 1975.

- o Retirement Eligibility 40 or more quarters of employment covered under the social security system.* The full annuity is payable at age 65, or a reduced annuity is available at age 62.
- o Calculation of Annuity Based on average lifetime covered earnings after dropping out the lowest 5 years.
- o Amount of Annuity Varies according to average lifetime covered earnings.
- o US Gov-Service Member Cost Sharing Presently US Gov. & the Service-member each contribute 5.85%** of the first \$15,300 of annual income.
- o The annuity vests to a member when he has 40 quarters of covered employment.
- o In addition to the member's retirement annuity, social security coverage results in benefits for the member's spouse, widow at age 62, widow under age 62 with children, and dependent parents. Death benefits (lump sum) are also provided.

*The benefit may be vested with less than 40 quarters of coverage if the worker has at least 6 quarters of coverage and has at least 1 quarter of coverage (acquired at any time) for each year elapsed after 1950, or after age 21, if later, and before the year of attainment of age 65 for men and age 62 for women, or year of death or disability, if earlier.

**Includes 4.95% for Old Age, Survivor and Disability Insurance and 0.9% for Medicare.

Appendix 13-B

THE RATIONALE FOR THE MILITARY RETIREMENT PROGRAM'S BEING NON-FUNDED AND NON-CONTRIBUTORY*

The current pay-as-you-go military retirement program, whether made funded or left unfunded and whether made contributory or left non-contributory, will continue to be a pay-as-you-go military retirement program.

Under the current non-contributory/unfunded pay-as-you-go military retirement program, retired pay is an annual Congressional appropriation of cash obtained by either (a) Government's obtaining the cash from taxes, or (b) Government's borrowing the cash by issuing new Government securities.

Under a contributory and/or funded military retirement program, retired pay will come from an annual Congressional appropriation of cash obtained by either (a) Government obtaining the cash from taxes, or (b) Government borrowing the cash by issuing new Government securities; that is, a pay-as-you-go military retirement system.

The rationale? Assume the Government establishes a contributory and/or funded military retirement program and the following scenario:

1. The military member/Government make a contribution of cash to the fund;
2. Government borrows the cash in the fund by substituting in lieu thereof, Government securities; e.g. bonds, notes, etc;
3. Government spends the cash it has borrowed from the fund;
4. Military members retire and make claims on the fund which has no cash to make payments; hence, the bonds must be replaced with cash which the Government raises by either (a) Government's obtaining the cash from taxes, or (b) Government's borrowing the cash by issuing new Government securities.

The net benefit/cost result? The land, labor, capital financial costs of administration of the contribution and/or fund will have increased with no apparent offsetting financial benefit.

* The following assumes that, under both pay-as-you-go retirement systems, the RMC of military members, and the explicit/imputed retirement contribution therefrom, are the same; i.e. if there is an explicit contribution of, say, 5%, there would be an imputed contribution of 5%.

Appendix 13-B
A Source of Funds for a Military (DOD)
Retirement System

EFFECTIVENESS/ EFFICIENCY	GOVERNMENT SECTOR FUND Example: De Jure Civil Service Retirement Fund	PRIVATE SECTOR FUND Example: De Facto Military Retirement Fund *
Rate of Return	5% ^{1/}	Average Return on Equity 18-22% before tax 10-12% after tax
ECONOMY Cost of Land Cost of Labor Cost of Capital	\$9.068M ^{2/}	Small disbursement costs
NET OPPORTUNITY COSTS to Government	Negative 13% to 17% return Negative \$9 million	Positive 18% to 22% return Positive \$9 million ^{3/}

- ^{1/} Controlled by the Federal Reserve System.
- ^{2/} Administrative and investment costs. Interest costs, which would be additional, are not included.
- ^{3/} Social Security not included in these figures.

* General Note: The Military Retirement System, in its operation, is in fact an imputed retirement fund existing in the Private Sector. The Government, through taxes, draws on the "fund" as required to pay military retirement obligations.

Appendix 13-C

RATES OF RETURN BEFORE AND AFTER TAXES
900 Manufacturing and Financial Corporations

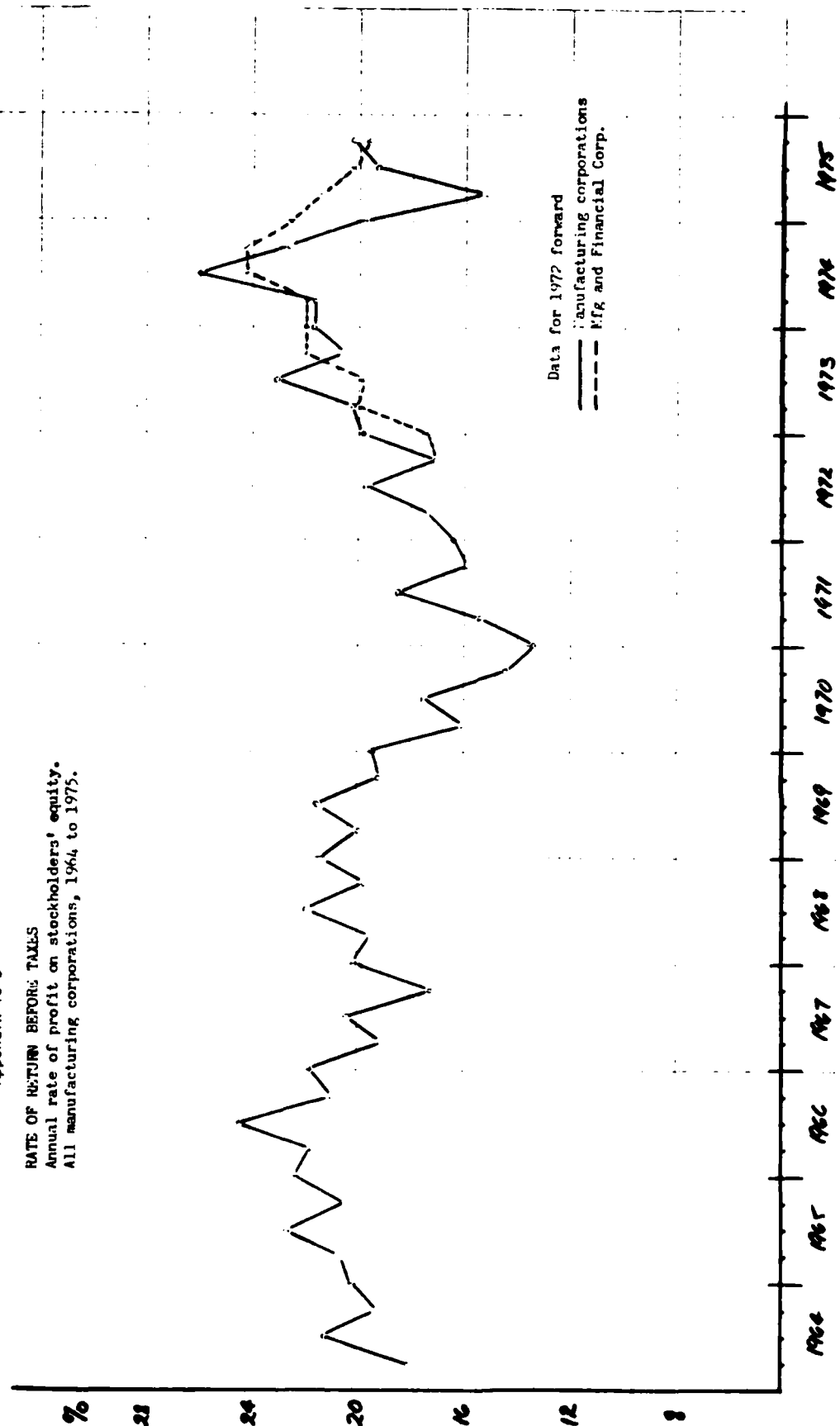
Year / Quarter	Index of Corporate Profits (Billions - Annual Rate)		% Return on Equity	
	Before Tax	After Tax	Before Tax Return	After Tax (return on common equity)
75	IV N/A 129.5 113.3 101.2	N/A 78.6 70.3 62.3	N/A 19.72 20.31 21.77	11.8 12.0 12.6 13.4
74	IV 131.5 157.0 141.0 135.3	79.5 94.3 82.1 83.1	23.16 24.48 24.39 22.47	14.0 14.7 14.2 14.2
73	IV 121.0 120.0 122.0 118.0	75.0 73.0 73.0 72.5	22.59 19.89 20.39 17.70	14.0 12.1 12.2 10.8
72	total year	108.0	16.43	10.5
71	total year	89.0	*	*
70	total year	78.0	*	*

Source: Division of Financial Statistics, FTC.
Quarterly Financial Report for Manufacturing Corporations
Investor's Management Sciences, Inc., a subsidiary of Standard & Poor's Corp.
Business Week

* Earlier composite data for all financial and non-financial corporations not available.

Appendix 13-8

RATE OF RETURN BEFORE TAXES
 Annual rate of profit on stockholders' equity.
 All manufacturing corporations, 1964 to 1975.



Data for 1972 forward
 — Manufacturing corporations
 - - - Mfg and Financial Corp.

Source: Division of Financial Statistics, FTC.
 Quarterly Financial Report for Manufacturing
 Corporations
 Investors Management Sciences, Inc., a subsidiary
 of Standard & Poor's Corp.
 Business Week

APPENDIX 13-C
MILITARY NONDISABILITY RETIREMENT

SOURCE: All information appearing in this Appendix was extracted and copied from DOD Quadrennial Review of Military Compensation, Staff Working Paper, dated 5 September 1975.

A Uniformed Services member, whose retirement eligibility is based solely on service, retires under the nondisability retirement subsystem. He is paid two separate and unrelated annuities--one from his Uniformed Service when he leaves that service and the other from the Social Security Administration when he reaches age 65.

The Uniformed Services Nondisability Retirement Annuity

- o Retirement Eligibility 20 or more years of active uniformed service.*
- o Calculation of Annuity 2&1/2 percent for each year of service creditable for retirement times terminal basic pay.
- o Amount of Annuity 50 percent to a maximum of 75 percent of terminal basic pay.
- o Employer-Employee Cost Sharing Employee does not make an explicit contribution toward the cost of the retirement system.**
- o The annuity is not vested until retirement eligibility is attained at 20 years of service.
- o Part of the annuity is vested to the survivor of a retiree if he elects a reduced retirement annuity during his own retired lifetime.***

*Early retirement is a mechanism used to assure maintenance of a youthful and vigorous force.

**It has been argued that basic pay has been held down in recognition of retirement costs. See, for example, House of Representatives Committee on Armed Services Report No. 549, 89th Congress, p. 24.

***The option is provided by the Survivor Benefit Plan. See next page.

Appendix 13-D

DISABILITY RETIREMENT

SOURCE: Report of the Military Medical Health Care Study, December 1975, by Dept of Defense, Dept of Health Education and Welfare, and the Office of Management and Budget

- Requirement ----- To be physically disqualified for further active service.
Determination of disability ----- The Service must determine that the disability (1) is or may be of a permanent nature based on accepted medical principles; (2) is not the result of the member's intentional misconduct or willful negligence and was not incurred during a period of unauthorized absence, and (3) was incurred while member was entitled to basic pay.
- Eligibility for annuity ----- Any member of the Uniformed Services on active duty, whether regular or Reserve, is eligible who is rated at least 30 percent disabled under the Veterans Administration (VA) schedule for rating disabilities incurred in line of duty. If rated less than 30 percent, the member is eligible if he has completed 20 YOS. Members rated less than 30 percent with less than 20 YOS are eligible for a lump sum separation payment.
Amount of annuity ----- Percent of disability times member's basic pay or 2½ percent YOS x basic pay to a maximum of 75 percent of basic pay (i.e. over 75 percent disability entitles a member to a maximum of 75 percent of basic pay).
- VA disability compensation annuity ----- Payable at member's option either in lieu of DOD benefits or in combination with them but not in addition to DOD benefits.
Social Security annuity (SSA) ----- Because members are covered by Social Security they may receive disability benefits under that system if the member is determined to be totally disabled by the SSA. This annuity is in addition to any other annuity provided the member. The amount of annuity is based on average covered wages up to time disability was incurred.
- Tax advantage ----- VA and Social Security benefits are not subject to Federal income tax. DOD retired pay attributed to degree of disability is not subject to Federal income tax. The "sick pay exclusion" may permit a further reduction of income subject to Federal taxes.
- Fringe benefits ----- Entitled to same benefits (commissary, medical, PX, etc.) as member who retires under nondisability retirement system.
- VA benefits ----- Entitled to all benefits under VA.
Severance pay ----- Members rated less than 30 percent disabled are entitled to severance pay, 2 months basic pay times years of service. Maximum: 2 years basic pay.

APPENDIX 13-E

THE UNIT CREDIT ACTUARIAL COST METHOD*

SOURCE: All information appearing in this Appendix was extracted and copied from DOD Quadrennial Review of Military Compensation, Staff Working Paper, dated 5 September 1975.

1. Actuarial Cost Methods

Actuarial cost methods have been developed by actuaries as funding techniques to be used in actuarial valuations. Many of the actuarial cost methods are also useful for accounting purposes. The following discussion of the principal methods describes them as funding techniques (to simplify the discussion, references to prior service cost arising on amendment of a plan have been omitted; such cost would ordinarily be treated in a manner consistent with that described for past service cost). Their application for accounting purposes is described in the accompanying Opinion.

2. Accrued Benefit Cost Method--Unit Credit Method

Under the unit credit method, future service benefits (pension benefits based on service after the inception of a plan) are funded as they accrue--that is, as each employee works out the service period involved. Thus, the normal cost under this method for a particular year is the present value of the units of future benefit credited to employees for service in that year (hence unit credit). For example, if a plan provides benefits of \$5 per month for each year of credited service, the normal cost for a particular employee for a particular year is the present value (adjusted for mortality and usually for turnover) of an annuity of \$5 per month beginning at the employee's anticipated retirement date and continuing throughout his life."

"As to an individual employee, the annual normal cost for an equal unit of benefit each year increases because the period to the employee's retirement continually shortens and the probability of reaching retirement increases; also, in some plans, the retirement benefits are related to salary levels, which usually increase during the years. As to the employees collectively, however, the step-up effect is masked, since older employees generating the highest annual cost are continually replaced by new employees generating the lowest. For a mature employee group, the normal cost would tend to be the same each year.

*Extracted from Opinion Number 8 of the Accounting Principles Board.

The unit credit method is almost always used when the funding instrument is a group annuity contract and may also be used in trusted plans and deposit administration contracts where the benefit is a stated amount per year of service. This method is not frequently used where the benefit is a fixed amount (for example, \$100 per month) or where the current year's benefit is based on earnings of a future period."

Example Calculation

Enlisted man entered service at age 19. He is now age 22. If he is still on active duty at age 39 he will retire with immediate retired pay.

Unit Credit Normal Cost Percentage

$$= (2.5\% \text{ of } \$10,838) \times 19.47311 \times .150 \times .55720 + \$5,467$$

$$= 8.1\% \text{ of current pay}$$

Notes:

- (1) Static assumptions (3.5% interest).
- (2) Retired Pay earned next year = 2.5% of \$10,838 (expected pay at retirement).
- (3) .150 is the probability that a person who has ended his 3rd year of service will still be in active service after 17 more years.
- (4) 19.47311 is the actuarial present value of an annuity of 1 per year payable to a man age 39. Reflects 3.5% interest.
- (5) .55720 is the present value (at 3.5% interest) of 1 payable in 17 years time.
- (6) \$5,467 is his current annual rate of pay.

