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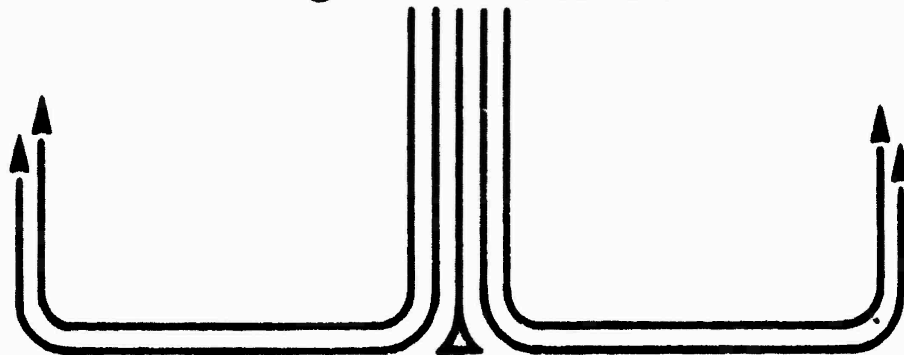
STUDENT REPORT

A SINGLE, AREA SPECIFIC
MILITARY HOUSING ALLOWANCE
--AN AHA

MAJOR G. RICHARD CREEKNORE 85-0585

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REPORT NUMBER 85-0585

TITLE A SINGLE, AREA SPECIFIC MILITARY HOUSING
ALLOWANCE--AN AHA

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Submitted to the faculty in partial fulfillment of
requirements for graduation.

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REPORT DOCUMENTATION PAGE

1a. REPORT SECURITY CLASSIFICATION UNCLASSIFIED		1b. RESTRICTIVE MARKINGS	
2a. SECURITY CLASSIFICATION AUTHORITY		3. DISTRIBUTION STATEMENT A Approved for public release Distribution Unlimited	
2b. DECLASSIFICATION/DOWNGRADING SCHEDULE			
4. PERFORMING ORGANIZATION REPORT NUMBER(S) 85-0585		5. MONITORING ORGANIZATION REPORT NUMBER(S)	
6a. NAME OF PERFORMING ORGANIZATION ACSC/EDCC	6b. OFFICE SYMBOL <i>(If applicable)</i>	7a. NAME OF MONITORING ORGANIZATION	
6c. ADDRESS (City, State and ZIP Code) Maxwell AFB AL 36112		7b. ADDRESS (City, State and ZIP Code)	
8a. NAME OF FUNDING/SPONSORING ORGANIZATION	8b. OFFICE SYMBOL <i>(If applicable)</i>	9. PROCUREMENT INSTRUMENT IDENTIFICATION NUMBER	
8c. ADDRESS (City, State and ZIP Code)		10. SOURCE OF FUNDING NOS.	
		PROGRAM ELEMENT NO.	PROJECT NO.
		TASK NO.	WORK UNIT NO.
11. TITLE (Include Security Classification) A SINGLE, AREA SPECIFIC MILITARY			
12. PERSONAL AUTHOR(S) Creekmore, G. Richard, Major, USAF			
13a. TYPE OF REPORT	13b. TIME COVERED FROM _____ TO _____	14. DATE OF REPORT (Yr. Mo., Day) 1985 April	15. PAGE COUNT 48
16. SUPPLEMENTARY NOTATION ITEM 11: HOUSING ALLOWANCE--AN AHA			
17. COSATI CODES		18. SUBJECT TERMS (Continue on reverse if necessary and identify by block number)	
FIELD	GROUP	SUB. GR.	
19. ABSTRACT (Continue on reverse if necessary and identify by block number) The elements of the military compensation system have grown in number and complexity. For example, today, there are three primary military housing allowances: i.e., basic allowance for quarters, continental United States variable housing allowance, and overseas rent plus housing allowance, which basically reimburse servicemembers for their housing costs. The question is, if these three housing allowances serve the same purpose, why not simplify the compensation system by combining them into a single housing allowance system? The study evaluates the possibilities of combining the three housing allowances into a single area housing allowance. The study concludes that a single area housing allowance--an AHA, will improve the military compensation system.			
20. DISTRIBUTION/AVAILABILITY OF ABSTRACT UNCLASSIFIED/UNLIMITED <input type="checkbox"/> SAME AS RPT. <input checked="" type="checkbox"/> DTIC USERS <input type="checkbox"/>		21. ABSTRACT SECURITY CLASSIFICATION UNCLASSIFIED	
22a. NAME OF RESPONSIBLE INDIVIDUAL ACSC/EDCC Maxwell AFB AL 36112		22b. TELEPHONE NUMBER <i>(Include Area Code)</i> (205) 293-2483	22c. OFFICE SYMBOL

PREFACE

This staff analysis is only a proposal to be considered within the total military compensation philosophy. The concept to combine the three military housing allowances into a single, area specific allowance, or an AHA, although solely representing the author's thoughts, was developed after lengthy discussions and working with key individuals in the military compensation business at Air Force and the Office of the Assistant Secretary of Defense levels.

Special thanks to Mr. Douglas McCormick and Mr. Peter Ogloblin from the Compensation Division in the Office of the Assistant Secretary of Defense and to Lieutenant Colonel Charles Van Nostrand from the Department of Defense Per Diem, Travel and Transportation Allowance Committee for their sage counsel and advice. I would also like to thank all the staff officers from my previous office in the Military Pay and Entitlements Division, Headquarters United States Air Force, for their help in answering the many questions I had during the writing of this study. Finally, many thanks to my wife for typing my drafts and putting up with my many piles of papers strewn throughout our home.

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ABOUT THE AUTHOR

Major G. Richard Creekmore was commissioned through the Air Force ROTC program in 1971. Following personnel school at Keesler AFB Mississippi, he was assigned to the 649th Radar Squadron, Bedford AFS, Virginia, where he and another officer ran the Station's support functions.

Major Creekmore was next assigned to March AFB, California, as chief of the assignment section in the Consolidated Base Personnel Office. Following this duty, he went to Headquarters United States Security Service, San Antonio, Texas, where he was Assistant Director of Personnel Services. In 1978, Major Creekmore was selected for a one year assignment in the Air Staff Training Program (ASTRA). During this year, he worked in most of the divisions of Headquarters United States Air Force Civilian Personnel.

Major Creekmore then went to Headquarters Space Division, Los Angeles, California. At Space Division, he was responsible for the quality control aspects of the personnel business and the assignment of engineers and scientists throughout the bases under the jurisdiction of Space Division. In July 1981, Major Creekmore was transferred to the Personnel Plans Directorate at Headquarters United States Air Force. As Chief, Air Force Military Compensation Section, he was charged with developing and defending military pay and entitlements programs to improve the quality of life for servicemembers. He served on both the Joint Services Military Pay Adjustment Mechanism Study Group and the Joint Services Variable Housing Allowance Study Group. He was also the Pentagon briefer on the traveling Air Force Personnel Management Team.

Major Creekmore has a Bachelor of Art degree in Psychology and a Master of Art degree in Counseling. He is a graduate of Squadron Officer School and Air Command and Staff College, class of 1985.

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EXECUTIVE SUMMARY

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REPORT NUMBER 85-0585

AUTHOR(S) MAJOR G. RICHARD CREEKMORE, USAF

TITLE A SINGLE, AREA SPECIFIC MILITARY HOUSING ALLOWANCE--AN AHA

I. Purpose: To determine if a single, area specific military housing allowance--an AHA--can improve the military compensation system.

II. Problem: The elements of the military compensation system have grown in number and complexity. For example, today, there are three primary military housing allowances; i.e., basic allowance for quarters (BAQ), continental United States variable housing allowance (VHA), and overseas rent plus housing allowance (RPHA), which basically reimburse servicemembers for their housing expenses. The question is, if these three housing allowances serve the same purpose, why not simplify the compensation system by combining them into a single housing allowance system?

III. Discussion: The military compensation system must be structured to ensure mission readiness and sustainability. How the compensation system evolved relates directly to this underlying objective plus an acknowledgement that military members

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must be compensated in a way that is understandable and fair to them and the taxpayer. The system must work equally well in peacetime and wartime and be responsive to changing marketplace conditions; i.e., be able to continually attract and retain the quality and quantity of personnel necessary to meet national security requirements. Unfortunately, during the 1970's and 1980's, the military pay and allowances system was implemented in a "hit and miss" fashion. A series of pay caps, then catch-up pay raises, then pay caps again resulted in severe recruiting and retention problems in the late 1970's and portend similar problems in the late 1980's. During this period, the definitions of "pay comparability," "regular military compensation" (RMC), and "reimbursements" changed. In fact, the measurement of what is fair and equitable pay; i.e., pay comparability, is still not resolved. Is fair and equitable pay based on the three elements of military pay; i.e., basic pay, basic allowance for subsistence (BAS), and BAQ, or is it based on the 1980 definition of RMC; i.e., basic pay, BAS, BAQ, VHA, RPHA, and the income tax advantage a member accrues because these allowances are not subject to federal income tax? Also unresolved is the question of what constitutes "housing reimbursements." In the 1970's and 1980's, housing allowances were increased based on changes in housing costs or changes in private sector salaries or a combination of both housing cost and private sector wage changes. Housing allowances vacillated between a reimbursement for housing costs and a pay element depending not on housing costs but on private sector wage changes. In 1985, housing allowances were again set to reimburse members for their housing costs. What is needed is a well defined, easy to understand, and stable military compensation system.

IV. Conclusions: The AHA concept, if allowed to work as a housing reimbursement system, will help improve the military compensation system. An AHA is more understandable and will work better in peace and war than the current three housing allowances system. An AHA is fair to servicemembers and will save, after initial conversion cost, about six million dollars annually.

V. Recommendations:

1. Adopt RMC, which is defined as basic pay, BAS, AHA, and which also takes in to account the income tax advantage that accrues because BAS and AHA are not subject to federal income

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tax, as the military pay comparability measurement standard.

2. Have the Office of the Assistant Secretary of Defense submit legislation to the Congress to combine the three primary military housing allowances into a single housing allowance called an AHA.

Chapter One

INTRODUCTION

STATEMENT OF THE PROBLEM

On October 8, 1984, the front page headline of the Air Force Times read: "Congress Approves 4% Pay Raise Jan. 1...BAQ to Rise 5%; VHA Hiked 20%." (2:1; 3:1) A few pages into this Air Force Times one will find that it's really not a five percent basic allowance for quarters (BAQ) increase for each servicemember. The increase is really somewhere between no BAQ increase and 14.8 percent. The size of the BAQ increase depends on the military member's pay grade and dependency status. And, it's really not a 20 percent variable housing allowance (VHA) increase for each member. The size of the VHA depends on several variables: where the individual is assigned, dependency status, and what happened to the member's January 1, 1984 BAQ raise. In fact, in some areas of the Continental United States (CONUS), a member's VHA may actually decrease while the individual's BAQ increases. If this sounds confusing, consider the following extract from the Senate Armed Services Committee Report on Public Law 98-174 in the fiscal year 1984 Department of Defense Authorization Act:

When the fiscal year 1983 increase in basic pay, BAQ, and basic allowance for subsistence was capped at 4 percent, the Continuing Appropriations Resolution for fiscal year 1983 directed that VHA rates should be computed as if BAQ were increased by 8 percent instead of the actual 4 percent increase. Without such a provision, the 4 percent cap on BAQ would have been recouped by those personnel receiving VHA through the automatic rise in that allowance. However, this cap on VHA in fiscal year 1983 had the detrimental effect of raising the housing cost offset to be absorbed by servicemembers from 115 percent to 119.4 percent of the basic allowance for quarters. (15:218)

The point is, in today's world with all its advanced technology and forward thinking geared at making life "less complex," why can't the military compensation system follow the trend? Why

is the military member subjected to a compensation system with over "40" special and incentives pays and allowances? (26:XI,XII)

In order to narrow the scope of this question to a more manageable level, the following analysis will center on just three of these 40-plus compensation elements. Specifically, the analysis will deal with the three primary military housing allowances; that is, basic allowance for quarters (BAQ), variable housing allowance (VHA), and the overseas rent plus housing allowance (RPHA). The question is--why shouldn't these three housing allowances be combined into a single, area specific military housing allowance? If the analysis concludes that a single, area specific housing allowance can achieve all the objectives of today's three separate housing allowances, then why not simplify the military compensation system by having a single housing allowance rather than these three?

PURPOSE OF THE STUDY

To answer the question, why not a single, area specific military housing allowance?, three distinct subject areas will be analyzed. (For purposes of this analysis, the acronym AHA will be used to coin the new combined area specific military housing allowance.)

First. The underlying principles behind the Department of Defense philosophy of the military pay and allowances system will be reviewed. Chapter two provides a chronological record of the evolution of the military compensation system and lists several of the primary principles that govern the basic philosophy of the "unique" military pay and allowances system. The purpose of this chapter is to determine if an AHA will be consistent with this basic philosophy.

Second. The next chapter integrates this basic military compensating philosophy into the development of today's military pay raise process. How the three housing allowances (i.e., BAQ, VHA, and RPHA) interact in the pay raise formula will be reviewed. There are three purposes for this chapter. First is to determine if military housing allowances are adjusted based on housing cost increases or decreases throughout a year, or if they are based on independent factors having little or nothing to do with the cost of housing (e.g., principle of military pay comparability to the private sector--this comparability principle will be discussed in chapters two and three (12:--)). Next is to determine the role that regular military compensation (RMC) plays in the military pay raise process. In 1980, Congress defined RMC as consisting of six elements: basic pay, basic

allowance for quarters (BAQ), basic allowance for subsistence (BAS), CONUS variable housing allowance (VHA), overseas housing allowance (today, predominately the rent plus housing allowance (RPHA), and the federal income tax advantage a military member accrues because these allowances are not subject to federal income tax. (28:2-2) The primary purpose of the chapter is to determine if an AHA will be consistent with the military pay raise philosophy.

Third. The final area will list the significant pros and cons of an AHA. Chapter four discusses the major advantages and disadvantages of an AHA from two perspectives: (1) the servicemember and (2) the Department of Defense. The purpose of this chapter is to determine if the preponderance of evidence supports an AHA or the status quo.

If the conclusions support an AHA, the real litmus test for this staff analysis would follow in the recommendation section in chapter five. That recommendation would be: that the Office of the Assistant Secretary of Defense for Manpower, Installations, and Logistics prepare an appropriate legislative proposal to Congress to combine the three primary military housing allowances (i.e., BAQ, VHA, and RPHA) into a single, area specific military housing allowance--the AHA.