Appendix 13-F

RETIREMENT SYSTEM OF THE MILITARY
(MILITARY RETIREMENT AND SOCIAL SECURITY PROGRAMS)
REGULAR MILITARY COMPENSATION/SALARY BASIS, 1975

		CONTRIBUTIONS TO RETIREMENT AS A PERCENTAGE OF RMC/SALARY			
		MILITARY	PRIVATE SECTOR	CIVIL SERVICE	
(A) RETIREMENT CONTRIBUTION BY EMPLOYER (PRESENT VALUE AMOUNT AS A PERCENT OF SALARY)	RATE OF RETURN				
	1	34.4			
	2	25.8			
	3	17.5			
	4	13.2			
	5	10.0			
	6	7.7	1/ ← 6.8	6.6	7.0 (IMPUTED)
	7	6.0			
	8	4.7			
	9	3.9			
10	3.2				
(B) EMPLOYER CONTRIBUTION TO SOCIAL SECURITY		5.85 (4.19) 2/	5.85	NONE	
(C) TOTAL EMPLOYER CONTRIBUTION		12.65 (14.19)	12.45	7.0	
(D) TOTAL EMPLOYEE CONTRIBUTION (TO SOCIAL SECURITY OR RETIREMENT PROGRAM AS APPROPRIATE)		5.85 (4.19) 2/	5.85 3/	7.0 4/	
(E) TOTAL OF EMPLOYER AND EMPLOYEE CON- TRIBUTIONS		18.50 (18.36)	18.30	14.0	


- 1/ The 6.8 percent rate is an extrapolation average of Private Sector and Civil Service rates on a salary basis.
 2/ The 5.85 percent is the FICA rate paid by all sectors of the economy. Because this chart reflects Regular Military Compensation--not Base Pay--the adjusted FICA rate of 4.19 percent is also given.
 3/ Employee contributions to retirement, in addition to contributions to Social Security retirement, are not depicted here. Participation in employee retirement plans are at the option of the employee.
 4/ The Civil Service Retirement Plan does not include Social Security.

SOURCE: US Army Military Compensation Task Force, The Pentagon, Washington, D. C.

Reallocation of Resources: Military Retirement (1)

COMMANDERS DIGEST

DEPARTMENT OF DEFENSE • WASHINGTON, D.C.



Vol. 12, No. 25

October 26, 1972

DoD Study Group Report

New Military Retirement System Proposed

REALLOCATION OF RESOURCES

- FOUNDATION IS COMPETITIVE ACTIVE DUTY PAY
- OTHER COMPENSATION TOOLS
 - ① ENLISTMENT BONUS } AT INITIAL PROCUREMENT
 - ② RETENTION INCENTIVES
 - SPECIAL PAY
 - INCENTIVE/HAZARDOUS DUTY PAY
 - SELECTIVE REENLISTMENT BONUS
 - OFFICER CONTINUATION PAY
 - ③ SEPARATION PAYMENTS } AFTER 5 YOS AND UNTIL RETIREMENT ELIGIBILITY
 - READJUSTMENT PAY
 - EQUITY PAY
 - ④ RETIREMENT BENEFITS
 - INCREASED MULTIPLIERS FOR LONG SERVICE
 - MODIFIED PAYMENTS FOR RETIREMENT BEFORE 30 YOS
 - NEW SURVIVOR BENEFIT PLAN

THROUGHOUT
ENTIRE CAREER
WHERE REQUIRED

AFTER
20
YOS

RESULTS

- INCREASED FLEXIBILITY IN ATTRACTING AND RETAINING SELECTIVELY
- ACCEPTABLE PAYMENTS TO THOSE WHO MUST BE SEPARATED PRIOR TO RETIREMENT

Chart

In March 1971, an Interagency Committee was appointed by the President to study the military retirement and survivor benefit system and to make recommendations for changes to that system. In July 1971, the Interagency Committee transmitted to the President its recommendations for changing, among other things, the military nondisability retirement system. Those recommendations were reviewed within the Department of Defense, and, on January 28, 1972, Secretary Laird established a DoD Retirement Study Group to evaluate the Interagency Committee recommendations and to recommend a course of action concerning changes

COMPLETE RETIREMENT INFORMATION COMING

Facts concerning the DoD Retirement Study Group's recommendations will be furnished to each Service member.

Included in the complete material to be distributed will be worksheets to allow Service members to relate the proposed changes to their individual circumstances.

INTERRELATIONSHIP BETWEEN ELEMENTS OF THE COMPENSATION SYSTEM

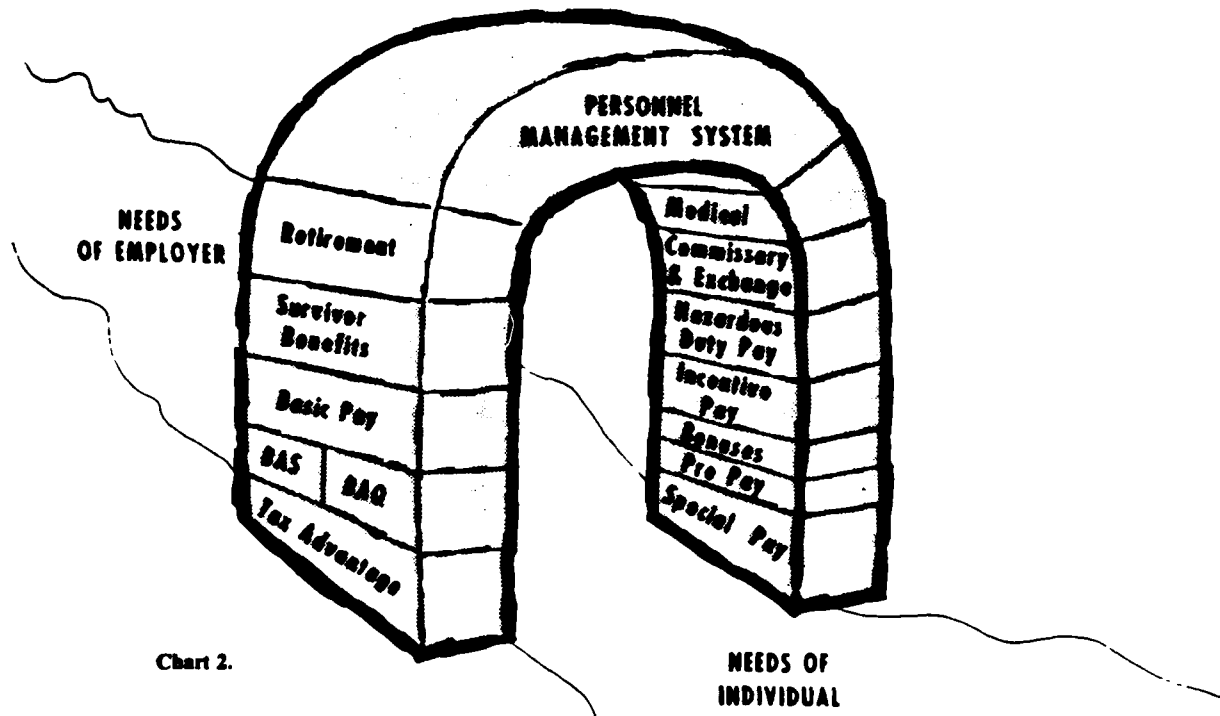


Chart 2.

to the military nondisability retirement system. On May 31, 1972, the DoD Retirement Study Group submitted its report to the Secretary. This issue of **COMMANDERS DIGEST** reviews the context in which recommendations were developed by the DoD Retirement Study Group and summarizes the recommen-

dations of that Group.

An understanding of the framework within which the DoD Study Group worked is essential in gaining an understanding of the recommendations made. From the beginning, the DoD Retirement Study Group viewed the compensation system as comprised of a variety of elements of which the retirement system is one; the retirement system, however, was considered a very important element of the overall compensation system. The compensation system was viewed as a threshold, linking the needs of the individual, on the one hand, and the needs of the military employer on the other.

Combinations of Elements

Various combinations of elements of a compensation system could join to meet the needs of the individual and the needs of the employer, many of which would be satisfactory to the member. One compensation system, for example, may provide \$.80 of the compensation

dollar in pay and \$.20 of the compensation dollar in fringe benefits; another system may provide \$.70 of the compensation dollar in pay and \$.30 in fringe benefits. The employer, also, would normally be indifferent to those systems since they both represent a dollar of labor cost. However, not all combinations may be satisfactory from the viewpoint of the employer whose unique conditions of service require specific consideration of the interrelationship among the elements in order to achieve the best supporting structure.

The interrelationship, the interlocking, the interdependence among the elements of the military compensation system require an investigation of the retirement system in this context. In fact, changes to the retirement system may require changes in other elements of the compensation system. Conversely, and perhaps more important, changes in other elements of the compensation system may quite possibly require changes to the retirement system. This

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interrelationship was fundamental in terms of the DoD Study Group's consideration, and from this perspective, the retirement system was studied.

It was obvious that the compensation system had undergone considerable change in the past. Some of those changes had the effect of increasing the value of an element of compensation; some changes had the effect of decreasing the value of an element of compensation. However, the *net* result in the past has been a substantial increase in the total compensation paid to an individual Serviceman.

Beneficial Changes

The changes to the compensation system have been beneficial for the individual in some cases, for the force manager in some cases, and for both in other cases. The changes, for the most part, were not made without considerable study and analysis and were undertaken in an effort to improve the effectiveness of the military system. As the force structure changed and as the active military force grew larger to support the world-wide commitments of the Nation, the compensation and personnel management systems changed to reflect the new environment. Recent changes in the compensation system are indicative of these changes over time.

Chart Four presents past trends in

HISTORICAL BACKGROUND

- COMPENSATION SYSTEM IS NOT IMMUTABLE
- ELEMENTS OF THE COMPENSATION SYSTEM ARE CONTINUALLY CHANGING
 - SOME CHANGES INCREASE THE VALUE OF AN ELEMENT OF COMPENSATION
 - SOME CHANGES DECREASE THE VALUE OF AN ELEMENT OF COMPENSATION
 - THE NET RESULT FOR THE INDIVIDUAL HAS BEEN A SUBSTANTIAL INCREASE IN TOTAL COMPENSATION
- CHANGES HAVE BEEN BENEFICIAL FOR INDIVIDUAL FOR FORCE MANAGER

Chart 3.

some of the principal elements of compensation.

It shows that basic pay has increased 68 percent since 1968. The increase in the principal elements of military com-

penetration can be compared to the general increases in wages in the economy over the same time period. Gross hourly earnings of non-supervisory employees on private nonagricultural payrolls have increased about 27 percent; professional/technical earnings are up 24 percent; and high-level executive salaries have increased about 21 percent. The increase in basic pay has been, in part, the result of a conscious effort to attain relatively competitive active duty pay rates; and today it can be said that military compensation, by pay grade, is relatively competitive with pay in the private sector.

In addition to increases in basic pay, there has been an upward adjustment in basic allowance for quarters (BAQ), as well as a significant increase in the amount of the reenlistment bonus payment.

Another Perspective

The increases in military pay can be viewed from another perspective: while the active duty force has decreased nearly 34 percent over the past four years, annual personnel-related costs have increased almost 24 percent in terms of current dollars (this is equivalent to a decrease of less than 17 per-

PAST TRENDS IN COMPENSATION

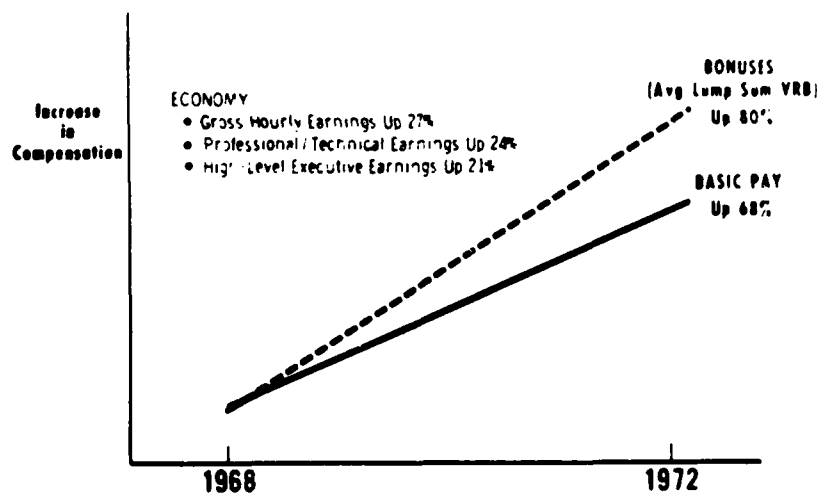


Chart 4.

SUMMARY OF RECENT CHANGES AND PROPOSED CHANGES IN COMPENSATION

cent in terms of constant dollars).

Prior to achieving relatively competitive active duty pay levels, it could be argued, compellingly, that a very liberal military retirement system was justifiable in order to provide deferred compensation to offset low active duty pay. However, when active duty compensation attained relatively competitive levels, the need to investigate the requirement to change the retirement system became clear: whether to change, and how much and to what degree a change is required is a matter of judgment.

In view of past trends in military compensation and proposals to change military compensation, it is clear that tremendous increases in total compensation have or will shortly occur. Competitive levels have been reached for each military pay grade. These competitive levels must be maintained. Currently, this is accomplished through automatic, statutory increases tied to the increases experienced in the private sector; the next increase is scheduled for January 1, 1973.

Recent Legislation

Legislation recently passed by the Congress and signed by the President will provide much-needed increased survivor protection for military retirees.

In addition to competitive pay levels, bonuses have been sought. The Uniformed Services Special Pay Act of 1972 would provide: an expanded enlistment bonus to provide incentive to enlist in the combat arms and other critical skills a selective reenlistment bonus providing a cash payment to

✓ COMPETITIVE ACTIVE DUTY PAY BY PAY GRADE

- PAY INCREASE SCHEDULED FOR JANUARY 1, 1973

✓ IMPROVED SURVIVOR BENEFITS FOR RETIREES (ENACTED SEPTEMBER 21, 1972)

✓ SPECIAL PAY PACKAGE

- EXPANDED ENLISTMENT BONUS
- SELECTIVE REENLISTMENT BONUS
- CONTINUATION PAY FOR OFFICERS
- MEDICAL OFFICER BONUSES AND SPECIAL PAY

✓ SPECIAL PAY AND BONUSES FOR LAWYERS

✓ SPECIAL PAY FOR NUCLEAR-QUALIFIED PERSONNEL

■ RETIREMENT

Chart 5.

enlisted men of up to \$15,000; continuation pay for officers of up to \$4,000 for each year of continued service; and bonuses and special pay for medical officers.

Special pay and bonuses are being sought for lawyers and an extension of special pay for nuclear-qualified personnel is also being sought.

Transfer Required

In effect, through the continued study and conscious design of the military

compensation system, resources are being allocated into active duty pay. The transfer of resources is required in order to increase the efficiency of the compensation system. As a result of this transfer, some change in the elements of the retirement system could logically be expected.

As a whole, the retirement system—like the compensation system—has changed significantly in the past. Chart Six outlines some of the provisions of the nondisability retirement system applicable to officers that have changed since the start of this century, primarily as a result of the changing force structure.

A review of the nondisability retirement laws enacted by the Congress during this century discloses that during the first 35 years a 30-year career was the minimum service that entitled an officer to be retired as a matter of right. In fact, the device of restricting the number who could be on the retired list at one time limited voluntary retirements even at 30 years of service.

Involuntary Retirement

Beginning in 1916, a series of laws was enacted that authorized involuntary retirement of officers in order to improve promotion flow or remove the

HISTORICAL BACKGROUND

OFFICERS

- MINIMUM OF 30 YOS REQUIRED FOR VOLUNTARY RETIREMENT (1900-1935)
 - INVOLUNTARY RETIREMENT ALLOWED AFTER 20 YOS (1916)
 - SOME INVOLUNTARY RETIREMENTS WITH AS LITTLE AS 7 YOS
- VOLUNTARY EARLY (15-29 YOS) RETIREMENT (1935)
 - DESIGNED TO ELIMINATE WW I "HUMP"
 - LATER RESTRICTED TO 20 YOS (1946-NAVY, 1948-ARMY/AF)

Chart 6.

unqualified. Although in most instances, 20 years of service was required, in several instances, involuntary retirement with as little as 7 years of service in the case of non-selected officers in the Navy and 10 years of service in the case of lesser qualified officers in the Army was authorized.

Voluntary retirement of Army officers with 15-29 years of service was authorized in 1935. That authority, designed to alleviate the World War I "hump," was repealed in 1948 when the present voluntary retirement authority for Army and Air Force officers with 20 years of active service (including 10 years of active commissioned service) was enacted. The Navy was given similar authority in 1946.

A similar revision in the provisions of the nondisability retirement system applicable to enlisted men has also occurred.

Army Enlisted Men, until 1945, were required to complete 30 years of active service for nondisability retirement. (Service in certain unhealthy or undesirable overseas assignments before 1912 was counted double in computing retirement eligibility.) In 1945, the current law authorizing retirement of Army and Air Force enlisted men after 20 years of service was enacted. (It is interesting that the 1945 statute required use of the last six months' average pay in computing retired pay. That was later modified to permit use of terminal pay for enlisted men.)