Chapter Two

BACKGROUND OF THE MILITARY COMPENSATION SYSTEM

PRINCIPLES AND CONCEPTS

"The foremost purpose of the compensation system for the Uniformed Services is to ensure mission readiness and sustainability." (26:I-2) How the current military compensation system developed relates directly to the underlying principle that the "mission" comes first. Lieutenant General Iosue in his testimony to the House Armed Services Committee in 1981 defined this commitment to the mission this way:

The military is a unique calling--we impose extraordinary demands on our people and insist that they be disciplined in a society where individual freedom is highly valued. They must maintain an acute sense of purpose or mission in a society that questions and debates the values of our institution and national goals. They must surrender elements of freedom in the freest and most prosperous country in the world and endure extraordinary conditions of service such as enforced family separation, overseas service, overtime without pay, duty in hostile climates and environments, committing themselves to an unknown future, and laying down their lives, if necessary, in the Nation's service. The Air Force philosophy of compensation is meant to nurture these values, enhance morale, and provide us a cohesive force that is ready for war. (21:1)

The Fifth Quadrennial Review of Military Compensation (5th QRMC) stressed this deep commitment in their 1984 report to Congress and the President:

The subordination of self to the service, required of the servicemember, is more complete than that of any other profession or calling except perhaps for religious life. The commitment extends to laying down one's life, if necessary. Even in peacetime, service involves going where ordered and doing as ordered, regardless of discomfort, separation from family, and other consequences. It includes being subject to duty 24 hours a day, seven days a week, and subjection to the Code of Military Justice, a special and constant discipline. It entails potential hazard to life and limb, and continuing health hazards. Finally, there is no option to quit the job until the term of enlistment or self-com-

mitment is completed. (26:I-5)

Besides this underlying principle, there are several basic principles, subprinciples, concepts, and policies which help form the philosophy behind the military compensation system. Mr. Peter K. Ogloblin, Office of the Assistant Secretary of Defense, (Manpower, Installations, and Logistics) summarized many of these principles and policies. His principles include:

- (1) Military compensation is and should be an integral part of the Defense manpower system.
- (2) Military compensation should reflect the realities of military technology and combat tactics of today's environment.
- (3) The military compensation system should accommodate the mobilization planning, promotion patterns, force levels and training lead-time of the armed forces.
- (4) Any military compensation system should operate effectively in both peace and war. (32:3)

Along with these principles, Mr. Ogloblin lists subprinciples, concepts, and policies which round out his philosophy of the modern military compensation system. He states that the military compensation system should be; (1) fair and equitable to the troops, (2) operated at the lowest cost to the taxpayer, (3) understandable, (4) comparable with the American economy but competitive to ensure adequate manning of certain military specialities; furthermore, he states (5) reimbursements, including allowances, should repay actual expenses whenever possible. (32:1-8)

The 5th QRMC list of principles and subprinciples closely mirror those of Mr. Ogloblin's. The six broad based principles of the 5th QRMC include:

- (1) The system must be an integral part of the overall system by which Service manpower is managed...
 - (2) Uniformed Services compensation should be no higher or lower than necessary to fulfill the basic objective of attracting, retaining, and motivating a sufficient quantity and quality of Service personnel...
 - (3) all servicemembers be should allowed to compete equally for pay and promotion according to their abilities...
 - (4) it [the system] must operate effectively in both peace and war...
 - (5) it [the system] ought to be designed in such a way that is flexible enough to adjust quickly to changing conditions of supply and demand...
 - (6) the basic system, as well as any special or supplemental aspects, should be designed to encourage meritorious performance and advancement to higher responsibilities.
- (26:II-2 - II-6)

How these principles, concepts, and policies evolved is the key to understanding today's military compensation system. Understanding how they developed will also help determine if an AHA will be consistent with them and consistent with the underlying compensation principle that the "mission" comes first.

EVOLUTION OF THE MILITARY COMPENSATION SYSTEM

Military Pay and Allowances System

1790-1948.

The roots of the current military pay and allowances system began in the Continental Congress. As early as 1790, the Federal Congress of the United States provided funds for the Army by implementing a two-part pay system. The first part was a direct pay for services performed. The second part was a quasi-reimbursement system for necessities the government could not provide. The law provided for, "pay of the troops; additional pay for adjutants, quartermasters, and paymasters; rations for officers...money in lieu of forage; and clothing for noncommissioned officers and privates." (13:1 stat.119) Except for a brief period from July 1, 1870 to June 30, 1922 when a salary system was in effect for officers (this system was dropped because it created a "disparity treatment as between officers who were, and those who were not, furnished 'free' quarters, heat and later electricity..." (29:5)), the practice of a military pay and allowances system has been in effect.

This two-fold compensation system worked because: (1) It allowed the rapid movement of troops in time of conflict without altering the compensation process--pay always continued at the same amount regardless; for example, if the member lived in adequate government quarters, a fox hole, or had to find civilian housing; all that was necessary was to start or stop the member's quarters allowance. And (2) this dual pay and allowances system emphasized the institutional rather than the occupational approach to compensation. The institutional approach subordinated individual self-interests in favor of a higher good. The military pay and allowances system helped "to create a professional identity--literally a different way of life...a civilian works for General Motors; but a career soldier is in the Army...in which cohesion, unity of purpose, and reciprocal loyalty are emphasized." (1:2,22) The same reasons are equally valid today. In fact, in 1978, the President's Commission on Military Compensation reaffirmed this dual pay and allowances compensation system with its great dependence on allowances:

This heavy reliance on allowances is justified on the ground that it supports the military way of life. That is, to insure readiness and to provide for needs in isolated areas, personnel must live at the site of, or in close proximity to, their duties. In addition, the pay and allowance form of compensation appears to reinforce the view that the Services "take care of their own," and thus contributes directly to building effective fighting units.

The Commission reviewed the arguments in the continuing debate between the defenders of pay and allowances and the advocates of conversion to a salary system without allowances, concluding that the system of pay and allowances should be retained.... (37:102)

Although the allowances system employed in these early years of the armed forces did not in any way resemble today's sophisticated methodology used to determine rates, it did provide additional dollars to servicemembers to help them obtain food and housing. It wasn't until 1922 that a housing allowance rate setting procedure was firmly established in law. The 1922 Pay Act stated:

That each commissioned officer on the active list or on active duty below the grade of Brigadier General or its equivalent, in any of the Services mentioned in the title of this Act if public quarters are not available, shall be entitled at all times in addition to his pay, to a money allowance for rental of quarters, the amounts of such allowance to be determined by the rate for one room fixed by the President for each fiscal year in accordance with a certificate furnished by the Secretary of Labor showing the comparative costs of rents in the United States for the preceding calendar year as compared with the calendar year 1922. Such rate for one room is hereby fixed at \$20 per month for the fiscal year 1923, and this rate shall be the maximum and shall be used by the President as the standard in fixing the same or lower rates for subsequent years. (14:628)

The distinction that allowances for quarters are reimbursements and are not compensation was a landmark decision made by the United States Court of Claims in 1925. The Court held that, within the meaning of the income tax law, neither government quarters nor money provided for obtaining non-government quarters was an allowance of a "compensatory" character. (29:69)

It was the opinion of the Court that:

...Congress has uninterruptedly recognized the right of officers to public quarters when available at his post or station and, when not so available his right to commutation of quarters in money....Therefore, it seems to us that military quarters for both the enlisted men and officers of the Army are no more than an integral part of the organization itself. They are, so to speak, units of the military plant, the indispensable facilities for keeping the Army intact and maintaining it as such, as much so as the crude shelter provided for a watchman at a railroad station, or the lonely habitation of a lighthouse keeper. (38:552)

This decision stands today as evidence that it is the government's obligation to house (and feed) its military members, and when government housing (or food) is not available, it is the government's obligation to "provide a cash allowance to military personnel." (29:41,51) Although the roots of the military pay and allowances system were planted almost 200 years ago, it wasn't until 1949, some 159 years later, that the system started to mature.

1949-1966.

The Career Compensation Act of 1949 set the stage for the present military compensation system. This Act revamped the entire military pay and allowances structure. It adopted "basic pay" as the primary pay element received by all servicemembers and created the basic pay table which recognized a member's pay grade and length of service (longevity steps). This paramount legislation also stipulated that a member's total pay would be derived by adding the member's basic pay to any special pays and allowances received. The Act additionally established the basic structure for quarters and food allowances and it named those allowances, basic allowance for quarters (BAQ) and basic allowance for subsistence (BAS), respectively. BAQ rates were determined based on the rental expenses of civilians in equivalent income classes and were set at the 75th percentile of civilian rental expenses. BAS rates were set at rates comparable to the cost of food. (29:42,53)

In 1958, Public Law 85-422 increased basic pay rates to make them more competitive with the civilian sector. This law also added new pay grades to provide additional monetary incentives for advancement in a military career and restructured the longevity step configuration to "maintain a closer relationship between performance and higher pay." (29:7) The 1958 Act put the

finishing touches on the basic pay table. Today, this basic pay table "is identical for grade and length of service--regardless of service, job specialty, or geographical area of assignment--and is an explicit recognition that we are compensating members for their military experience and responsibility, not for the particular military specialty they are working in." (17:2) This is an important distinction because unlike the civilian employee who is paid for doing a particular job, military personnel are paid on the basis of their primary function; i.e., to protect and defend the United States. A common basic pay table creates the feeling that "all are making equal contributions to national defense." (1:23) Going back to the underlying principle that the mission comes first, this feeling instills "the teamwork, esprit de corps, unity identity, and the cohesiveness necessary for success in battle." (28:A-4)

Housing allowances also underwent some modifications. In 1959, the Department of Defense recognized that BAQ was not sufficient for many servicemembers assigned overseas. Therefore, since that time, servicemembers assigned overseas residing in non-government housing have received in addition to their BAQ, the difference between BAQ and overseas housing costs. (35:1) From 1959 through 1966, nothing of note happened to the basic structure of the military compensation system.

1967 - Present.

Two major changes in military pay and allowances philosophy occurred early during this period. First, it was in 1967 when Chairman Mendenhall Rivers of the House Armed Services Committee proposed that military pay increases should keep pace with increases received by Civil Service General Schedule (GS) employees--who in turn were to receive pay increases "comparable" to increases received in the private sector. This matching increase principle "stipulated that whenever federal civilians received a salary increase, military members would receive a matching increase in regular military compensation (RMC) applied exclusively to basic pay." (28:2-2) (In 1967, RMC consisted of four elements: basic pay, BAQ, BAS and the federal income tax advantage military members had because BAQ and BAS were not subject to federal income tax.) Public Law 90-207, or the so-called Rivers Amendment of 1967, worked this way. For example, in July 1969, federal civilians received a 9.3 percent salary increase and therefore, using the matching increase formula, military personnel received a 12.6 percent increase in basic pay (i.e., the 12.6 percent increase in basic pay represented a 9.3 percent increase in RMC). In other words, it took a 12.6 percent increase in basic pay--which made up about 75 percent of RMC (29:8)--to achieve a 9.3 percent increase among all four

elements of RMC. (There will be a further clarification of this concept in chapter three.)

The second major change occurred when the Services transitioned from a draft environment to the all-volunteer force concept in 1972. At that time, military pay (i.e., RMC) was raised to "levels that were designed to be reasonably comparable to the private sector." (28:2-3) (The Rivers Amendment of 1967 only established a statutory index between military pay raises and civilians, it did not set military pay at comparable levels.) (28:2-2) However, Congress intended to use the Rivers Amendment to sustain military pay comparability established on January 1, 1972. This commitment for maintaining military pay comparability with the private sector, or the "comparability principle," worked only for the first few years under the all-volunteer force concept--military pay increases did not keep pace with the private sector through the end of the 1970's. (28:2-4 - 2-6) Military pay was again brought up to essentially comparable levels with the private sector with the sizeable pay raises received in the early 1980's. (Note: In 1974, the definition of "military pay" was changed from all the components of RMC to only the three cash elements of RMC; i.e., basic pay, BAQ and BAS.) Secretary of Defense Weinberger in a letter to Senator Exon said it this way, "I believe we should measure the comparability of military pay from October, 1981 when, I think we can all agree comparability of military pay was essentially restored." (31:2)

Besides these major changes to the military pay and allowances philosophy (i.e., the matching increase formula and the commitment to the principle of pay comparability (25:12)), one significant change to the basic military compensation structure also took place. Public Law 96-343 (Military Personnel and Compensation Amendments of 1980) added the CONUS variable housing allowance (VHA). In 1980, "the monthly amount of VHA was the difference between (1) the average monthly cost of housing in that area for members of the Uniformed Services serving in the same pay grade as that member and (2) 115 percent of the amount of BAQ to which that member is entitled." (34:I-1) Stated in a slightly different manner, VHA was payable whenever average monthly cost of non-government housing exceeded BAQ by 15 percent. As mentioned in chapter one, Congress, in 1980, included both the CONUS variable and overseas housing allowances into the formal definition of RMC. (28:2-2)

The Institutional and Competitive Elements

Military pay and allowances, although they comprise the bulk of the military compensation system, are only one of the three main components of the military compensation system. The addi-

tion of institutional and competitive elements help ensure the military compensation system achieves its objectives--mission readiness and sustainability.

Institutional Supports.

Beyond the base level of military compensation (i.e., military pay and allowances), there is a need to recognize the unique nature of military service. As discussed earlier in this chapter, the armed forces require its members to forego many elements of freedom in order to defend their country.

Such extraordinary personal sacrifices defy quantification, and cannot be compensated for by an explicit element of the pay and allowances system. Rather, the unique conditions of military service traditionally have been recognized by providing military members and families with a system of benefits and privileges designed to foster a sense of community within the military institution--that is, a feeling that the military "takes care of its own." These benefits and privileges are tangible evidence of the reciprocal commitment between member and institution, and provide an element of "psychic income" with a perceived value that often far exceeds the actual cost to the government. (18:1)

The most important of these benefits and privileges are, medical care; commissaries; exchanges; and morale, welfare and recreation programs. These institutional supports are important and visible "symbols of the nation's acknowledgement of the unique rigors and sacrifices inherent in the military way of life." (18:1) They also help "develop the teamwork we need to accomplish the mission...develop a sense of belonging to a unique community." (21:2) Even with this element added to the compensation system there is a special need for pays that help attract individuals with particular expertise, encourage the retention of those with unique skills, or to compensate for unusual risks or objectionable tasks. (1:17) These special and incentive pays form the competitive component of the military compensation system. (17:2)

Competitive Elements.

The first two components of military compensation; i.e., military pay and allowances and institutional supports, "comprise the compensation package which provides a fair and equitable recompense to all personnel serving in the Uniformed Services." (17:3) But there is still the real need for flexible recruiting and reenlistment incentives to overcome specific shortages in a

particular Service or in particular skills. In short, the need for a competitive element. The use of some 30 different special and incentive pays; e.g., reenlistment bonuses, hostile fire pay, special pay for career sea duty, engineering and scientific career continuation pay, and flight pays, help the Services compete in the labor market for the talent it needs to accomplish the mission. (36:III-13)

The next chapter will review how housing allowances "fit in" with the military pay raise process and if an AHA would alter the military pay raise philosophy.