Navy and Marine Corps Enlisted Men can "retire" only after 30 years of active service plus service in the Fleet Reserve or Fleet Marine Corps Reserve. The equivalent of retirement for less than 30 years of service is achieved through transfer to the Fleet Reserve or Fleet Marine Corps Reserve with "retainer pay." Retainer pay is computed in the same manner as retired pay.

In 1916, Navy and Marine Corps enlisted men were authorized to transfer to the Fleet Reserve after 16 years of service with $\frac{1}{3}$ of their basic pay; after 20 years of service with $\frac{1}{2}$ of their based pay. In 1925, the 16 years of service authority was repealed for new entrants leaving only the 20 years of service authority for new entrants. Except for the change in formula from $\frac{1}{2}$ of basic pay to $2\frac{1}{2}$ percent times years of service times basic pay, the

New Program Advantages

1. Gradual transition spans more than 20 years.
 - Members with 20 or more years of service minimally affected.
 - Members on active duty with less than 20 years of service only partially affected. The more time under today's competitive active-duty pay scale, the more the affect of the new plan.
 - Only new entrants to active duty are fully under the plan.
2. Save-pay provision guarantees equity.
 - Today's levels of retired pay represent the floor; no one in the future will receive less. Most will receive significantly more.
3. Plan is necessarily complex.
 - The new plan is complex because of the gradual transition provision and the substantial efforts put forth to insure maximum benefits to all Service members—present and future.
4. Retirement system remains "free."
 - New plan avoids the burden of a contributory system for members on active duty today.
5. 20-year retirement remains.
 - The new plan retains 20-year retirement eligibility with an immediate annuity.
6. Equity and readjustment payments provided.
 - The new plan provides an equity payment for the first time to all members—officer and enlisted—who voluntarily leave active duty after 10 but before 20 years of service.
 - The new plan provides readjustment pay, for the first time, to all enlisted men and some officers who involuntarily leave active duty after 5 but before 20 years of service.
7. Increased multipliers benefit thousands.
 - The multiplier increases to 3 percent for each year of service after 24 (rather than $2\frac{1}{2}$ percent).
 - 23,000 enlisted men and 14,000 officers presently on active duty stand to gain.
8. Survivor benefits protection available at low cost.
 - Low cost of the new survivor benefit plan significantly increases the value of retired pay.
 - Increased survivor protection offered at no cost to member on active duty with 20 or more years of service.

Chart 7-8.

basic authority for transfer to the Fleet Reserve has remained basically unchanged since that time.

One further interrelationship, similar

to the interrelationship within the compensation system, is important when considering the requirement to change the military retirement system.

Substantial Interrelationship

The DoD Study Group believed a substantial interrelationship existed between the compensation system—of which retirement is an important element—and the personnel management system. The elements of the compensation system can significantly affect the ability of the personnel manager to attract and retain the kinds and numbers of members required in an all-volunteer environment. Changes to the compensation system or a reallocation of resources within the compensation system can improve the efficiency of the personnel management system. The DoD Study Group referred to that key interrelationship frequently during its consideration of the requirement to change the military retirement system. It investigated the present and objective career structure of both the enlisted and officer force in order to determine the most effective means of maintaining an All-Volunteer Force capable of carrying out the mission of defense.

Charts Nine and Ten portray the interrelationship between the compensation and personnel management system. The graph presents a comparison of years of service versus the number of person-

nel under the present force and under a desired conceptual force. Under the present force, the initial input is high and tapers off rather rapidly. The profile contains many small humps and valleys and a large hump exists just prior to the 20-year point (largely the result of the

Korean conflict). The desired pattern would more ideally carry people into an 8- to 12-year career, but then separate them or allow them to leave prior to retirement, retaining a smaller and more stable career force.

Desired Force Profile

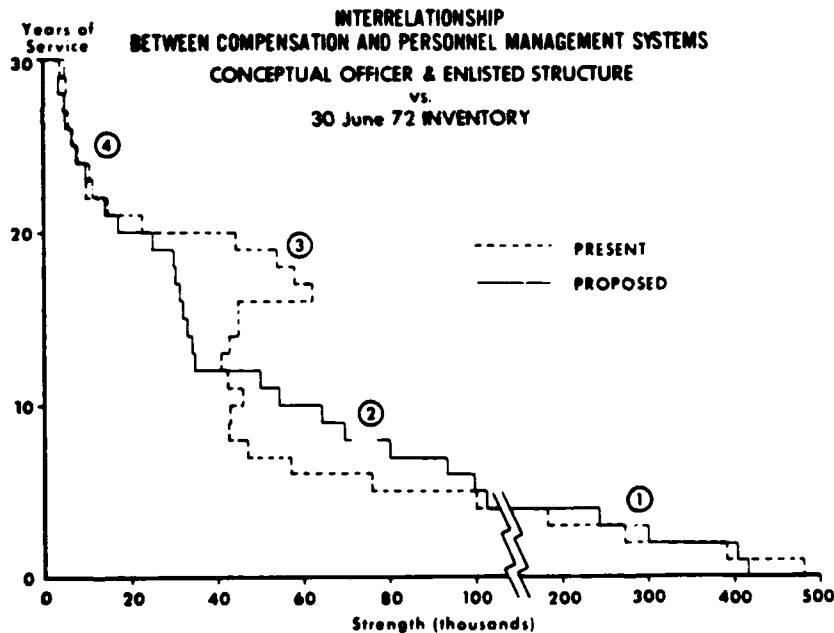
Through a reallocation of resources, the desired force profile can be gradually attained over an extended period of time:

- The foundation must be a competitive active duty pay system. This we have achieved.
- Other compensation tools are required, however, to provide the proper number of entrants on to active duty. They could be attained by providing enlistment bonuses as an attraction to shortage skill areas. The authority for an enlistment bonus in certain skill categories exists in present law, and the proposed Uniformed Services Special Pay Act of 1972 would extend that authority to include all critical skills.
- In order to obtain the retention desired to the 8 to 12 years of service points and beyond, the Services presently provide special pay for physicians, dentists, veterinarians and optometrists; continuation pay for physicians, dentists and nuclear-qualified submarine officers; and

“... The transfer of resources is required in order to increase the efficiency of the compensation system. . . .

“... Changes to the compensation system or a reallocation of resources within the compensation system can improve the personnel management system. . . .”

—DoD Retirement Study Group



incentive/hazardous duty pays. In addition, the proposed Uniformed Services Special Pay Act of 1972 would provide a Selective Reenlistment Bonus for enlisted men (replacing the present Regular Reenlistment Bonus and Variable Reenlistment Bonus) and an officer continuation payment.

- To achieve the desired career force, gradually, over an extended period of time, and to maintain that force at the desired level prior to 20 years of service, separation payments need to be provided. Payments under the present system are available only to certain categories of officers and a certain small category of enlisted reservists. These payments need to be modified and extended to all officers and enlisted men.
- A reallocation of benefits in the retirement system can be made to assist personnel management objectives for members who serve to retirement eligibility.

Modifications Required

The DoD Study Group believes that modifications are required to provide a system of separation payments that will support personnel management goals. Further, the DoD Study Group believes that there is a requirement to modify the military retirement system in order to make that system more effective as a management tool.

The DoD Study Group concluded, after its initial study, that the compensation system must satisfy three principal objectives. Competitive pay must be maintained by pay grade. Further, selective retention incentives must be provided, where required, in addition to the competitive pay by pay grade to insure that military compensation is competitive by skill category. These two objectives are essential in attracting and retaining the kinds and number of personnel required. The compensation system must also support the goals of the personnel management system.

However, the provisions of the present retirement system could quite possibly hamper efforts to achieve force management goals; the rising costs of the present retirement system could quite possibly hamper efforts to allocate compensation resources effectively. Force

REALLOCATION OF RESOURCES

- **COMPENSATION TOOLS (In Addition to Competitive Pay)**
 - ① **ENLISTMENT BONUSES**
 - ② **RETENTION INCENTIVES**
 - SPECIAL PAY (present)
 - INCENTIVE/HAZARDOUS DUTY PAY (present)
 - SELECTIVE REENLISTMENT BONUSES
 - OFFICER CONTINUATION PAY
 - ③ **SEPARATION PAYMENTS (between 5-20 years)**
 - MODIFICATIONS ARE REQUIRED TO ATTAIN DESIRED FORCE DISTRIBUTION BY GRADE AND YEARS OF SERVICE
 - ④ **RETIREMENT BENEFITS (after 20 years)**
 - MODIFICATIONS ARE REQUIRED TO INCREASE ATTRACTIVENESS OF LONG SERVICE (30 years plus) VERSUS MID-CAREER RETIREMENT

Chart 10.

FINDINGS OF INITIAL STUDY

OBJECTIVES

- * MAINTAIN COMPETITIVE PAY BY PAY GRADE
- * PROVIDE ADDITIONAL SELECTIVE RETENTION INCENTIVES WHERE REQUIRED TO BE COMPETITIVE
- * INSURE THAT COMPENSATION SYSTEM SUPPORTS PERSONNEL MANAGEMENT GOALS

PROBLEM

- * THE PROVISIONS OF THE PRESENT RETIREMENT SYSTEM MAY HAMPER EFFORTS TO ACHIEVE FORCE MANAGEMENT GOALS
- * THE RISING COSTS OF THE PRESENT RETIREMENT SYSTEM MAY HAMPER EFFORTS TO ALLOCATE RESOURCES EFFECTIVELY

CONCLUSION

- * RETIREMENT SYSTEM SHOULD BE STUDIED

Chart 11.

management objectives must be supported, in part, by the provisions of the retirement system. Further, rising retirement costs will make efficient allocation of resources more difficult, especially in terms of increased benefits.

Faced with this problem, the DoD Study Group concluded that the retirement system should be studied to determine if it is satisfactorily supporting the goals of the personnel management system and compensation system.

7 / COMMANDERS DIGEST / OCTOBER 26, 1972

DoD Study Group Report

Nondisability Retirement: Recommendations

The remainder of this article discusses the DoD Study Group's recommended modifications to the military nondisability retirement system. It should be kept in mind that these recommendations were made in the context of changes to and interrelationships between the overall military personnel management and compensation systems.

Present System Must be Studied

Although a consideration of the requirement to change the present retirement system is needed as a result of the substantial reallocations of resources within the compensation system and as a result of the recognition of the expansive changes possibly resulting from adoption of proposed objective personnel management systems, such considerations do not demonstrate that a change in the retirement system is required. The effectiveness of the present retirement system must be studied to determine if such a change is required. During such a study, the DoD Study Group found defects in the present nondisability retirement system, both as an element of the compensation system and as an element of the personnel management system.

One of the most significant defects of the present nondisability retirement system is the lack of vesting of retirement benefits before 20 years of service. Today, a member who serves for less than 20 years of service and who separates before achieving retirement eligibility receives no equity from the system. This is contrary to the practice of many liberal retirement plans in the private sector and the retirement plan of the Federal Civil Service system. This lack of vesting is especially an inequity in the military system because only 10 percent of those who enter military service continue on to retirement.

Because the retired pay of a member under the present retirement system is based on pay he receives on the date

DEFECTS IN THE PRESENT NONDISABILITY RETIREMENT SYSTEM

* AS AN ELEMENT OF COMPENSATION SYSTEM

- Lack of vesting before 20 years of service
- Terminal pay inequity
- Less than competitive annuities for members with long service
- Compensation for service when rendered balanced against equitable and competitive retirement system

* AS AN ELEMENT OF PERSONNEL MANAGEMENT SYSTEM

- Inefficient method of retention for short service personnel
Cash today more effective than payment 20 years in the future
- Lack of appropriate payment for separation short of retirement
- Lack of proper incentive to continue on active duty after 20 years of service

Chart 12.

of retirement, individuals who can select the date of their retirement can significantly increase the value of their retired pay (by waiting out a pay raise, for example) compared to those individuals who are not able to select the date of their retirement such as mandatory or disability retirees.

Annuities Not Competitive

Compared to annuities available to members of other liberal retirement systems, the annuities available to military members with long service are not competitive.

The DoD Study Group not only believes that compensation for service should be paid for when that service is rendered but, further, that that compensation should be balanced against an equitable and competitive retirement system. On the one hand, a retirement system that is too liberal is unfair to

the taxpayers, especially if other elements of the compensation system are relatively competitive; on the other hand, a retirement system that is less than competitive is unfair to the military retiree because it will not adequately satisfy the objectives of a retirement system. A delicate balance exists between paying for service when it is rendered and insuring an equitable and competitive retirement system.

There are also defects in the present nondisability retirement system as an element of the personnel management system. It is an inefficient method of attracting members into the military and of retaining members with short service. It is clear that a cash payment today is more effective—and more efficient—as a retention or incentive device than a payment promised 20 years in the future. This is not to say that the military retirement system is not an

important and required compensation element; however, the DoD Study Group believes that the ability to retire with an immediate annuity of some amount after 20 years of service is the principal attraction and retention aspect of the retirement system.

Payment Short of Retirement

The lack of an appropriate payment for separation short of retirement prohibits the force manager, in many instances, from separating, before 20 years of service, those members who are no longer required. If such a payment were available, members could be separated short of retirement eligibility because they would receive some payment from the military retirement system for the service they performed and to assist in their transition into the non-military sector.

The present retirement system also demonstrates a lack of proper incentive to continue on active duty after 20 years of service. The formula for computing retired pay does not increase benefits proportional to increased years of service; in other words, each additional year of service does not result in total retired pay that is increased by a proportional amount. Further, the older a member is when he starts to look for a second career, the proportionately less are his opportunities to find a good second career income. This combination tends to discourage personnel from continuing on active duty much after attaining 20 years of service.

Gradual Transition

As a result of these defects in the present retirement system, and considering the magnitude of the revisions in the other elements of the compensation system and personnel management system, the DoD Study Group recommends a change to the nondisability retirement system. However, it should be stressed at this point that any change to the military retirement system recommended by the DoD Study Group would be accomplished very gradually and with the strongest assurances to members on active duty that the equity held in the present system would be maintained. Therefore, before discussing the details of

CONCEPTS UNDERLYING THE DESIGN OF THE TRANSITION MECHANISM

- AMOUNT OF CHANGE TO THE RETIREMENT SYSTEM IS DIRECTLY RELATED TO THE AMOUNT OF TIME SPENT UNDER RELATIVELY COMPETITIVE PAY SCALES
 - MEMBERS WITH LONG SERVICE (OVER 20 YEARS) WOULD BE MINIMALLY AFFECTED
 - NO ONE ON ACTIVE DUTY AT IMPLEMENTATION WOULD BE FULLY UNDER THE PROVISIONS OF THE REVISED SYSTEM
 - ONLY NEW ENTRANTS WOULD BE FULLY UNDER THE PROVISIONS OF THE REVISED SYSTEM
- BOTH TOTAL ACTIVE DUTY AND TOTAL RETIREMENT COMPENSATION WILL BE SUBSTANTIALLY LARGER IN THE FUTURE FOR ALL RETIREES
 - PROPORTIONALLY, MORE COMPENSATION WILL BE PAID TO THE MEMBER WHILE HE IS ON ACTIVE DUTY

Chart 13.

the recommended changes themselves, it is useful to understand two of the key features of the DoD Study Group's recommendations: the transition mechanism and save-pay provisions. The transition mechanism will gradually revise the provisions of the present system to conform to the recommendations of the DoD Study Group; this transition will not be complete for 20 years. The save-pay provision will

maintain the equity that a future retiree has in the present retirement system.

Chart 13 describes the concept under which the transition provision recommended by the DoD Study Group was designed. The concept directly relates the attainment of relatively competitive pay to changes to the retirement system.

For those with 20 or more years of service on the date of implementation, almost no time is spent under relatively competitive pay scales, and consequently, little change will occur in the provisions of the present retirement system. Those who spend only part of their career under relatively competitive pay scales will be affected by the transition provision to the extent necessary to ensure that the period of time spent under less than relatively competitive pay scales results in the proportionate application of the provisions of the present retirement system. For those members who serve nearly their entire career under relatively competitive pay scales, the proposed retirement system will be almost, although not fully, effective. New entrants who spend their entire career under relatively competitive pay scales will be unaffected by the transition provision and the change to the provisions of the retirement system will be fully applicable.

COMPLETE RETIREMENT INFORMATION COMING

Facts concerning the DoD Retirement Study Group's recommendations will be furnished to each Service member.

Included in the complete material to be distributed will be worksheets to allow Service members to relate the proposed changes to their individual circumstances.