Chapter Three

ARE HOUSING ALLOWANCES OUTSIDE THE PAY RAISE PROCESS?

THE MILITARY PAY RAISE SYSTEM

The military compensation system should provide "military people an adequate standard of living and pay that is reasonably comparable to salaries in the private sector." (21:2) Since 1967, military pay has in one way or another been compared to private sector salaries. Before 1974, RMC was used for comparing military pay to private sector pay. RMC was directly linked to comparability pay raises for the military. From 1974, only the all cash elements of RMC (i.e., basic pay, BAS, and BAQ) were used in calculating comparability increases. Today, RMC is not used as an official measure for calculating comparability increases; however, "it is still widely regarded as the equivalent of a civilian salary." (1:17) This chapter will analyze the changing role that RMC and the housing allowances components of RMC has had on the pay raise process. It will also attempt to answer the question, "are housing allowances really outside the pay raise process?"

Pre-1974

Military pay adjustments before 1967 were primarily administered in an ad hoc (when needed) fashion and when pay adjustments did occur (and they occurred very infrequently) these adjustments were usually confined to "base pay." ("Base pay" was the term used from 1922 to 1949 to denote the primary pay element in the compensation of military personnel. Before 1922, this primary pay was known variously as "pay proper," "pay of the troops," or simply, "pay." The term, "basic pay," was adopted in the Career Compensation Act of 1949." (28:6)) Even during the period 1967 through 1973, when annual military pay raises were set by Public Law 90-207 (the Rivers Amendment), the raises were applied exclusively to basic pay. Housing allowances were not "directly" part of the pay raise process.

Between the mid-1850's and 1974, a consistent underlying conceptual basis was used to set and adjust the rates [i.e., housing allowances]. This philosophy was that military personnel should receive an allowance for housing based upon what civilians, generally in comparable income groups, spend for housing. (24:1)

Although housing allowances were not directly part of the pay raise, from 1967-1973 they were indirectly tied to the pay raise

methodology by their inclusion in the concept of RMC (see figure 3-1, below).

Chapter two briefly outlined the "matching increase" pay raise process established in 1967 and how the entire military pay raise would be applied exclusively to the basic pay element of RMC. The system worked well through 1973. Figure 3-1 shows the process:

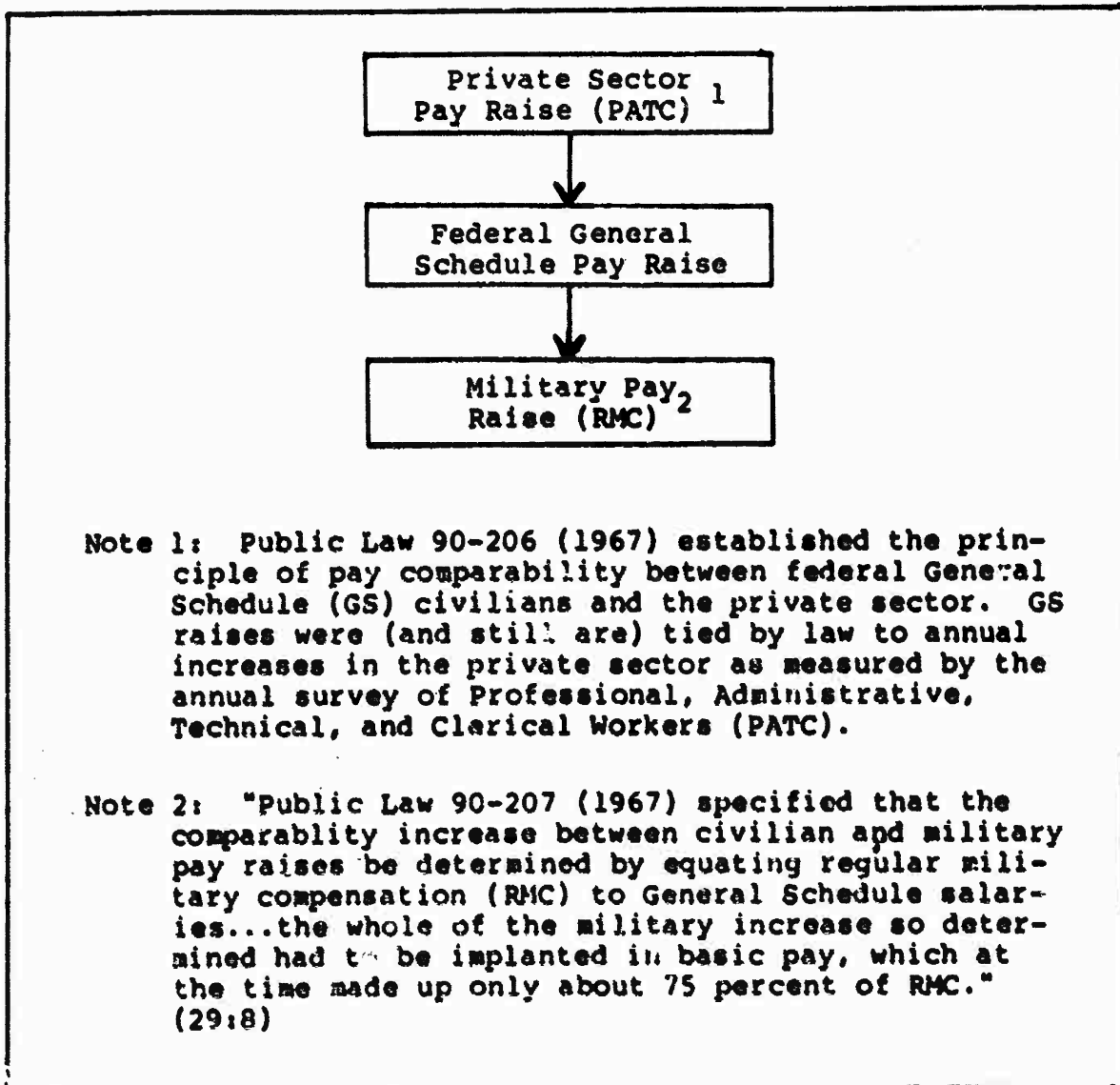


Figure 3-1. Military Pay Adjustment Mechanism:
1967-1973 (36:IV-1)

This relationship essentially set up a dual-track compensation system. The end result was the same; that was, an increase in overall military pay (RMC), but the means to this end came from two directions. To increase military pay (RMC), Congress could either (1) approve a "military pay raise" (i.e., the entire RMC increase would be applied to basic pay--in other words, would follow Public Law 90-207 as depicted in figure 3-1), or (2) Congress could raise BAS and/or BAQ to approximate any increase in food or housing costs, respectively. Either method, or combination of methods, resulted in the same end; that was, an overall increase in RMC. Table 3-1 shows how this dual-track system worked:

<u>Date</u>	<u>Public Law</u>	<u>Basic Pay</u>	<u>BAS</u>	<u>BAQ</u>	<u>Total Increase</u>
Jul 69	90-207	12.60%	-	-	9.3%
Nov 71	92-129	11.60%	-	34.5%	14.2%
Oct 73	90-207	6.16%	33.0%	-	7.3%

Note: The "total increase" column for military pay reflects the weighted average increase in Basic Pay, BAS, and BAQ.

Table 3-1. Military Pay (RMC) Increases:
Selected Examples (29:14,15)

The earliest comprehensive study that linked military pay raises to housing allowances was the Hook Commission of 1948. (33:3,4) This commission found that housing allowances needed to be combined with basic pay and basic allowances for subsistence (BAS) to make valid compensation comparisons between the military and the private sector. In 1962, a Defense Study of Military Compensation (Gorham Committee) added the federal income tax advantage a servicemember has because BAQ and BAS are not subject to federal tax, to basic pay, BAQ, and BAS. The Gorham Committee concluded that the sum of these four elements (i.e., basic pay, BAQ, BAS, and federal income tax advantage) should be the basis for comparing military compensation to civilian salaries. This Gorham Committee finding proved to be the first explicit formulation of regular military compensation (RMC).

Public Law 93-419 (September 1974) retained the principle of military - GS civilian pay linkage but discontinued placing all of the annual military pay raise into basic pay. Instead, the 1974 law specified that each of the cash pay elements of RMC, that is, basic pay, BAS, and BAQ, be adjusted by the overall average percentage increase in GS civilian salaries. One result of this major change in pay raise philosophy was that housing allowances for the first time would be adjusted based on increases in GS civilian salaries rather than movements in the cost of housing in the private sector. (24:1,2) This law took BAQ (and BAS) out of a reimbursement category and directly into part of the pay raise process.

The law also redefined the elements in the military pay comparability process. In anticipation of the all-volunteer force, Congress increased military pay (RMC) to "levels that were reasonably comparable to the private sector...as a result, 1 January 1972 is the generally agreed upon date for military pay comparability." (28:ii) RMC, up to 1973, was an operational concept since it was used to determine the size of the military pay raise. However, with the 1974 law change RMC ceased to be the direct measurement of military pay comparability to the private sector. Instead, only the cash elements of RMC were used as the measurement indicator. This change eliminated RMC from determining future military pay raises. (1:17)

A few years after this switch in pay raise philosophy, the Department of Defense Appropriations Act of 1977 (Public Law 94-361) stipulated that the President could allocate overall increases among the three cash elements of RMC on other than an equal percentage basis whenever he determined such action to be "in the best interest of the government." (10:77) The purpose of this action was "to enable progressive adjustments to be made to the two basic allowance elements so that these allowances, over time, more nearly cover the costs of the items they had originally been intended to defray, as well as to provide for more adequate quarters and subsistence allowances in general." (29:56) The President did reallocate 25 percent of the 1976 and 12 percent of the 1977 basic pay increase into BAQ. In 1978 and 1979, BAQ was once again adjusted by comparable increases in GS civilian salaries.

What were the results of these numerous shifts in pay raise thinking? BAQ went from a direct housing allowance reimbursement (1850-1973) to an allowance that vacillated somewhere between a reimbursement for housing costs and a pay element dependent on civilian salaries. In other words, since 1974 BAQ

meandered from directly being part of the military pay raise process (1974 and 1975), to an "almost direct reimbursement" category (i.e., the pay raise reallocations of 1976 and 1977), then back again to directly being part of the pay raise process (1978 and 1979).

1980-1984

Several significant actions took place during these years which has had a pronounced effect on how housing allowances interfaced with the pay raise. In 1980, the variable housing allowance (VHA) program was instituted. With its inception, Congress expanded the definition of RMC to include this new allowance and its overseas counterpart; i.e., today, the rent plus housing allowance (RPHA). When this action occurred, two subtle changes were made to pay raise thinking. First, was a de facto agreement that housing allowances; i.e., BAQ, VHA, and RPHA, would once again become a direct reimbursement for housing costs (this point will be explained in the following paragraphs). Second, with the inclusion of these three housing allowances into RMC, was an acknowledgement that total housing allowances; i.e., basic and the area specific allowances (VHA and RPHA), needed to be added to basic pay, BAS and the federal income tax advantage to have "a rough approximation of civilian salary." (32:7) However, military pay comparability measurements with the private sector were still made based on the percentage adjustments applied only to the sum of basic pay, BAQ, and BAS. (28:3-6) The pay raise process was altered with these changes in the following ways.

In 1980 and 1981, the amount of the pay raise that applied to BAQ was almost completely neutralized by the VHA (or the RPHA if one was assigned to non-government housing overseas). This meant that members' total housing allowances; e.g., the sum of BAQ plus VHA, would basically be the same whether BAQ increased 10 percent or 100 percent. The reason for this apparent anomaly was because VHA, which was linked to local area housing costs, compensated for any shortcomings in the BAQ raise. It essentially didn't matter if BAQ (which was tied by law to increases in federal GS civilian salary increases) increased at all. If housing costs increased, then VHA would be increased at whatever level was necessary so that the sum of BAQ and VHA would approximate average local area housing costs--the result: housing allowances were again a direct reimbursement for housing costs. (Note: Since VHA was the difference between average housing costs in an area and 115 percent of BAQ, technically there would be a slight difference in total housing allowances depending on the BAQ increase.)

In 1982 through 1984, this direct relationship between housing costs and total housing allowances continued. The major change during these years was the more visible acknowledgement that VHA was a player in the pay raise process. In 1982, a 4 percent military pay raise cap was placed on the elements of the pay raise; i.e., basic pay, BAQ and BAS. This cap created a military pay comparability gap with the private sector of 4 to 5.5 percent. (31:1) The Congress that year likewise placed a similar cap on the VHA. "The intent of Congress was to prevent the VHA program from automatically making up for the four percent pay cap which was placed on the members' BAQ...." (34:I-10) Then, on January 1, 1984, came further evidence that VHA was directly involved with the pay raise process:

The FY84 DOD Appropriations Act froze the combined BAQ plus VHA (i.e., housing allowances) at FY83 levels (reduced the VHA dollar for dollar by the amount of the BAQ increase). In addition, the Act limited VHA plus BAQ to \$800 for members with dependents and \$600 for members without dependents. These VHA limitations mean that military members will incur annual out-of-pocket housing expenses of about 30% of BAQ to pay for housing costs.... (23:1)

These housing allowances caps in 1982 through 1984 showed the deep interrelationships among military pay, area housing allowances, and housing costs. But has this relationship strengthened or weakened with the 1985 Congressional changes to BAQ and VHA programs?

1985

Sweeping changes to housing allowances were made with the passage of the Department of Defense Authorization Act of 1985. Congressional concern for the rapid growth in the VHA program cost prompted the complete overhaul of BAQ and VHA (VHA program for the Uniformed Services, if allowed to be paid at uncapped levels would have increased from \$677 million in fiscal year 1981, to over \$1.4 billion (estimated) in fiscal year 1985). (34:IV-12) The three major changes stipulated in the 1985 Authorization Act (explained later in this chapter) essentially strengthened, or more accurately clarified, the relationships among military pay, housing allowances, and housing costs. The changes implemented on January 1, 1985 effectively brought back the 1971 relationship housing allowances had with housing costs and the pay raise process. In 1971, BAQ was increased to equal 85 percent of the median housing expenses for comparable income groups nationwide. (30:53) On January 1, 1985, the sum of BAQ and VHA was set to approximately equal 85 percent of median

housing costs nationwide. (7:--)) In 1971 and 1985, BAQ adjustments were based on housing costs; they were not directly part of the military pay raise process. (It should be pointed out that although BAQ was not directly part of the pay raise process (i.e., increased based on civilian pay changes), it was still included in the comparability measurement to the private sector. In 1971, the comparability measurement was based on changes in RMC compared to changes in private sector salaries; in January 1985, the comparability measurement was based on changes in the sum of basic pay, BAQ, and BAS compared to changes in private sector salaries. (39:1,38)) After 1985, these relationships could change again.