SAVE PAY PROVISION

* A MEMBER WHO RETIRES IN THE FUTURE WILL BE GUARANTEED

AN ANNUITY THAT IS AT LEAST AS LARGE AS THE CPI ADJUSTED

ANNUITY OF A SIMILAR MEMBER WHO RETIRED BEFORE HIM

HOW?

Increasing the retirement multipliers for retirees with over 24 years of service

- PRESENT SYSTEM
 - 2-1/2% per year of service up through 30 years of service (Maximum, 75% at 30 years of service)
- RECOMMENDED SYSTEM
 - 2-1/2% per year of service up through 24 years of service
 - 3% per year of service for 25 through 30 years of service (Maximum, 78% at 30 years of service)

HOW ?

Three types of annuities would be available

- PRESENT SYSTEM
 - A member retiring with 20 or more years of service receives one type of annuity throughout his retired lifetime
- RECOMMENDED SYSTEM
 - A retiree with 30 or more years of service (full career) would receive a Full Career Annuity
 - A retiree with less than 30 years of service at retirement would receive:
 - An Early Retirement/Immediate Annuity initially, and
 - An Increased Annuity when they would have reached 30 years of service

Chart 14.

Substantially Larger Compensation

Regardless of the degree to which the revised system is applicable to the member, both total active duty and total retirement compensation will be substantially larger in the future for all retirees. The revised system recommended by the DoD Study Group will allocate more compensation to the member while he is on active duty and proportionally less while in retirement.

The total will be significantly larger than the compensation paid to similar members who retired before the revision to the retirement system.

Chart 14 presents the save-pay provisions considered essential by the members of the DoD Study Group. All members retiring in the future will be guaranteed an annuity at least as large as the CPI-adjusted amount of a similar member (same grade and length of service) who retired before him. As a result of this provision, a member can do no worse, in terms of his retired pay, by remaining on active duty, and in most cases, his retired pay will increase as a result of longer service or promotions.

An example is useful. Consider an E-5 with 15 years of service on the date of enactment who eventually retires as an E-8 with 24 years of service; he would be guaranteed at least the amount of retired pay of any other E-8 with 24 years of service who retired before him.

Again, it is important to stress that both the transition mechanism and save pay provision for changing the retirement system are essential elements—in fact, perhaps the most key elements—of the changes recommended by the DoD Study Group. Each recommendation of the DoD Study Group is presented next, and each should be evaluated in the context of the transition mechanism and save-pay provision.

Retirement Multipliers

The first recommendation will increase retirement multipliers for members who retire with over 24 years of service. Under the present system, retired pay is computed based on 2½ percent of basic pay for each year of service up through 30 years of service. This results in a maximum multiplier of 75 percent of basic pay for 30 years of service.

Under the DoD Study Group recommended system, the multiplier would remain the same up through 24 years of service—2½ percent of basic pay for

each year of service. A new multiplier of 3 percent of basic pay for each year of service (instead of 2½ percent) would be applied for years of service 25 through 30. A new maximum of 78 percent of basic pay at 30 years of service would be reached.

Although the vast majority of members retire before 25 years of service, this recommendation will insure an annuity that is competitive with the annuities provided by other liberal employers. Presently, there are nearly 23,000 enlisted men and 14,000 officers with 25 or more years of service who will benefit from this recommendation.

Three types of annuities will be available under the recommended system. Under the present system, a member retiring with 20 or more years of service receives one type of annuity throughout his retired lifetime.

Full Career Annuity

Under the recommended system, a member retiring with 30 or more years of service (a full career) would receive a "Full Career Annuity." A member retiring with less than 30 years of service would receive an "Early Retirement/Immediate Annuity," initially, and an "Increased Annuity" when he would have reached 30 years of service had he remained on active duty.

Under the recommended system, members who retire with 30 or more years of service would receive a Full Career Annuity throughout their lifetime based on a multiplier of 78 percent.

Members who retire with less than 30 years of service would receive an Increased Annuity at the point they would have reached 30 years of service had they remained on active duty. The Increased Annuity would be based on a multiplier equal to 2½ percent for each year of service through 24 plus 3 percent for each year of service, 25 through 29. An Early Retirement/Immediate Annuity would be paid during the years that a member retired short of a full career (30 years of service). This Early Retirement/Immediate Annuity would be based on a multiplier 15 percentage points less than the multiplier for an Increased Annuity.

The graph at the bottom of Chart 15 presents the relationship between the Early Retirement/Immediate Annuity and the Increased Annuity. For example, if a member had 20 years of service

APPLICATION OF RECOMMENDATION

- RETIREES WITH 30 OR MORE YEARS OF SERVICE WOULD RECEIVE A FULL CAREER ANNUITY BASED ON MULTIPLIER EQUAL TO 78%
- RETIREES WITH LESS THAN 30 YEARS OF SERVICE AT RETIREMENT WOULD RECEIVE:
 - An Increased Annuity at the point they would have reached 30 years of service based on:
 - 2-1/2% per year of service, 20 through 24
 - 3% per year of service, 25 and over
 - An Early Retirement/Immediate Annuity based on multiplier 15 percentage points less than multiplier for Increased Annuity from retirement until they would have reached 30 years of service

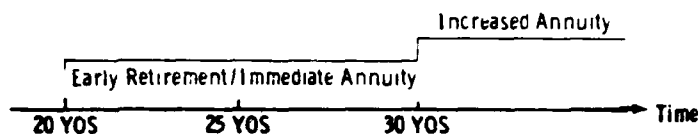


Chart 15.

METHOD OF TRANSITION

- FORMULA FOR MEMBERS WITH LESS THAN 20 YOS AT IMPLEMENTATION

$$\frac{20 \text{ YOS} - \text{YOS at implementation}}{20 \text{ YOS}} = \text{Transition Factor}$$

- APPLICATION

- Member retires 10 years after implementation with 23 YOS (Multiplier for increased annuity = 57.5%)
- He, therefore, had 13 YOS at implementation
 - Transition % = $15\% \times \frac{20 - 13}{20} = 5.25\%$
 - Multiplier for early retirement/immediate annuity = $57.5 - 5.25 = 52.25\%$

- EXAMPLE ^{1/}

- E-7 with 23 YOS retires 10 years after implementation
 - Early retirement/immediate annuity = \$631.62
 - Increased annuity = \$695.08
 - Retired pay today = \$429.35 (CPI adjusted = \$515.22)

^{1/} Assumes basic pay increases 5% per year; CPI increases 1.5% per year

Chart 16.

when he retired, he would receive 35 percent of basic pay until he reached 30 years of service and then receive 50 percent of basic pay for the rest of his life.

Transition Mechanism

The above description applies only after the recommendation is fully implemented which will not occur for 20 years. Prior to that time, the transition mechanism is operative and provides the method for a gradual change from the present system to the recommended system.

Charts 16 and 17 present the method of transition as it applies to the Early Retirement/Immediate Annuities for members who retire with less than 30 years of service. The Early Retirement/Immediate Annuity provision that is applicable to members who have less than 20 years of service at implementation would use a transition factor—which would not result in the full 15 percent differential between the Early Retirement/Immediate Annuity and the Increased Annuity. This transition factor would be calculated by subtracting the number of years of service the individual had at implementation from 20 years of service and dividing the difference by 20 years of service.

In effect, the point in time when a member reaches 20 years of service will determine the transition factor. Even if he continues on active duty after reaching 20 years of service, his transition factor will be fixed.

A member with 20 or more years of service on the date of implementation would not be affected at all by this provision. Those members with 0 to 20 years of service on the date of implementation would be affected to some extent by the transition method. Those members who enter active duty after the date of implementation would be fully affected by the provisions of the recommended retirement system, and the method of transition would not apply.

An application is useful in understanding the transition provision. Assume a member retires 10 years after implementation with 23 years of service (his multiplier for the Increased Annuity, in this case would be 57.5 percent). Such a member had 13 years of service at implementation; and therefore, his multiplier for the Early Retirement/Immediate Annuity would be based on

METHOD OF TRANSITION

● FORMULA FOR MEMBERS WITH LESS THAN 20 YOS AT IMPLEMENTATION

$$\frac{20 \text{ YOS} - \text{YOS at implementation}}{20 \text{ YOS}} = \text{Transition Factor}$$

● APPLICATION

- Member retires 10 years after implementation with 23 YOS (Multiplier for Increased Annuity = 57.5%)
- He, therefore, had 13 YOS at implementation
 - Transition % = $15\% \times \frac{20-13}{20} = 5.25\%$
 - Multiplier for Early Retirement/Immediate Annuity = $57.5 - 5.25 = 52.25\%$

● EXAMPLE 1/

- O-5 with 23 YOS retires 10 years after implementation
 - Early Retirement/Immediate Annuity = \$1334.28
 - Increased Annuity = \$1468.35
 - Retired Pay today = \$907.01 (CPI adjusted = \$1088.41)

1/ Assumes basic pay increases 5% per year; CPI increases 1.5% per year

Chart 17.

METHOD OF TRANSITION

● RELATES ATTAINMENT OF RELATIVELY COMPETITIVE ACTIVE DUTY PAY TO CHANGES IN THE RETIREMENT SYSTEM

● EFFECT ON VARIOUS MEMBERS

- Members with over 20 years of service at implementation
 - Early retirement/mediate annuity feature not applicable
 - Receive increased multipliers if applicable
- Members on active duty with less than 20 years of service
 - Early retirement/mediate annuity feature partially operative for members who retire with less than 30 years of service
 - Gradual transition spanning 20 years
- New entrants after implementation
 - Early retirement/mediate annuity feature fully operative for members who retire with less than 30 years of service
- A MEMBER WHO RETIRES UNDER THE REVISED SYSTEM WILL BE ASSURED AN ANNUITY AT LEAST AS LARGE AS THE CPI ADJUSTED ANNUITY OF A LIKE MEMBER WHO RETIRED BEFORE HIM

Chart 18.

15 percent—that's the full differential—times the transition factor (in this case, 20 years of service minus 13 years of service at implementation divided by 20 years of service). In other words, his transition percent would be 5¼ percent. His multiplier for the Early Retirement/Immediate Annuity would be his multiplier for the Increased Annuity minus the transition percent, or 5½ percent.

Dollar Amount Terms

In terms of a dollar amount, the Early Retirement/Immediate Annuity of an O-5 with 23 years of service who retires 10 years after implementation would be about \$1,334 per month using the transition mechanism and assuming basic pay increases of 5 percent per year. His Increased Annuity received after he would have reached 30 years of service would be \$1,468. His retired pay, today, if he were retired would be only \$907 (or about \$1,088 in 10 years, assuming the CPI increases 1.5 percent per year). An E-7 with 23 years of service who retires 10 years after implementation would have an Early Retirement/Immediate Annuity of \$632 until the point he would have reached 30 years of service, and an Increased Annuity of about \$695, compared to retired pay today for an E-7 with 23 years of service of \$429 (or about \$515 in 10 years, if CPI adjusted).

INTEGRATION OF MILITARY AND SOCIAL SECURITY RETIREMENT BENEFITS

PRESENT SYSTEM

- MILITARY AND SOCIAL SECURITY RETIREMENT BENEFITS ARE UNCOORDINATED. REPRESENT DUPLICATION OF BENEFITS BASED ON SAME PERIOD OF SERVICE.

RECOMMENDED SYSTEM

- THE SOCIAL SECURITY RETIREMENT BENEFIT PAID TO THE RETIREE SHOULD BE INTEGRATED WITH THE MILITARY RETIREMENT ANNUITY AT AGE 65
- THE OFFSET SHOULD BE ONE-HALF OF THE SOCIAL SECURITY BENEFIT ATTRIBUTABLE TO MILITARY SERVICE. THE ONE-HALF OFFSET RECOGNIZES THAT THE MEMBER AND THE GOVERNMENT CONTRIBUTE EQUAL AMOUNTS TO SOCIAL SECURITY

Chart 20.

AVERAGING

PRESENT SYSTEM

RETIREMENT MULTIPLIERS ARE APPLIED TO THE MEMBER'S TERMINAL BASIC PAY

RECOMMENDED SYSTEM

MOVE MILITARY RETIREMENT SYSTEM TO HIGH-1 AVERAGE

TRANSITION: GRADUALLY EXPAND BASE USED TO CALCULATE THE ANNUITY; ONLY CONSIDER BASIC PAY EARNED AFTER IMPLEMENTATION

Chart 19.

Chart 18 again points out that the transition mechanism relates the attainment of relatively competitive active duty pay to changes in the retirement system and summarizes the effect of the method of transition on various individuals. The Early Retirement/Immediate Annuity feature is not applicable to members with over 20 years of service at implementation. They do receive in-

creased multipliers, however, if they retire with over 24 years of service. The Early Retirement/Immediate Annuity feature is partially operative for those on active duty on the date of implementation and who retire with less than 30 years of service. It is a gradual transition, and it spans a full 20 years. Only new entrants onto active duty after implementation will experience the full 15 percent differential, and then, only if they retire with less than 30 years of service.

In all cases, however, it must be stressed that a member who retires under the revised system will be assured an annuity at least as large as the CPI-adjusted annuity of a similar member who retired before him.

Averaging Used In Calculating

The DoD Study Group also recommends that averaging be used in calculating the member's retirement annuity. Under the present system, retirement multipliers are applied to the member's terminal basic pay.

Under the recommended system, the military retirement system would move gradually to a high-1 average by expanding the base used to calculate the retirement annuity.

There is a transition mechanism also associated with the recommendation.

Only basic pay earned after implementation would be considered in the average. The member who retires immediately after implementation will essentially have his retired pay computed based on terminal pay. During the year following implementation, the averaging will be done on less than a yearly basis taking into account only basic pay earned between implementation and retirement. After that year, generally, the last year prior to retirement will be considered for use in calculating the average.

Social Security Integrated

The DoD Retirement Study Group recommends that military and social security retirement benefits be integrated. Under the present system, military and social security retirement benefits are uncoordinated. As a result, the effect of the present system is to provide duplication of benefits based on the same period of service.

Under the recommended system, the social security retirement benefit paid to the retiree would be integrated with the military retirement annuity when the member reaches age 65. This would be accomplished by offsetting one-half of the social security benefit attributable to military service. This offset recognizes that the member and the Government contribute equal amounts to social security. It is important to note that only the social security benefit attributable to military service is considered: No offset would be taken for a social security benefit resulting from a member's social

security coverage before he entered the military, or after he left the military, or while on active duty and participating in other covered employment.

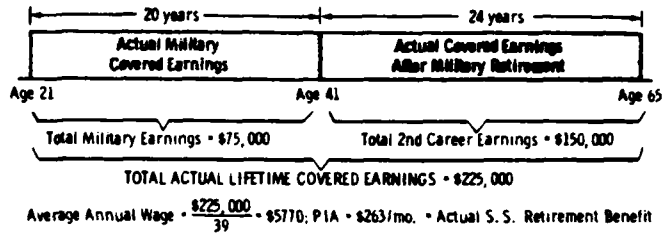
An example is useful in describing how social security attributable to military service is defined.

Chart 21 compares the methods of calculating the actual social security retirement benefit and the social security retirement benefit attributable to military service.

The upper portion of the chart sum-

ACTUAL SOCIAL SECURITY BENEFIT COMPARED TO SOCIAL SECURITY ATTRIBUTABLE TO MILITARY SERVICE

• Calculation of actual social security



• Calculation of social security attributable to military service

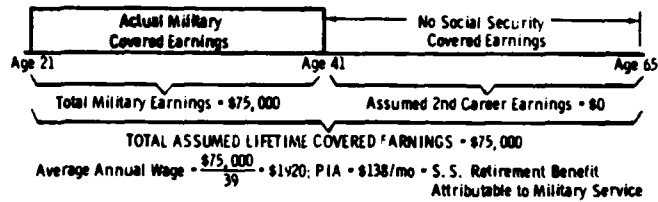


Chart 21.

marizes the method used by the Social Security Administration to calculate the actual social security benefit to which a covered member is entitled. In this example, the member enters the military at age 21, spends 20 years in the military and 24 years in non-Federal covered employment after military retirement. Further, the member's actual total military covered earnings equal \$75,000 and his total civilian covered earnings equal \$150,000. The higher civilian covered earnings are not unusual because the maximum covered wage and the individual's earnings both increase over time. In fact, the total covered civilian earnings in this example are probably lower than what they would actually be.