Before this last statement is analyzed it is important to understand the three major changes made to BAQ and VHA in 1985 and some of the background for these changes:

The first significant change was a restructuring of the BAQ table so that BAQ for each pay grade represented 70 percent of median housing costs nationwide. This action took BAQ out of the pay raise process and tied BAQ directly to housing costs. This action was necessary because, since 1971 (the last time BAQ by pay grade was adjusted based on housing costs), the percent of housing coverage became more and more unequal for all pay grades. For example, in fiscal year 1984 "the percentage by pay grade varies from 61 percent for E-3s to 71 percent for O-2s." (34:IV-21)

The second major change was the permanent "delinking" of VHA from BAQ. The merits of this delinking were that if future caps were placed on BAQ they would not automatically result, as they would have in 1982 and 1984, in large increases in VHA--to make up for the shortcomings of BAQ in its relationship to greater increases in housing costs. (22:1)

The third significant change was substantially increasing VHA so aggregate VHA funds represented 15 percent of median housing costs nationwide. This 15 percent VHA representation is added to the 70 percent BAQ representation which results in housing allowances (i.e., BAQ and VHA) approximately equalling 85 percent of median housing costs nationwide. This change also provided that future total VHA adjustments would be tied to annual changes in the housing component of the consumer price index.

It's clear that, in 1985, housing allowances (i.e., BAQ, VHA, and RPHA) were removed from the pay raise process, although technically the exact size of the 1985 pay raise was the sum of the four percent basic pay, four percent BAS, and approximate average five percent BAQ increase of January 1, 1985. It's also clear

that, in 1985, housing allowances (i.e., BAQ, VHA, and RPHA) were tied directly to housing costs. (7:--) What is not clear is the future relationship among the three housing allowances to housing costs and the pay raise process. The law did not state how future BAQ adjustments would be made or if BAQ would continue to represent, by pay grade, 70 percent of median housing costs nationwide. If BAQ reverts back to the 1974 pay raise law (i.e., directly tied to increases in private sector pay) and housing costs increase or decrease at a different rate than private sector salaries, the future could look very much like a repeat of the unstable past.

Chapter four will review some of the analyses discussed in chapters two and three but will primarily look at the major advantages and disadvantages of an AHA. The chapter will view an AHA from two perspectives: the member's and the Department of Defense's.

Chapter Four

PROS AND CONS OF A SINGLE, AREA SPECIFIC MILITARY HOUSING ALLOWANCE--an AHA

The need for an "area" housing allowance was set in law with the establishment of (1) the overseas (RPHA) and (2) the CONUS (VHA) area housing allowances programs (Sections 403 and 405 of Title 37, United States Code). Today, both the RPHA and VHA when merged with BAQ fairly accurately represent what the "average" military member spends to obtain off-base rental housing no matter where assigned in the world (RPHA plus BAQ fully reimburses housing costs for about 80 percent of servicemembers assigned off-base overseas, while VHA plus BAQ reimburses approximately 85 percent of housing costs for the "average" servicemember in the CONUS). (19:2; 34:IV-19) This chapter will attempt to answer the question, if these three housing allowances are needed to help servicemembers defray the cost of civilian housing regardless of duty assignment, then why not combine them into a single, area specific housing allowance designed to do exactly that; i.e., to help reimburse members for their housing costs?

To answer this question, this chapter will analyze a single, area specific housing allowance--an AHA--from two points of view. It will show the major advantages and disadvantages of an AHA from the perspective of (1) the servicemember and (2) the Department of Defense.

EVALUATING AN AHA

To help in the analysis, five evaluation criteria were selected; i.e., responsiveness, flexibility, cost, manageability, and understandability. Identification of these criteria was based on the list of principles, subprinciples, concepts and policies reviewed in chapter two and a discussion with Mr. Ogloblin, Assistant Director Compensation Division, Office of Assistant Secretary of Defense. (41:--) The remainder of this chapter will discuss how an AHA was rated against them from the two points of view.

Responsiveness

Will an AHA enable the Services to attract and retain the quality and quantity of personnel necessary to meet national security requirements?

Servicemember.

Not applicable.

Department of Defense.

No difference. Experience has shown that when military pay is continually capped below private sector pay, the Services are unable to attract and retain the kinds and numbers of people they need. As an example, the pay caps of the 1970's ("caps were imposed on Uniformed Service pay in 1975, 1978, and 1979" (11:3)) led to severe shortages of skilled personnel. The Chairman, Joint Chiefs of Staff estimated "that the out-year training and other costs to replace the shortages...will exceed \$6 billion." (6:1) The point is that if the all-volunteer force is to succeed, a reasonably comparable level of pay must be provided to servicemembers. (11:4)

What elements of military compensation should be included in the comparison of military pay to private sector pay? Chapter three showed that as far as the military pay raise is concerned, comparability is measured by the sum of basic pay, BAQ, and BAS. However, as far as recruiting and retention is concerned, it's more than the three elements of the military pay raise. Recruiting and retention success can be measured by comparing all the elements of RMC to salaries paid in the private sector. In 1981, Dr. Kenneth Coffey of the General Accounting Office summarized the importance of RMC; "virtually all the studies we have seen show that the level of RMC is probably the most important factor in an enlistment or reenlistment decision...." [underlining added for emphasis] (16:40)

As discussed earlier, RMC is made up of basic pay, BAS, BAQ, VHA, RPHA, and the associated tax advantage of these four allowances. Combining BAQ, VHA, and RPHA into an AHA would not appreciably affect the level of RMC (the overall dollars are basically the same as the three separate housing allowances are just added together and renamed); therefore, since the dollars are basically the same, the restructured RMC should not affect enlistment or reenlistments decisions. What is critical, however, is keeping RMC (defined currently as basic pay, BAS, BAQ, VHA, RPHA, and the tax advantage or as the proposed RMC consisting of basic pay, BAS, AHA, and the tax advantage) at a level comparable to the private sector. An AHA, like the current three housing allowances system, could be a help or hindrance to recruiting and retention only as it lowers or raises the level of RMC compared to the private sector.

Flexibility

Will an AHA work during peace and war?

Servicemember.

Pro. Since an AHA is based on what the average member spends to obtain civilian housing, stopping or starting AHA (starts when a member resides in civilian housing, stops when a member resides in government quarters) should not create a disruption in a servicemember's standard of living. The servicemember would have roughly the same disposable income either living in government or non-government housing.

Department of Defense.

Pro. Starting or stopping an AHA will be an easier task during peacetime and wartime since the military finance centers will only be concerned with starting or stopping one housing allowance rather than a BAQ and a CONUS VHA and/or an overseas RPHA.

Cost

Will the cost to implement an AHA outweigh any long-term savings generated by combining the three housing allowances into one?

Servicemember.

Con. In the CONUS, current BAQ levels are set so they represent 70 percent of median housing costs nationwide, with servicemembers absorbing (i.e., paying out-of-pocket) an amount equal to about 15 percent of median housing cost nationwide (Public Law 98-525). However, there are a very few locations in the CONUS where housing costs are extremely low and for some pay grades are less than their BAQ plus the absorption amount (e.g., Gallup, New Mexico). (5:30) Housing allowances for these members cover a greater percentage of their housing costs than what others in the CONUS receive in housing allowances. Under the AHA concept, members in this category would not continue to receive an across-the-board BAQ but would receive a housing allowance--an AHA--appropriate for their area. They, in fact, would receive less under the AHA concept than under the current housing allowance system. Mr. David Pomeroy, from the Department of Defense Variable Housing Allowance Team, roughly estimates that under an

AHA concept, approximately 6,000 servicemembers would be affected (from all the Uniformed Services) and would have their annual housing allowance reduced by an average of \$160 each. (42:--)

Pro or Con. In overseas areas, an AHA system could be implemented either, (1) as a direct reimbursement system or (2) as an area reimbursement system similar to the current CONUS VHA system.