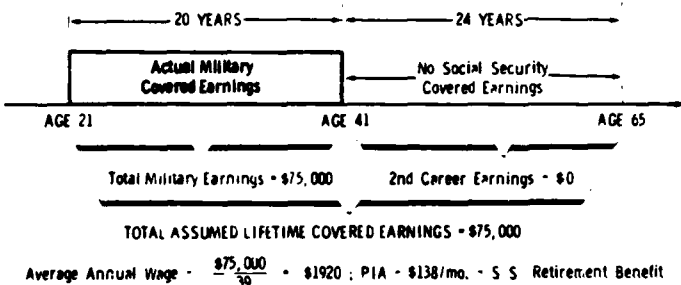
Average Annual Earnings

Average annual earnings are computed next. This is done by throwing out of the calculation the 5 low-earnings years and dividing the total lifetime covered earnings remaining by the remaining number of years elapsed from age 21 to age 65. In this example the total lifetime covered earnings would be \$225,000 and the total number of covered years would be 39 (44 minus 5 low years). The average annual wage in this case is about \$5,770.

All social security benefits are based on the Primary Insurance Amount (PIA).

SOCIAL SECURITY ATTRIBUTABLE TO MILITARY SERVICE

ASSUMED EARNING PATTERN



TRANSITION

ASSUME MEMBER RETIRES ONE YEAR AFTER IMPLEMENTATION
OFFSET AT AGE 65 = $\$138 \times \frac{1}{2} \times \frac{1}{20} = \$3.45/\text{mo.}$

Chart 22.

HOW?

For example, the social security retirement benefit equals the PIA; the payment to a surviving widow after age 62 equals 82.5 percent of the PIA. The PIA is determined from a table relating the average annual wage to the PIA. In this case, the PIA, and consequently, the actual social security retirement benefit, would be \$263 per month.

This is the social security benefit the retiree in the example would actually receive at age 65. This is *not* the social security attributable to military service, however. Determination of that amount requires a similar calculation, but using an assumed earning pattern. This is portrayed in the lower portion of the chart.

For this calculation, it is assumed that the member had no social security covered earnings other than those received as a result of his active duty. In this example, the member's total military covered earnings are \$75,000. His civilian covered earnings are assumed to be zero. Therefore, his assumed total lifetime covered earnings for the purpose of this calculation are \$75,000.

The average annual wage is calculated as before by dividing total lifetime covered earnings (throwing out the 5 low years) by the total number of years elapsed from age 21 to age 65 (throwing out 5 years). In this example, his average annual wage is \$1,920.

One-Half Offset

This results in a PIA of \$138 and, consequently, in a social security retirement benefit attributable to military service of \$138 per month. If the recommendation were fully implemented, \$69—one-half of the social security benefit attributable to military service—would be offset from the member's military retired pay at age 65. Of course, the member would receive his actual social security retirement benefit. In other words, the member would receive an amount equal to his full military retired pay—part from social security—plus \$194 (\$263 - \$69 = \$194)—from social security.

However, as in the case of the provisions for averaging and the new annuity system, a transition mechanism is applicable to the recommendation. The transition mechanism in this provision operates by taking the ratio of the number of years of service after implementation to the total number of years of service and multiplying that ratio by one-half of the social security attributable to

Payments to members who separate before attaining retirement eligibility

• PRESENT SYSTEM

- Members separating voluntarily before 20 years of service receive no equity for their service.
- Only certain categories of officers who are involuntarily separated receive a readjustment payment. All other officers and all enlisted men receive no payment.

• RECOMMENDED SYSTEM

- Voluntary separatees with 10 or more years of service
 - Equity payment
 - Deferred annuity at age 60 (2-1/2% per year of service)
- Involuntary separatees with 5 or more years of service
 - Readjustment payment
 - 5% of final, annual basic pay times years of service
 - PLUS equity payment
 - Choice of either:
 - Deferred annuity at age 60 (2-1/2% per year of service)
 - 5% of final, annual basic pay times years of service
 - Save pay provision for members presently on active duty who would have been eligible for readjustment pay under the present plan.

Chart 23.

HIGHLIGHTS OF RECOMMENDED PLAN

- INCREASE MULTIPLIER FROM 2-1/2% TO 3% FOR 25 THROUGH 30 YEARS OF SERVICE
- PROVIDE EARLY RETIREMENT/IMMEDIATE ANNUITY FOR THOSE MEMBERS WHO RETIRE WITH LESS THAN 30 YEARS OF SERVICE; PROVIDE INCREASED ANNUITY AT THE TIME THEY WOULD HAVE REACHED 30 YEARS OF SERVICE
- USE HIGH-1 AVERAGE
- INTEGRATE MILITARY AND SOCIAL SECURITY RETIREMENT ANNUITY AT AGE 65
- PROVIDE PAYMENT TO MEMBERS WHO SEPARATE BEFORE REACHING RETIREMENT ELIGIBILITY
 - Voluntary separatees - 10 or more years of service
 - Equity payment (deferred annuity)
 - Involuntary separatees - 5 or more years of service
 - Readjustment payment (lump sum)
 - Equity payment (lump sum or deferred annuity)
- TRANSITION AND SAVE PAY PROVISIONS

Chart 24.

military service. In this example, if we assume the member retires one year after implementation, his offset at age 65 will be \$138 times one-half times the transition factor—in this case, 1 divided by 20. The offset at age 65 would be about \$3.45 per month. This is a very gradual

transition, and integration of social security and military retired pay will not be fully effective for over 30 years.

The DoD Study Group recommends payments to members who separate before attaining retirement eligibility. Under the present system, members

separating voluntarily before 20 years of service receive no equity for their service. Only certain categories of officers who are involuntarily separated receive a readjustment payment. All other officers and all enlisted men receive no payment.

Voluntary Separatees

Under the recommended system, a *voluntary separatee* with 10 or more years of service would be eligible for an equity payment. This would be a deferred annuity at age 60 equal to 2½ times high-1 basic pay times years of service. The high-1 basic pay would be CPI-adjusted until age 60 and the annuity CPI adjusted thereafter. An *involuntary separatee* with five or more years of service would be eligible for a readjustment payment equal to five percent of final, annual basic pay times years of service *plus* an equity payment. In the case of the involuntary separatee, the individual could have an equity payment in the form of a deferred annuity at age 60 (similar to the voluntary separatee) or an additional payment of five percent of final, annual basic pay times years of service. In the case of the involuntary separatee, a save-pay provision would be applicable for members presently on active duty if they would have been eligible for readjustment pay under the present system; they would receive the larger of separation payment to which they are entitled under the present system, or the readjustment payment to which they are entitled under the recommendation.

Principal Elements

Chart 24 summarizes the principal elements of the recommended plan:

- An Early Retirement/Immediate Annuity for those members who retire with less than 30 years of service, and an Increased Annuity when they would have reached 30 years of service;
- Use of high-1 averaging instead of a terminal basic pay;
- Integration of military and social security retirement benefits at age 65;
- Provisions for payments to voluntary and involuntary separatees; and, most important, and two of the key elements of the recommended plan; and
- Transition and save-pay provisions applicable in all those cases where a possible diminution of benefits could occur.

A reallocation of resources among compensation tools is essential in attaining the career structures desired within

Look for future additional **COMMANDERS** **DICTIONARY** issues on *applicability* retirement.

the Department of Defense. Chart 1 summarizes the interrelationship between compensation and personnel management systems. The present compensation system, with its relatively competitive active duty pay, enlistment bonuses, retention incentives, separation payments and retirement benefits, would be modified to provide better enlistment and retention incentives, better payments to members at separation, and a retirement system that assists in maintaining the desired force structure after retirement eligibility:

- The enlistment and retention incentives that have been proposed by the Department of Defense will assist in attracting the number of members required and in retaining those members throughout their entire careers.
- The DoD Study Group recommendations would provide modifications to the separation payment. The change provides an equitable payment to those members who serve past their initial obligation but terminate their service before reaching retirement eligibility.
- The DoD Study Group alternative would also modify the retirement benefits to make longer service more attractive. The Study Group does not envision retaining more members for a longer career; however, it does believe that the retirement system should provide incentive for the member to desire to stay. The retirement system modified in this manner would improve the force manager's ability to selectively retain those members with the most desirable skills. It investigated various methods of designing a retirement system to accomplish this objective. The system could decrease

benefits for short service, increase benefits for long service, or do both simultaneously. The Study Group chose the latter course, because, to achieve the desired effect, only increasing benefits for long service would result in an overly liberal system; conversely, only decreasing benefits for short service would result in an overly penalizing system for members with short service. Making less substantial modifications in both benefits simultaneously met the DoD Study Group's objective but without the adverse effects. The DoD Study Group also recognized the substantial value of the military retirement survivor benefit legislation recently signed by the President; it is envisioned that 85 percent of all military retirees will participate in the improved plan.

Reallocation Result

The result of this reallocation of compensation resources would be increased flexibility in attracting and retaining selectively those members that are desired. As well, it will make available an acceptable payment to those members who must be separated prior to retirement or short of competing a full military career.

DoD is aware that the details of the revision outlined in this presentation are very complex. They are complex because of the efforts of the DoD Study Group to protect the individual presently on active duty. The majority of the complexity stems from the transition and save pay features; those features, at the same time, are the ones that are the most important for each individual to understand so that he can assure himself that the changes will not have an adverse effect on him.

SUBSEQUENT ACTION

- *EXPLANATION OF THE EFFECT OF THE RECOMMENDATIONS WILL BE PROVIDED TO SERVICE MEMBERS
- *WORKSHEETS WILL BE FURNISHED TO SERVICE MEMBERS TO CALCULATE THE INDIVIDUAL EFFECT
- *LEGISLATION WILL BE FORWARDED TO THE CONGRESS NEXT SESSION

APPENDIX 13-H

Objectionable Features of the Social Security Offset Under Retirement Modernization Act (RMA)

1. Social Security "attempts to achieve two distinct and often conflicting objectives, namely, a welfare or income redistribution objective and an earnings replacement objective. Although the system employs insurance terminology, it is a tax and transfer system whereby current workers are taxed in order to provide benefits for those currently retired."
2. The military retirement system is an earnings replacement system only. To the extent that objectives of Social Security and military retirement systems clash, problems in offset principles will arise.
3. The basic inequities arising out of the Offset provisions of the Retirement Modernization Act (RMA) are as follows:

a. Social Security Eligibility Test.

(1) Problem. Present RMA provisions would institute the Social Security offset upon attainment of Social Security benefit age, even if the Social Security earnings test precluded the retired service member from actually receiving the Social Security Old Age benefits.

(2) Desired Change. [Since there is an earnings test for receipt of Social Security old age benefits, there should also be a "benefit test" for application of the Offset to any one specific individual.] Equity suggests that the Offset should be applied if at all, only when the individual actually receives the Social Security benefits.

b. [Combined Level-] military Retirement and Social Security benefits.

(1) Problem. Present RMA provisions call for an offset from military retired pay equal to one half of the Primary Insurance Amount (PIA) to which the retired military member would be entitled solely as a result of his military service wage credits. Under RMA, the total of military retirement pay (after the offset) and Social Security benefit will, in many cases, be less than the total of military retirement pay plus Social Security Benefit attributable solely to post-military retirement civilian employment.

1/ Integration of Military Retired Pay and Social Security Benefits, a staff paper by Dr. E.J. Devine and R.A. Kuzmack, Defense Manpower Commission Staff, 17 Oct 1975.

2/ If the beneficiary has wage earnings beyond a certain amount the amount of Old Age benefit is reduced or totally withheld. The earnings test does not apply after age 72.

Stated simply: the military can easily find himself making less money having paid Social Security taxes during his active military career than if he had not paid SS taxes.

(2) Desired Change. A "save-pay" provision should be incorporated to insure that the total of military retired pay minus the Offset and plus Social Security old age pension (when actually paid) is no less than the total of military retired pay plus Social Security benefits attributable solely to post-military retirement civilian employment.

c. Reduction of total benefits by income group.

(1) Problem. Because of the "social weighting" of the Social Security benefit formula, the lower income individuals receive old age benefits representing a higher percentage of their average monthly wage than their higher income counterparts. Because the Offset contemplated in RMA legislation is based on benefits (PIA), the lower-income military retirees (i.e. Enlisted Personnel) will suffer proportionately higher offsets with respect to total benefits than those at the upper end of the military earnings spectrum. (example at Inclosure 2).

(2) Desired Change. Adjust offset calculations to provide more equitable treatment of lower income groups. An example of such a solution would be a maximum percentage limit for the offset.

d. Changes in Social Security laws.

(1) Problem. There are no provisions in the current version of RMA to compensate for negative effects to the government and/or the individual beneficiary resulting from changes in Social Security laws, rules, or regulations.

(2) Desired Change. Provide a clause within RMA to protect its other provisions from unforeseen penalties or windfalls resulting from changes in the Social Security laws, rules, or regulations.

Appendix 14-A

CIVILIAN EDUCATIONAL PROGRAMS

1. The Secondary and Primary Completion Program. Service members who do not have a secondary or primary education may enroll in courses on post or elsewhere to obtain the needed education. Tuition assistance may be provided by the military, or the individual member may use the GI Bill.

Other programs specified--i.e.,not service-financed -- may be pursued by the individual members in their off-duty time subject to mission requirements.

2. The Bachelor Degree Completion Program. Individual service members who are close to completing their degree requirements may be released from duty to attend college for completion of the degree. The cost of tuition and books are paid by the service member.

3. The Civilian Graduate Degree Program. Service members, for a period not to exceed three years, may be selected to attend a graduate school to obtain a degree in a military-related field.

4. The Cooperative Military-Civilian Graduate Degree Program.

Cooperative arrangements between service schools and civilian institutions in which the officer takes additional courses on his own time to obtain a higher degree. Certain military courses -- such as management -- may be approved for credit as part of the civilian degree requirements. The costs of the additional work may be shared by the officer and the service or the individual member may use the GI Bill.

Appendix 14-B

DETAILS OF GI BILL PROGRAM

SOURCE: Prepared by Education Directorate, The Adjutant General Center, Department of the Army, Washington, D.C., 26 July 1976.

General Educational Benefits (i.e. benefits available both in-service and post-service)

Commercial correspondence course study is paid at a rate of 90 percent of the cost of the lessons completed (not necessarily 90% of the cost of the entire course).

Post-Service Educational Benefits

The period of entitlement to the educational benefit under the current program is determined by the length of the veteran's active service during the post-Korean period and the period of Southeast Asia hostilities with entitlement to assistance for one and one-half months (or the equivalent in part-time assistance) accruing for each month of active service after January 31, 1955. However, once a veteran has served a period of 18 months or more on active duty after January 31, 1955, and has been released from such service under conditions that would satisfy his active duty obligation, he is entitled to educational assistance for a period of 36 months, with 9 months of additional entitlement for use in pursuing a program leading to a standard undergraduate college degree.

As a general rule, an educational allowance may not be paid beyond a date 10 years after a veteran's last discharge or release from active duty after January 31, 1955. Educational institutions include approved public and private secondary schools, junior or senior colleges, and vocational, scientific or correspondence schools. Additionally, an allowance may not be paid for apprenticeship and other on-the-job training, cooperative and farm cooperative programs, and refresher or deficiency, preparatory or special assistance courses.

Public Law 93-508, the Vietnam Era Veteran's Readjustment Assistance Act of 1974, established monthly rates for the education assistance allowance for institutional and cooperative programs, ranging from \$109 to \$270 per month with additional amounts based on the number of dependents of the veterans. For full-time apprenticeship or other on-the-job training, a monthly training assistance allowance of \$49 to \$196 is paid with additional

amounts payable based on the number of dependents of the veteran.

In-Service Benefits

The educational assistance allowance of an individual pursuing a program of education while on active duty or on less than a half-time basis is computed at the rate of the charges for tuition and fees which the institution requires to be paid by similarly-circumstanced non-veterans enrolled in the same program, or \$270 per month for a full-time course, whichever is the less.

ORGANIZATION AND STRUCTURE OF THE ARMY MEDICAL DEPARTMENT

SOURCE: All information appearing in this Appendix was extracted and copied from Appendix A of the Report of the Military Medical Health Care Study, December 1975, by the Department of Health Education and Welfare, Department of Defense, and the Office of Management and Budget.

HEALTH SERVICES DELIVERY

Command and Control. Army health services are delivered by two types of organizations: Those designed to function in fixed facilities (permanent or semi-permanent structures) and those designed to function in support of combat operations in nonfixed or field facilities.

In the US, Hawaii, Alaska and Panama, fixed-facility patient care and ancillary support activities are under the command and control of the commander, US Army Health Services Command (HSC). The HSC, headquartered at Fort Sam Houston, Texas, is a major Army command, whose commander is responsible to the Army Chief of Staff.* Reporting directly to the commander of the HSC are 33 subordinate Medical Department Activity (MEDDAC) and eight Medical Center commanders.

A MEDDAC provides health services in a defined geographical area. It usually includes a hospital, whose commander also serves as the MEDDAC commander, and outlying health facilities on installations without hospitals. All health service activities operating out of fixed facilities in the geographic area -- medical, dental and veterinary -- are assigned to the MEDDAC.

A Medical Center also is a medical command, similar to a MEDDAC, which provides health services on a regional basis. Its major component, however, is a sophisticated referral and teaching hospital which provides specialized or tertiary care and supports MEDDAC and overseas medical referrals.

All fixed health service delivery facilities in the US, thus, are under the command of the MEDDAC or Medical Center commanders who, in turn, are under the command and control of HSC.

*The Army Chief of Staff has given the Surgeon General control of HSC and the Surgeon General is responsible for direction and supervision of its activities. The Surgeon General is the rating or performance evaluation officer of the Commander of HSC and the endorsing officer for all other general officers assigned to the command.

All field or mobile health services units in the continental US are under the command and control of Forces Command. This major command is comprised of all CONUS operating forces, forces whose primary mission is to engage in combat.

Forces Command medical elements are of two types:

-- Field medical units are medical entities and in combat operate nonfixed hospital facilities and their affiliated support activities (e.g., evacuation and combat support hospitals and air ambulance units supporting them). During peacetime, these Forces Command units are in a training or "nontreatment" status and typically have only two Medical Department officer staff assigned, a Medical Service Corps officer who commands the unit and a training nurse. Specific physicians and other professional staff working in HSC facilities are identified for assignment to field medical units and in the event of contingency operations would deploy with the unit. Enlisted personnel assignments to field medical units vary according to the units designated readiness level, from fully staffed to two levels of reduced staffing.

-- Organic medical components of nonmedical field organizations are medical elements within a combat unit such as a combat division or infantry battalion. In combat, these elements provide primary care and prepare patients for evacuation to field medical units. In peacetime, these organic medical components customarily have a small number of physicians assigned, with physician strength dependent upon the unit's designated readiness level.

Forces Command medical personnel do not operate fixed facilities. However, they receive technical training and maintain their skills by working part time in MEDDAC and Medical Center facilities under agreements between HSC and Forces Command. Thus, physicians assigned to organic medical components of nonmedical field organizations often provide primary care (such as sick call) to the troops in their organization for a portion of the day and work in the MEDDAC the remainder.

Outside of the US, health services delivery in fixed facilities also is functionally organized under medical commanders who exercise command and control over health services delivery resources within major geographic regions. For example, in Europe there is a medical command comprised of 12 MEDDACs which provide health services within specified geographic areas. Unlike HSC, which is a major Army command, however, the overseas medical commands are subordinate components of major Army commands.* Thus, the medical commander in Europe reports to the commander of the US Army, Europe and the medical commander in Korea reports to the US Army Commander, Korea.

*The Department of the Army is being reorganized. Korea and Japan are proposed major commands.

Technical Guidance. Each major commander has a surgeon or medical advisor on his staff. In the CONUS-based major commands, the surgeon is a full-time counselor, responsible for advising the commander and his staff on all health and medical matters pertaining to the command and for participating in all planning activities dealing with military operations. He recommends and supervises execution of measures for prevention and control of diseases within the command; provides staff coordination for dental, veterinary, and other medical activities; plans and directs individual and unit training of medical troops; advises the commander on training of nonmedical troops in military sanitation and emergency medical treatment and provides staff supervision over medical matters of the command. In the overseas commands, the surgeon generally is dual-hatted, serving also as the principal medical commander.

In the US, each installation commander has a designated medical staff advisor or Director of Medical Activities (DMEDA). The DMEDA is a physician operating within the HSC health services delivery system, usually the MEDDAC commander. Both the installation commander and the Health Services Command participate in rating the DMEDA's performance, and, thus, he has an incentive to meet the requirements of both. In Europe, MEDDAC commanders also serve as DMEDAs on the staff of specified geographical area commanders.

Through the assignment of surgeons and dual-hatted DMEDAs, the Army seeks to ensure that line commanders at all levels have the medical advice they require and that the functionally-organized health services delivery systems remain responsive to the commanders' needs.

The Surgeon General has worldwide technical guidance over all Army Medical Department activities. He can deal directly with surgeons of major commands on matters relating to health services policy. The surgeons in turn can deal directly with personnel in their commands on health service policy matters. Use of these technical channels of communication is common for information exchange, observation, guidance on preferred methods of health delivery and similar activities. Command channels generally are used when the health service matter in question impinges upon the major commander's command prerogatives (such as the use of health services personnel).

Commanders of health service delivery units at all echelons have technical guidance over the military units they command. To assist him in his technical guidance responsibilities, the commander of the Health Services Command has designated the seven Medical Center commanders as Army Regional Coordinators. In this role, the Medical Center commanders are responsible for:

-- Maintaining liaison with and providing technical guidance through personal and staff consultations with fixed facility health care activities within their assigned region.

-- Keeping the HSC commander informed on the status of health care services in their region and making recommendations for improvement in Army health care delivery.

The Army Regional Coordinator system is an intermediate structure for providing technical guidance only. It is not an intermediate command and control structure.

Army Regionalization of Fixed Facilities. In the United States, each of the three military medical departments has developed a regionalized health care system. Within a specified geographical area -- the seven HSC regions in the Army -- three levels of care are provided. Primary or outpatient care in the Army is provided by HSC clinics and hospital outpatient departments; secondary or routine inpatient care for patients in their assigned geographical areas by the MEDDAC hospitals and Medical Centers; and tertiary or highly specialized care by the Medical Centers.

Overseas, Army health care also is regionalized in a general sense, with specific facilities designated to provide only primary and/or secondary care and others designated as specialized referral centers. Within specific areas overseas, however, not all levels of care are provided by any one service. As a rule, primary care is provided by all services in all areas where their forces are stationed. Hospital facilities, both smaller ones and the specialized referral centers, however, often support the forces and other beneficiaries of all services. In Europe and Okinawa, for example, the Army provides specialized care to all services.

(The term regionalization also is used for a DOD-wide program initiated in 1972. That program is explained on pages 32-34.)

Education and Training. The Academy of Health Sciences, a subordinate component of HSC, is responsible for the Army's health-related education programs for officers and enlisted personnel. The Academy's programs range from basic medical training for enlisted soldiers to post-doctoral medical specialty education and include training in medical combat doctrine -- how medical units are organized and operate to support combat forces. The Academy also programs and monitors health services training of military personnel in civilian institutions. The Surgeon General has control and technical guidance authority over the Academy's operation and participates in rating the performance of its commanding general.

Research, Development, Test and Evaluation. The Medical Research and Development Command, a subordinate command of The Surgeon General, is responsible for all Army medical RDT&E. The commander of the Research and Development Command also serves as the Assistant Surgeon General for Research and Development and thus is responsible to The Surgeon General in both staff and line capacities.

APPENDIX 15-B

CIVILIAN HEALTH AND MEDICAL PROGRAM OF THE UNIFORMED SERVICES (CHAMPUS)

SOURCE: All information appearing in this Appendix was extracted and copied from pp 71, 72 and 73 of the Report of the Medical Military Health Care Study, December 1975, by Dept of Defense, Dept of Health, Education and Welfare, and the Office of Management and Budget, and Appendix N thereto.

BACKGROUND

Historical Perspective

During the Korean war overcrowded DOD direct care facilities and the remote locations of some DOD bases left an estimated 40 percent of the dependents of active duty personnel without access to care that had often been provided in DOD direct care facilities. As a result, in 1953 the Department of Defense formed a Citizens Advisory Commission on Medical Care of Dependents. This commission recommended that a series of services be provided to dependents of active duty personnel. Recognizing that direct care facilities could not provide all of the services recommended, it proposed that a supplemental program of medical care in civilian facilities be arranged. In 1956, a bill was introduced in the Congress to provide a statutory basis for the provision of medical care to wives and children of servicemen at all service facilities regardless of how far they lived from that facility and to provide those dependents with limited medical and dental care from civilian sources at Government expense. That bill, known as the "Dependents Medical Care Program" or "Military Medicare" was signed into law (P.L. 84-569) by President Eisenhower on June 7, 1956.

Pressure to include routine ambulatory care (excluded from the original (legislation) in the Military Medicare entitlement and a gradual increase in the number of retirees, when coupled with the decreased availability of military hospital system, led to the passage of the Military Medical Benefits Amendments of 1966, P.L. 614. This bill:

- Expanded outpatient benefits to include routine ambulatory care.

- Included among the eligible beneficiaries of the program retirees and their dependents and dependents of deceased service members who died while on active duty or in a retired status.

-- Began the Program for the Handicapped, a program to provide medical care for moderate and severely handicapped dependents of active duty personnel.

At about the time of P.L. 614, DOD administratively changed the name of the program from Military Medicare to the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) in order to avoid confusion with the HEW program.

The CHAMPUS program was originally administered by the military departments with the Department of the Army acting as executive agent. Following the creation of the position of Assistant Secretary of Defense (Health and Environment), management of the program was transferred from the Army to the new Assistant Secretary.

Description of Benefits

The Civilian Health and Medical Program of the Uniformed Services is a financing program which provides for the payment of health services bills incurred in the civilian sector by dependents of active duty military personnel, retired personnel, their dependents and the dependents of deceased active duty and deceased retired members.* The legal foundation for CHAMPUS rests in Chapter 55 of Title 10 of the U.S. Code. CHAMPUS shares the cost of inpatient and outpatient medical services for the beneficiaries listed above. In addition, financial support for special care for the dependents of active duty personnel who are severely physically handicapped or severely mentally retarded is provided through the program for the handicapped.

The proportion of costs paid for by CHAMPUS varies with the beneficiary category and the type of service being procured. For inpatient care, CHAMPUS pays all costs for the dependents of active duty personnel except for the first \$25 per admission or a per diem rate of \$3.70 per day, whichever is greater. All other bene-

*Parents and parents-in-law have no CHAMPUS entitlement under any circumstances. Retired personnel lose their eligibility for CHAMPUS benefits when they become eligible for Part A of the Social Security Administration's Medicare. Unmarried children of retirees, active duty personnel or deceased personnel are eligible until they reach 21 years of age (23 years of age if enrolled in an institution of higher learning and unmarried). Children who are incapable of self-support because of mental or physical incapacity that existed before their 21st birthday retain eligibility throughout the period of their incapacity.

ficiaries pay 25 percent of the inpatient costs while CHAMPUS pays the remaining 75 percent. For outpatient care, dependents of active duty personnel pay an annual \$50 deductible per person (with a maximum family deductible of \$100) and 20 percent of the cost of additional care. Other authorized personnel must pay the same deductible and 25 percent of the remaining cost of outpatient care. In the case of participating providers, CHAMPUS will pay the balance of all outpatient care costs. In the case of nonparticipating providers, CHAMPUS will pay its share of the bill up to the amount of the usual and customary fee for the service rendered. The beneficiary is liable for his share of the charges plus all additional charges over and above the usual and customary fee for the service rendered. In the handicapped program, available only to dependents of active duty personnel, the beneficiary must pay a amount ranging from \$25 to \$250 per month (according to rank and pay grade) after which the Government will contribute up to \$350 per month. Costs exceeding the initial beneficiary contribution and the Government payment must also be borne by the beneficiary.

All inpatient care is covered under the CHAMPUS program including treatment of medical and surgical conditions (chronic or acute), nervous, mental and emotional disorders, contagious diseases and maternity and infant care. All physicians services and services ordered by a physician including a private bed, all diagnostic tests, anesthetics, oxygen, blood, therapy and the services of other professional personnel (nurses, audiologists, therapists, social workers, etc.) are covered.* So too are transplants and certain plastic surgeries.

Outpatient care covered includes all physician services for medical and surgical conditions, nervous, mental, and emotional disorders, and prenatal and postnatal care. CHAMPUS pays for home calls. Abortions, family planning services, interuterine devices, marriage counseling and the services of Christian Science Practitioners are approved benefits. Non-Government ambulance service and the rental of durable equipment are also covered.

Dental benefits are available only as an adjunct to medical care or as a part of the handicapped program.

CHAMPUS pays for all prescription drugs or allergy extracts if they are indicated as a specific or effective treatment of the particular condition for which administered.

*CHAMPUS recently discontinued funding some of these services, notably marriage counseling and certain types of social workers.

Severely or moderately retarded or handicapped dependents of active duty personnel are, under the Handicapped Program, entitled, in addition to inpatient and outpatient services, to:

- Dental care needed to correct, overcome or aid in adjustment to a handicapping condition.
- Optical devices, prosthetic devices and orthopedic appliances.
- Transportation to the facility where they will receive care.

Funding

Until fiscal year 1975, funding for the CHAMPUS program was provided through the medical budgets of the military services. In fiscal year 1975, the Congress transferred CHAMPUS funding to the Operations and Maintenance, Defense Agencies appropriation. This appropriation now funds all CHAMPUS costs except for the pay of military personnel assigned to administer the program. CHAMPUS is expected to cost \$569 million in 1975.

Organization

On December 4, 1974, the Deputy Secretary of Defense issued a directive (number 5105.46) establishing the Office of Civilian Health and Medical Program of the Uniformed Services (OCHAMPUS) and policies for the administration and management of CHAMPUS. The mission bestowed on OCHAMPUS by that document is to effectively and efficiently administer and manage a civilian health and medical care program for:

- CHAMPUS beneficiaries as authorized by Chapter 55, Title 10 of the United States Code.
- Dependents of active duty members of NATO Armed Forces on official duty in the United States.
- Dependents of totally disabled veterans or of veterans who have died as a result of a service-connected disability.

In addition, OCHAMPUS is to "organize, establish and maintain a consolidated program for payment of authorized medical and dental services provided by civilian doctors or in nonuniformed service facilities to members of the Armed Forces on active duty" and to eligible NATO personnel. This mission is currently being performed by the military services.

In order to carry out its mission, OCHAMPUS is to have a civilian director who is responsible for organizing and managing the OCHAMPUS within the resources authorized by the Secretary of

Defense and for supervising and administering the programs and missions assigned. Funds for the CHAMPUS program, including OCHAMPUS, come from the Operation and Maintenance, Defense Agencies appropriation.

OCHAMPUS is a field activity of the Office of the Secretary of Defense, headquarters in Denver, operating under the policy guidance and operational direction of the Assistant Secretary of Defense (Health and Environment).

The Assistant Secretary of Defense recommends policies for the administration of CHAMPUS programs to the Secretary of Defense, provides policy guidance and operational direction to the Director of OCHAMPUS and issues or authorizes the Director of OCHAMPUS to issue regulations necessary to carry out CHAMPUS activities.

At the present time the ASD(H&E) control over CHAMPUS is exercised through his Directorate for CHAMPUS Policy. This Directorate consists of one military and two civilian professionals and one clerical staff person.

The actual running of the CHAMPUS program is left to the Office for the Civilian Health and Medical Program (OCHAMPUS) in Denver.

OCHAMPUS provides administrative direction to the CHAMPUS program and accomplishes some claims adjudication. Most of the claims processing is handled by private organizations who receive, process and pay the claims. CHAMPUS's principal role is to serve as a liaison with the uniformed services, to contract with organizations to provide the claims processing service, to provide some degree of guidance and to review the contract organization's operations, and to consolidate workload reports.

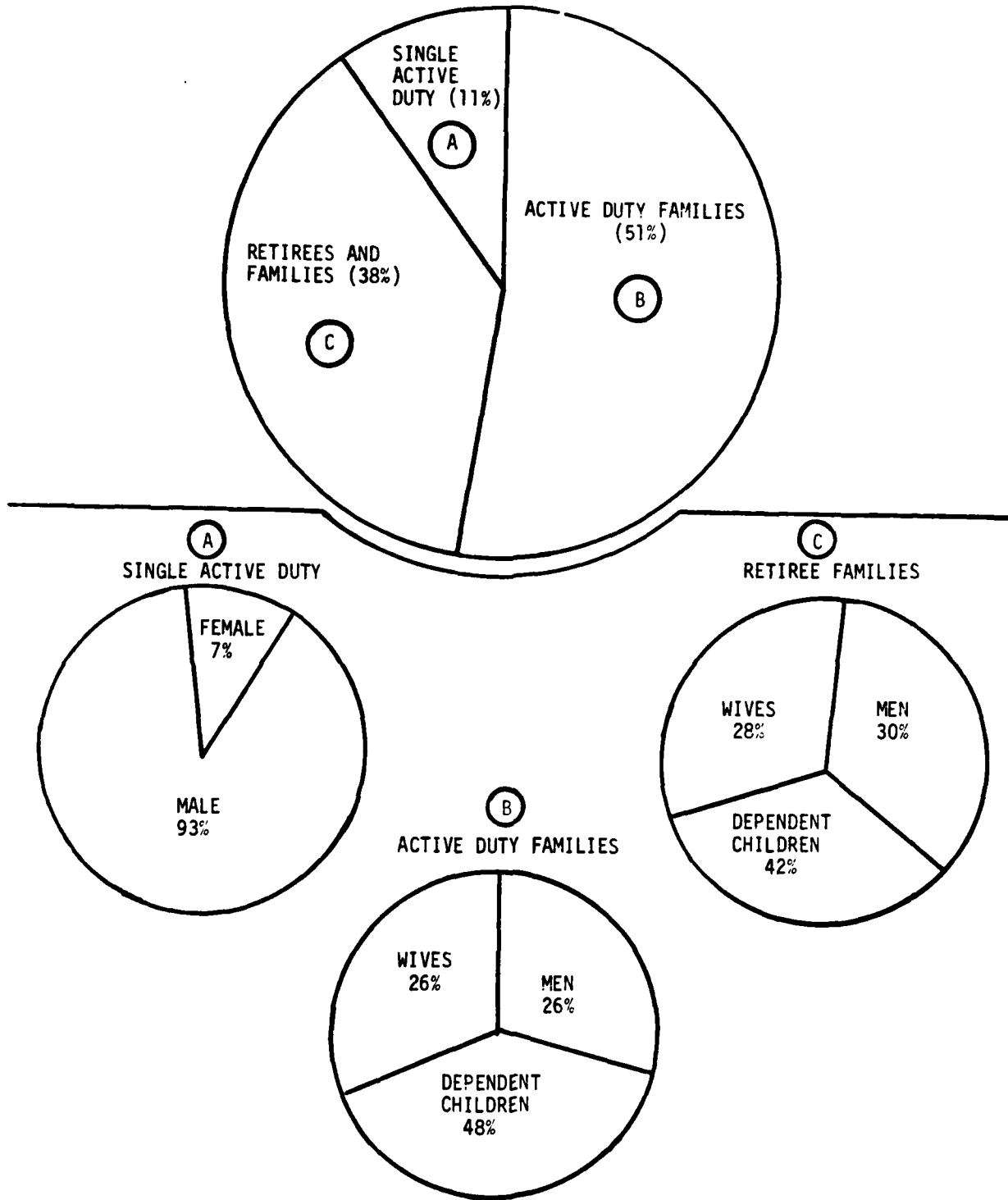
Claims Payment Operations

While OCHAMPUS provides administrative direction to the CHAMPUS program and accomplishes some claims review operations, the most important part of the CHAMPUS operation is handled by 82 contractors and subcontractors, often referred to as fiscal administrators, who receive, process and pay the CHAMPUS claims. A September 19, 1956, memorandum from Secretary of Defense Wilson specified the organizations which were to be granted contracts. With few changes, that memorandum is still considered binding today.

Under the terms of their contracts, CHAMPUS contractors are responsible for everything from claims processing to public information activities. There are 36 hospital contractors, 45 outpatient professional services fiscal administrators, and one dental services fiscal administrator. The Blue Cross National Organization is the principal contractor for hospital claims

processing in 33 states, the District of Columbia and Puerto Rico. It subcontracts with its local organizations to do most of the actual claims processing. In three states the same contractor, Mutual of Omaha. Mutual of Omaha processes claims for 16 states from its offices in Omaha, Nebraska. Mutual of Omaha, California Physician Services and Blue Cross of California account for 44 percent of the total claims volume. The remaining 79 contractors process 56 percent of the volume of CHAMPUS claims.

Appendix 16-A
COMMISSARY STORE SYSTEM USAGE



SOURCE
 COMPILED BY: US Army Military Compensation Task Force, The Pentagon, Washington, D.C.
 16-1

Appendix 16-B
 U.S. ARMY COMMISSARY STORE SYSTEM
 RESOURCES, COST, AND COST ALLOCATION

RESOURCES	COST ^a		PRESENT COST ALLOCATION		PROPOSED COST ALLOCATION	
	AMOUNT ^b	PERCENT- FACE	NATION	MILITARY MEMBER	NATION	MILITARY MEMBER
<u>Land, Buildings, and Maintenance:</u>	\$ 15.8	13.6	X		X	
Buildings (construction thereof)	5.9		X		X	
Facilities Maintenance	6.2		X		X	
Equipment (including furnishings)	.3		X		X	
Equipment Maintenance	3.4		X		X	
<u>Capital Goods and Services:</u>	10.7	9.2	X		X	
Consumable Supplies	7.3		X		X	
Other Supplies	.3		X		X	
Losses (shrinkage, spoilage, and pilferage)	2.9		X		X	
Linen Services and Laundry	.2		X		X	
<u>Utilities:</u>	1.8	1.5	X		X	
Utilities	1.8		X		X	
<u>Labor:</u>	88.0	75.7		X		X
Military Pay	2.7			X		X
Civilian Salaries	66.9			X		X
Other Purchased Labor Services	18.2			X		X
Travel of Personnel	.2			X		X
Total	\$116.2	100.00				

a/ Cost in millions of dollars
 b/ Does not sum exactly due to rounding

SOURCE: US Army Military Compensation Task Force, The Pentagon, Washington, D. C.

Appendix 17 : The Military Exchange System
(Not used)

Appendix 18 : Recreation and Space Available Travel
(Not used)

Appendix 19 : Military Conditions of Service
(Not used)

Appendix 20-A

EXPLANATION OF ITEMS IN TOTAL COMPENSATION DISPLAY

1. Regular Military Compensation. "Regular Compensation or Regular Military Compensation (RMC) is the total of the following elements that the member of a uniformed service accrues or receives, directly or indirectly, in cash or in kind each payday: Basic Pay, Basic Allowance for Quarters, Basic Allowance for Subsistence, and the Federal Tax Advantage accruing to the aforementioned allowances because they are not subject to Federal Income Tax." 37 U.S.C. (101(25)). RMC most nearly corresponds with "salary" in the civilian sector.

2. Basic Pay. The element of military compensation which represents pay for services rendered, based solely on grade and longevity. All active duty military members in good standing have a cash entitlement to basic pay. (See Chapter 4 above).

3. Food. All active duty members are provided food in kind or a cash allowance in lieu thereof. (See Chapter 5). Officers receive a fixed monthly cash allowance. Enlisted personnel receive food in kind or in lieu thereof, a daily cash food allowance under the following conditions only:

- (1) Food in kind available but special conditions appertain,
- (2) Food in kind not available.
- (3) Emergency.

4. Quarters. All active duty military members are provided a quarters in kind or a cash allowance in lieu thereof. In-kind quarters entitlements vary by the member's grade category -- that is, junior enlisted, senior enlisted, etc. -- and within each grade category by the number and type of dependents. In-cash allowance entitlements vary by the member's grade and within each grade by dependency status: with or without dependents. (See Chapter 6).

5. Federal Income Tax Differential (i.e., "Federal Tax Advantage"). (See Chapter 8).

6. Earnings for Military Service. This item is defined here as Regular Military Compensation less military absences.

7. Military Benefits. Military benefits are categorized into three groups -- i.e., Compensation Benefits, Mixed Compensation/Non-Compensation Benefits, and Non-Compensation Benefits. They are defined as follows:

a. Compensation Benefit. A Compensation Benefit is a military benefit with all of the following characteristics:

(1) Involves an expenditure of Government appropriated funds now or in the future, and

(2) Is of value to the military member exclusive of reimbursements, in one or more of the following ways:

(a) It adds net cash to his present income, or

(b) It permits him to realize a present net cash saving, or

(c) It is a present vested or contingent value of a prospective future benefit.

(3) Is available to all military members on an equal opportunity basis over the career cycle.

b. Non-Compensation Benefit. A Non-Compensation Benefit is a net benefit* to the military member which meets anyone or more of the following tests:

(1) It is a net benefit to the military member, but it incurs

(a) no expenditure of Government appropriated funds, or

(b) a relatively nominal expenditure of Government appropriated funds, or

*"Net Benefit" considers the possible offset of benefit and detriments. For example, the purpose of medical care is for the purpose of returning the member to combat. It is a "mixed" benefit and detriment.

- (c) The Government appropriated funds expended in continuing the benefit do not exceed the expenditures necessary to discontinue it; e.g., "mothball" and "closed-door" costs.

(2) It is a net benefit to the military member and it incurs a Government expenditure of appropriated funds, but the entire expenditure is a "Government assigned mission related" cost, including, but not limited to,

- (a) costs of contingency or mobilization force levels, and/or
- (b) "sunk" costs; i.e., costs which have been expended in the past and which are not pragmatically recoverable in the future.

c. Mixed Compensation/Non-Compensation Benefit. Has characteristics of both a Compensation and Non-Compensation Benefit. Accordingly, total costs to the Government of the benefit should be divided between the categories of (1) compensation to the military member and (2) Government cost of doing business, in relevant proportions.

8. Military Absences. (See Chapter 12).

a. Military Leave Taken. Imputed cost of leave taken by active duty military members.

b. Medical Absences. Medical absences includes "sick call", outpatient treatment time, and time lost from work for hospitalization and other reasons of medical nature.

c. Holidays. There are nine legal paid holidays per year in the United States. Typically, military duties and other factors prevent the actual utilization of some of these holidays. The remainder is considered a compensation benefit.

9. Pay for Unused Accrued Leave. This category includes cash settlements for unused leave at the time of separation, retirement, or death of the service member.

10. FHA Mortgage Insurance. Government subsidy to active duty service members purchasing private homes in form of payment of part of the premiums for mortgage insurance.

11. Severance/Readjustment Pay. Special entitlement available to certain categories of military personnel upon involuntary release from active duty.
12. Military Estate Program. This category is composed of the Military Retirement System, Survivor Benefit Program, Dependency Indemnity Compensation, Death Gratuity, and SGLI Insurance.
13. Military Retirement System. (see Chapter 13).
14. Education. (see Chapter 14).
15. Military Medical Care. (see Chapter 15).
16. Commissary System. (see Chapter 16).
17. Exchange System. (see Chapter 17).
18. Recreation. (see Chapter 18).
19. Transportation. (see Chapter 18).
20. SGLI Insurance. (see Appendix 13-A-2).
21. Incentive and Other Pays and Bonuses. (see Chapter 9).
22. Military X Factor. (see Chapter 19).

Appendix 20-B

TOTAL MILITARY COMPENSATION DISPLAY
Department of Defense-FY 1976

<u>Element</u>	<u>Total Compensation Cost Amount (\$ millions)</u>	<u>Percent of Total</u>	<u>Per-Capita Compensation Cost (\$)</u>
I. REGULAR MILITARY COMPENSATION (RMC)			
Basic Pay	<u>\$15,518.9</u>	59.8%	<u>\$7,370.58</u>
Food (Total)	<u>1,869.5</u>	7.2	<u>887.90</u>
BAS	<u>1,108.9</u>	4.3	
In-Kind	760.6	2.9	
Quarters (Total)	<u>2,264.7</u>	8.7	<u>1,075.60</u>
BAQ ²	<u>1,786.1</u>	6.9	
In-Kind	478.6	1.8	
Federal Tax Differential	<u>1,191.5</u>	4.6	<u>565.89</u>
Total Regular Military Compensations	<u>20,844.6</u>	80.3	<u>9,899.97</u>
Less Authorized Military Absences ³	<u>(2,106.0)</u>	(8.1)	<u>(1,000.23)</u>
Earnings for Military Services	<u>18,738.6</u>	72.2	<u>8,899.74</u>

Appendix 20 -B, Continued

<u>Element</u>	<u>Total Compensation Cost Amount (\$ millions)</u>	<u>Percent of Total</u>	<u>Per Capita Compensation Cost (\$)¹</u>
II. MILITARY BENEFITS			
A. <u>Compensation Benefits</u>			
- authorized military absences	<u>2,106.0</u>	<u>8.1</u>	<u>1,000.23</u>
o military leave taken	1,371.9	5.3	651.58
o holidays	371.5	1.4	176.44
o medical absences	362.6	1.4	172.21
- payment for unused accrued leave	350.0	1.3	166.23
- FHA Mortgage Insurance	3.1	---	1.47
- severance/readjustment pay	<u>122.4</u>	0.5	<u>58.13</u>
Total Compensation Benefits	<u><u>2,581.5</u></u>	<u><u>9.9</u></u>	<u><u>1,226.06</u></u>
B. <u>Mixed Compensation/Non Compensation Benefits</u>			
Military Estate Program	<u>2,844.9</u>	<u>11.0</u>	<u>1,351.16</u>
- Retirement System	<u>2,689.8</u>	<u>10.4</u>	<u>1,277.50</u>
o Military Retirement Annuity	1,955.0	<u>7.6</u>	<u>928.51</u>
o Social Security Annuity	734.8	2.8	348.99

Appendix 20-B, Continued

<u>Element</u>	<u>Total Compensation Cost</u>		<u>Per Capita Compensation Cost (\$)</u> ¹
	<u>Amount (\$ millions)</u>	<u>Percent of Total</u>	
- Survivor Benefit Program	-----	---	-----
- Dependents Indemnity Compensation	146.0	0.6	69.34
- Death Gratuity	9.1	---	4.32
Education	22.2	0.1	<u>10.54</u>
Military Medical Care ⁵	610.0	2.3	<u>289.71</u>
	-----	---	-----
Total Mixed Compensation/Non-Compensation Benefits	<u>3,477.1</u>	<u>13.4</u>	<u>1,651.41</u>
C. <u>Non-Compensation Benefits</u>			
Commissary	-----	---	-----
Exchange System	-----	---	-----
Recreation	-----	---	-----
Transportation (Space Available)	-----	---	-----
SGLI	-----	---	-----
Other (See Appendix 19-C)	-----	---	-----
Total Non-Compensation Benefits	-----	---	-----
TOTAL MILITARY BENEFITS	<u>6,058.6</u>	<u>23.3</u>	<u>2,877.47</u>

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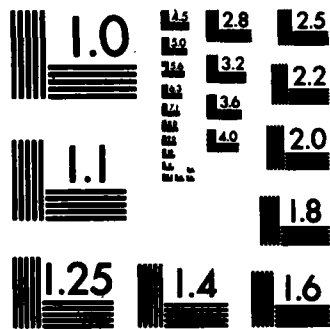
MILITARY COMPENSATION: PAST PRESENT AND FUTURE VOLUME 2 2/2
APPENDIX(U) DEPUTY CHIEF OF STAFF FOR PERSONNEL (ARMY)
WASHINGTON DC W S HOLLIS ET AL. 1976

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MICROCOPY RESOLUTION TEST CHART
NATIONAL BUREAU OF STANDARDS-1963-A

Appendix 20-B, Continued

Element	Total Compensation Cost		Per Capita Compensation Cost (\$)
	Amount (\$ millions)	Percent of Total	
III. TOTAL MILITARY COMPENSATION (Not including Incentive and Other pays and bonuses, below)	<u>24,797.2</u>	<u>95.5</u>	<u>11,777.21</u>
IV. INCENTIVE AND OTHER PAYS AND BONUSES (See Appendix 19-D)	1,165.4	<u>4.5</u>	<u>553.50</u>
V. MILITARY "X" FACTOR (See Chapter 18)	---	---	---
VI. TOTAL MILITARY COMPENSATION	<u>25,962.6</u>	<u>100.0</u>	<u>12,330.71</u>

NOTES:

- 1 Total cost divided by the average force size for FY 1976.
- 2 This amount represents "positive" marginal Government compensation costs. These costs represent utilities, and certain portions of specified quarters costs which have been determined to vary with use of quarters. Other costs are considered to be "mission-related." See Chapter 6 for further explanation.
- 3 Authorized absences are considered to be Compensation Benefits and are shown below. The amount associated with these absences is subtracted here to avoid double-counting.
- 4 Joint Service actuarial valuation of present value of future retirement, using the Aggregate Age Entry Normal cost method.
- 5 This amount represents "positive" marginal Government compensation costs. These costs represent supplies and certain portions of maintenance cost expended on other than direct mission-oriented health care. See Chapter 14 for further explanation.

SOURCE: US Army Military Compensation Task Force, The Pentagon, Washington, D. C.

Appendix 20-C
NON-COMPENSATION BENEFITS
 (See Appendix 20-B-Section IIC)

<u>Element</u>	<u>Cost Millions</u>
Medical Care (Service members)	\$ 1,396.0
Medical Care (Retirement), Disability Associated	44.0
Recruiter Allowance	4.2
Dislocation Allowance	55.5
Survivor Benefit	
a. Member Contribution	Offset to Survivor Benefit Program
b. Social Security	Offset to Survivor Benefit Program
Home Owner Assistance Program	0.0
SGLI (Extra Hazard Premium)	0.0
Clothing Issues and Maintenance Allowance	308.2
Personal Money Allowance	.2
Retirement (Accruals--Percent of Disability)	336.8
Family Separation Allowance Type I	4.6
Cost of Living Allowance	75.0
Station Housing Allowance	87.1
Temporary Lodging Allowance	33.8
Temporary Lodging Facility/Quarters	Data Not Available
Separation Travel and Transportation Allowance	265.5
Enlisted Aides	4.5
Education Assistance (Non-Service Related)	5.9
GI Bill Education (In-Service)	106.7
GI Bill Education (Post-Service)	Data Not Available

SOURCE: DOD Quadrennial Review of Military Compensation, Staff Working Paper, dated 18 May 1976

Appendix 20-D
INCENTIVE AND OTHER PAYS AND BONUSES
 (See Appendix 20-B, Section IV)

<u>Element</u>	<u>Cost</u> <u>(\$ Million)</u>
<u>Officer Professional Pays</u>	
Special Pays (Health Professions)	\$ 118.3
Aviation Career Incentive Pay	204.0
Continuation Pay (Nuclear)	4.1
<u>Enlisted Professional Pays</u>	
Enlistment Bonus	75.5
Reenlistment Bonus	217.7
<u>Hazardous Duty Pays</u>	
Flight Pay (Crew and Non-Crew)	33.2
Demolition Duty Pay	2.5
Diving Duty Pay	4.0
Parachute Jumping Duty Pay	20.6
Hostile Fire Pay	--
Submarine Duty Pay	24.6
<u>Hardship Duty Pays</u>	
Duty at Certain Places Pay	32.4
Sea Duty Pay	29.1
<u>Merit Pays</u>	
Responsibility Pay	--
Proficiency Pay	<u>42.3</u>
TOTAL	\$ 808.3

SOURCE: Department of Defense Budget - FY 1976.

Appendix 20-E

SUBJECT: Personnel vs "Hardware": Current Costs of Current U.S. Defense

I. Introduction

Recent statements of concerned government officials have indicated that, given current fiscal and monetary constraints, 'every dollar for current defense manpower is a dollar less for current defense hardware'.

II. Analysis

The following analysis and synthesis addresses this issue.

A. Findings

The figure of Appendix 20-E ^{3/} shows that:

1. Between World War II and the Korean War, personnel outlays rose from 37.0 to 66.7 percent of the total Current Defense Budget and were still 61.4 percent at the outbreak of the Korean hostilities.
2. During the Korean War, the Personnel element of the Current Defense Budget dropped to a low of 35.6 percent in FY 1953.
3. Between the Korean War, and into the Vietnam War, the percentage of Personnel to total Current Defense Budget remained within the range of 35 to 48 percent, but rose steadily from 1968 through 1973 to a high of 53.0 percent.
4. For the past 4 years, personnel costs, as a percent of the total Current Defense Budget, have been declining and are currently programmed for the coming year as 47.2 percent (FY 1977).

1/ Hearings, Defense Authorization Request for FY 1977 Manpower, Subcommittee on Manpower and Personnel, Senate Armed Services Committee, 6 February 1976.

2/ Statement, Subcommittee on Manpower and Personnel, Senate Armed Services Committee, 6 February 1976.

3/ Source: DOD Comptroller Budget Analysis.

B. Interpretation

1. During a "draft" period, personnel costs take a smaller share of the total current Defense Budget than during "no draft" periods. When volunteers must be attracted, financial incentives are required to achieve and maintain mission-required force levels.
2. During periods of armed conflict, personnel costs generally decrease and "Hardware" costs generally increase as a percentage of the total Current Defense Budget largely because the greater availability of lesser-cost manpower through the draft changes the grade/YOS structure.
3. "Catch up" Military pay adjustments, such as the ones experienced in 1963 and 1971, tend to increase Personnel Costs as a percentage of the total current Defense budget over the short period.
4. Personnel costs for FY 1977, as a percentage of the total current Defense Budget, are approximately the same they have been on the average, for over 30 years.
5. Personnel costs currently programmed (47.2 percent) are almost one-third less than personnel costs of the pre-Korean War period (66.7 percent).

III. Conclusion

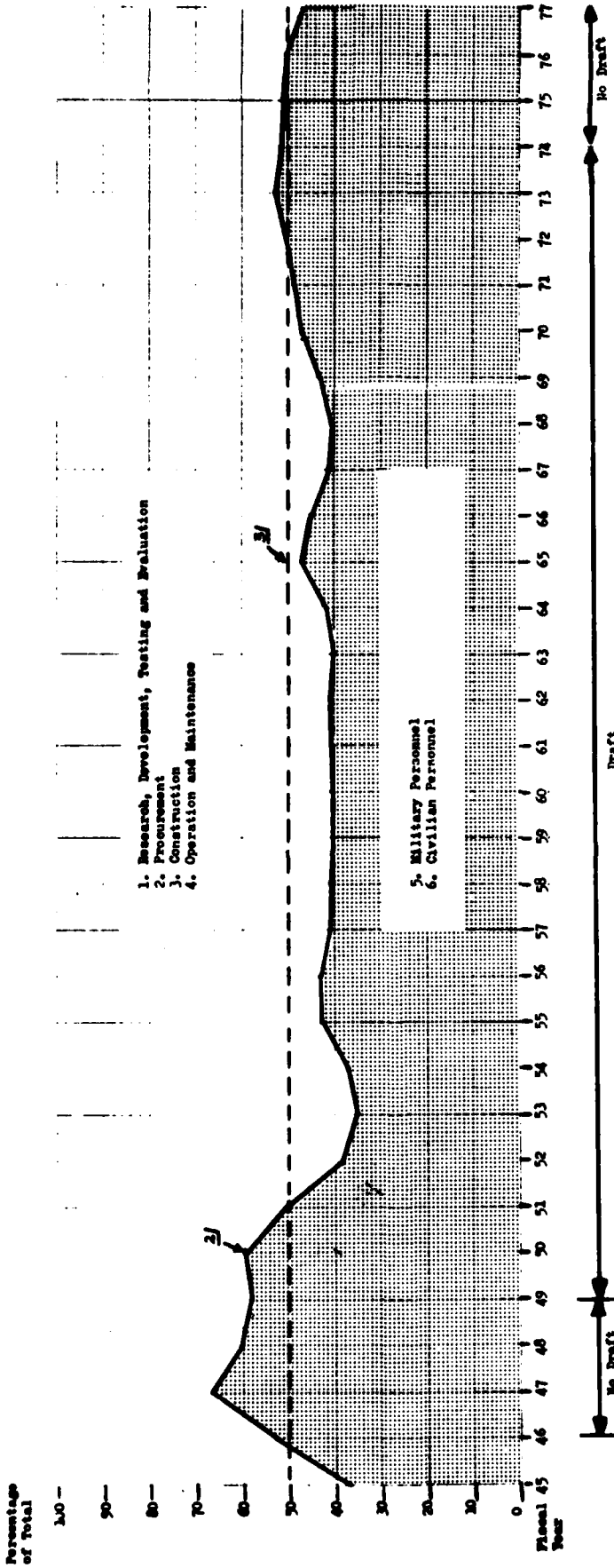
The foregoing analysis shows, for the current cost of current defense, that (1) every dollar for current defense manpower is not a dollar less for defense "hardware" and (2) current defense manpower has been and is declining relative to current defense hardware.

If and only if current defense costs for past manpower and non-defense-related projects are included is there a change from this conclusion.

Appendix 20-E

PERSONNEL VS. MATERIALS: CURRENT COSTS OF CURRENT U.S. DEFENSE
 (As Percentages of the Total Department of Defense Current Operating Budget)

Fiscal Years 1945 - 1977



- 1/ Total RDB Budget outlays less Retired Pay and Civil Functions (eg US Army Engineer projects)
 - 2/ Korean Conflict, 1950 - 1953
 - 3/ US ground forces involved in Vietnam, 1965
- Sources: Department of Defense Budgets, 1945-1977

Appendix 20-B

PERSONNEL VS "HARDWARE": CURRENT COSTS OF CURRENT VS DEFENSE
 (As a Percentage of Total Department of Defense Current
 Operating Budget)

Fiscal Years 1945 - 1977

<u>FISCAL YEAR</u>	<u>PERSONNEL</u>	<u>PERCENTAGE</u> <u>"HARDWARE"</u>	<u>TOTAL</u>
1945	37.0	63.0	100.0
1946	53.1	46.9	100.0
1947	66.7	33.3	100.0
1948	60.3	39.7	100.0
1949	58.5	41.5	100.0
1950	61.4	38.6	100.0
1951	50.4	49.6	100.0
1952	38.5	61.5	100.0
1953	35.6	64.4	100.0
1954	37.1	62.9	100.0
1955	42.7	57.3	100.0
1956	43.4	56.6	100.0
1957	41.1	58.9	100.0
1958	41.2	58.8	100.0
1959	40.2	59.8	100.0
1960	40.4	59.6	100.0
1961	40.6	59.4	100.0
1962	40.8	59.2	100.0
1963	40.0	60.0	100.0
1964	41.9	58.1	100.0
1965	47.2	52.8	100.0
1966	44.8	55.2	100.0
1967	41.7	58.3	100.0
1968	40.2	59.8	100.0
1969	43.1	56.9	100.0
1970	47.1	52.9	100.0
1971	48.9	51.1	100.0
1972	50.5	49.5	100.0
1973	53.0	47.0	100.0
1974	51.6	48.4	100.0
1975	50.7	49.3	100.0
1976	50.1	49.9	100.0
1977	47.2	52.8	100.0

SOURCE: Department of Defense Budgets, 1945 - 1977

APPENDIX 21-A¹

**MILITARY PERSONNEL, FEDERAL CIVIL SERVICE, AND PRIVATE SECTOR
MES/SALARY**



^{1/} This graph portrays average (mean) per capita wage and salary incomes for each category. Sources of data, and definitions of each category are given in the attached table.

SOURCE: US Army Military Compensation Task Force, The Pentagon, Washington, D.C.

ACTUAL COMPARISON OF AVERAGE TOTAL COMPENSATION
MILITARY PERSONNEL, FEDERAL CIVIL SERVICE, AND PRIVATE SECTOR¹

FISCAL YEAR	MILITARY ² PERSONNEL (&)	FEDERAL CIVIL ³ SERVICE (\$)	PRIVATE ⁴ SECTOR (\$)
1965	4596	6882	6934
1966	4903	6850	7285
1967	4888	6894	7706
1968	5169	7396	8162
1969	5367	7963	8924
1970	5843	9155	9676
1971	6450	10092	10176
1972	8557	11789	11685
1973	8568	11789	11685
1974	9091	12337	12104

1/ This table compares average (mean) per capita incomes of Military Personnel, Federal Civil Service, and the Private Sector for fully employed individuals.

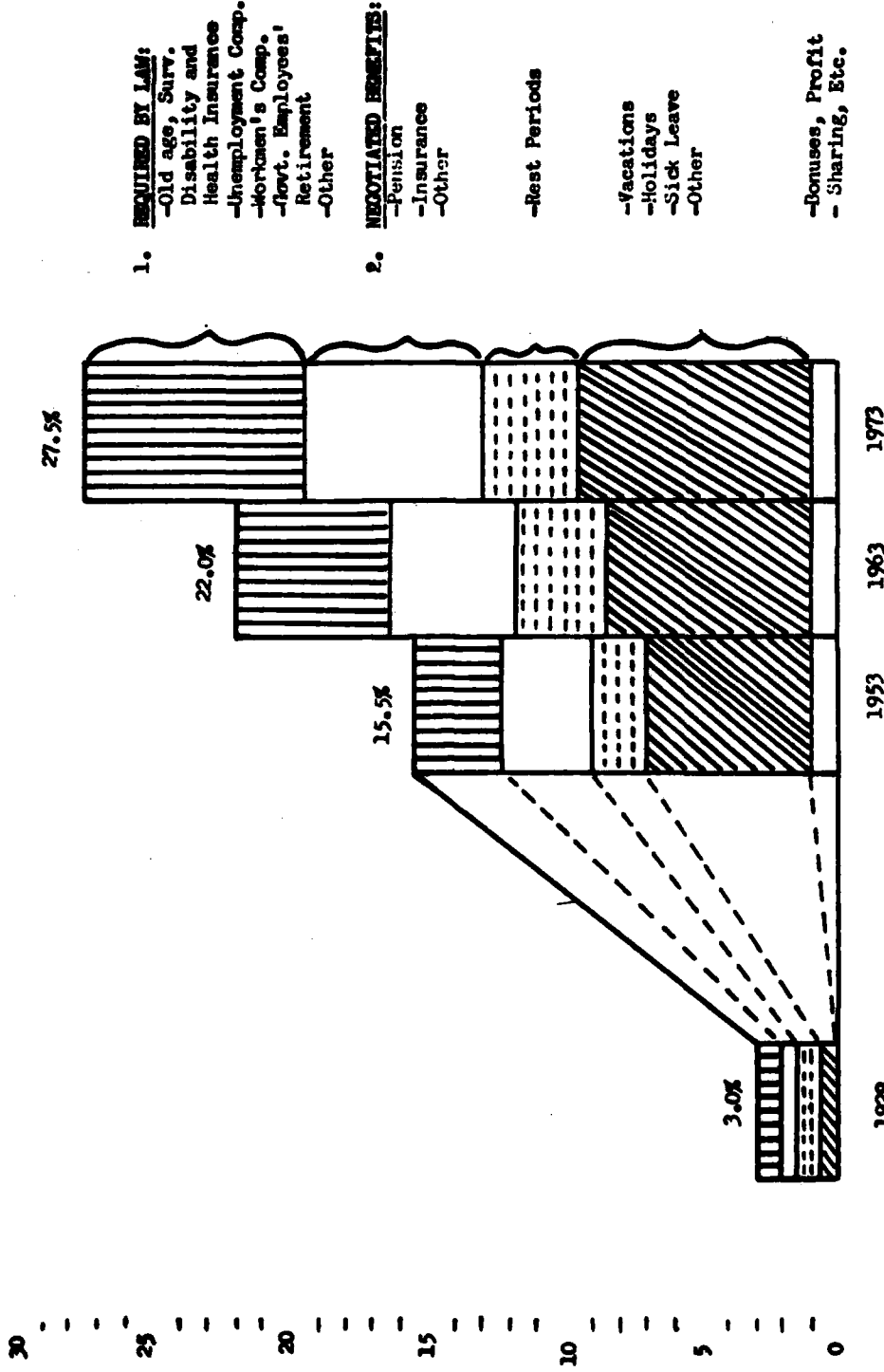
2/ Military Compensation as portrayed in this table is Regular Military Compensation (RMC). 37 U.S.C. 101(25) defines RMC as "(25) 'Regular Compensation' or 'Regular Military Compensation (RMC)' means the total of the following elements that a member of a uniformed service accrues or receives, directly or indirectly, in cash or in kind every payday: basic pay, basic allowance for quarters, basic allowance for subsistence, and Federal tax advantage accruing to aforementioned allowances because they are not subject to Federal income tax." Allowances were valued at cash rates in this table to provide more consistent and comparable amounts.

3/ Average Federal Civil Service Compensation includes Executive, Legislative, and Judicial Branches of the Federal Government plus employment under Youth Opportunity and other Federal Programs for the disadvantaged. Source: Joint Committee on Federal Expenditures, 93rd Congress, Second Session, Joint Committee Print #367.

4/ Average Private Sector Compensation was obtained from Current Population Reports - Consumer Income, US Dept. of Commerce, Bureau of the Census. Adjustments were made to fit data into Fiscal Year rather than Calendar Year format.

Appendix 21-B

EMPLOYEES BENEFITS AS A PERCENTAGE OF TOTAL COMPENSATION, IN PRIVATE SECTOR, SELECTED YEARS



SOURCE: U. S. Chamber of Commerce

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