In the former case, the only change in administration of the current RPHA program would be adding BAQ to the RPHA then renaming the total housing allowance as the AHA. If this option were selected; i.e., a direct reimbursement system, it would not financially impact most servicemembers since their total housing allowance would remain the same (the only exception is in overseas areas where servicemembers' housing costs are less than the BAQ. Like the CONUS situation, where housing costs are less than BAQ plus the absorption amount, these members would also receive less housing allowance under an AHA concept than they currently receive. These servicemembers would receive an AHA equal to, but not more than, their housing costs. HQ USAF/MPXE roughly estimates that approximately 50,000 servicemembers would be affected (from all Uniformed Services) and would have their annual housing allowances reduced by an average of \$100 each. (39:--)).

If option two were selected; i.e., an area reimbursement system, some members would be financially hurt while others would benefit by the switch from the individual RPHA system to an area housing allowance system. The reason this would occur is that the "area" system pays a flat rate to all in the same pay grade in the same area--flat rate is determined by statistical means but basically equals what the "average" servicemember in each pay grade should receive to procure adequate housing. (22:II-1 - II-10) Whereas, under the "individual" system (the current overseas RPHA system) individuals are paid based on their actual housing expenses, not on the "average" housing expenses of all in their pay grade. For example, there are three captains in overseas area X, under the individual reimbursement system (the current RPHA system) captain one receives \$500 in total housing allowances (100 percent of his housing costs), captain two receives \$600 (100 percent of his housing costs), and captain three receives \$720 (80 percent of his housing costs, housing costs are \$900). Total housing allowances for area X under the individual reimbursement system equals \$1,820 (\$500 + \$600 + \$720). Under the area reimbursement system, captains one, two, and three would each receive \$607 or \$1,821 total for area X. Although the total housing allowance dollars are about the same under either option, under the area reimbursement option captain one would receive \$106 more than he received under the individual

reimbursement system; captain three would receive \$113 less than he received under the individual reimbursement system; and captain two would receive about the same as he did under the individual reimbursement system.

Comment: A grandfathering provision would probably have to be employed to protect servicemembers already assigned to the CONUS and overseas locations affected.

Department of Defense.

Pro. The government would save almost one million dollars annually in those few areas in the CONUS where members' housing costs are less than their BAQ plus the absorption factor (i.e., \$160/year times 6,000 members). If DOD selects the direct reimbursement system overseas, the government would save about five million dollars in those overseas areas where members' housing costs are less than BAQ (i.e., \$100/year times 50,000 members). In total, the government could save approximately six million dollars by switching from the current three separate housing allowance systems to an AHA--an AHA system will not over-reimburse these members.

Pro. Mr. Chas Topkis from the Air Force Accounting and Finance Center roughly estimates that the one year conversion cost; i.e., administrative costs involved by switching from a three housing allowances system to one AHA system for the seven Uniformed Services, would be \$500,000. Mr. Topkis also roughly estimates that after the first year conversion cost, a \$100,000 yearly savings for the Uniformed Services would result from the expected reduced financial and system program transactions (i.e., dealing with one housing allowance rather than three).
(43:--)

Manageability

Manageability is a function of the amount and quality of data available to implement an AHA.

Servicemember.

Not applicable.

Department of Defense.

Pro. Service finance centers will find it easier to implement and administer an AHA since they will be concerned with

a single housing allowance rather than, in most cases, at least two housing allowances for each member.

Pro. The comprehensive VHA survey established in 1980 would enable a smooth transition to an AHA system in the CONUS. Housing costs in the CONUS are collected each year from service-members and through the use of already developed statistical methods; e.g., regression analysis and regression curves, appropriate local housing allowance rates could be inferred. (22:II-4) Note: The use of the housing component of the consumer price index (CPI) could be used to adjust the yearly overall increases in the AHA--this procedure was adopted in 1985 to adjust the overall increase in the VHA program (Public Law 98-525).

Con. If DOD selects the area reimbursement system rather than the individual reimbursement system overseas, management problems could be encountered. The overseas housing survey system was dropped in the early 1980's in favor of an individual reporting/reimbursement system. (20:1) DOD would either have to reinstitute this former survey system or develop a way to use the individual's reported housing costs to determine appropriate AHA rates in overseas areas. Once such a system was developed, there would most likely have to be some grandfathering provision to ensure those currently assigned overseas would not be severely penalized by the move from an individual housing reimbursement system to an area housing reimbursement system.

Con. Although minor in scope, DOD would have to decide what would be the appropriate amounts for items keyed to BAQ. For example, what should be the size of the dislocation allowance (DLA) and the family separation allowance (FSA-I)--both currently equal one month's BAQ? (29:375,397) One option would be to base the DLA rate on the member's new duty assignment and FSA-I rate on the AHA rate for the location of the member's family.

Understandability

Will an AHA be clear and logical in design?

Servicemember.

Pro. In 1980, the House Appropriations Committee report stated that military members undervalued their pay because pay was not visible--too many elements. (9:34) The following year the same committee directed all the Services to provide a comprehensive personal statement of military compensation to their

military members so they could better see the value of their military compensation. (10:29) Combining three housing allowances into one allowance is consistent with the House Appropriations Committee's report. It reduces the number of pay elements and it makes pay more visible. From the member's perspective, it is much easier to see when he or she receives an assignment to Maxwell Air Force Base that the housing allowance will be a flat \$556.28 rather than \$504.90 BAQ for a major with dependents added to the \$51.38 VHA rate for majors with dependents.

Department of Defense.

Pro. An AHA reduces the number of elements comprising RMC from six to four without changing the value of basic pay, basic allowance for subsistence, housing allowances or the tax advantage that accrues because these allowances are not subject to federal income tax. It makes RMC easier to see, add, and comprehend.

Pro or Con. An AHA is more visible. It shows the total housing allowance all in one place--before, critics had to hunt to determine total housing allowances. On the other hand, an AHA takes some of the mystery out of the military pay process.

Table 4-1 "Major Advantages and Disadvantages of a Military Area Housing Allowance (AHA) from Two Perspectives" lists the five criteria and how an AHA was rated against them from the servicemember's and the Department of Defense's points of view.

<u>Evaluation Criteria</u>	<u>Servicemember</u>	<u>Department of Defense</u>
1. Responsiveness	NA	No difference
2. Flexibility	Yes	Yes
3. Cost	No	Yes
4. Manageability	NA	Undecided
5. Understandability	Yes	Yes

Note: NA, indicates criterion is not applicable. No difference, indicates no major advantages or disadvantages by switching from three separate housing allowances to a single AHA concept. Yes, indicates the major advantages of an AHA outweigh the major disadvantages. No, indicates the major disadvantages outweigh the major advantages. Undecided, indicates the major advantages and disadvantages were roughly equal in weight.

Table 4-1. Major Advantages and Disadvantages of a Military Area Housing Allowance (AHA) from Two Perspectives

The last chapter will show how an AHA would fit in with the principles behind the military pay and allowances system and provides two recommendations for the Office of the Assistant Secretary of Defense.

Chapter Five

CONCLUSIONS AND RECOMMENDATIONS

DISCUSSION

"It is doubtful that as many as 1 percent of the officer and enlisted men know how to compute the value of these compensation elements." (27:S-3) This statement was made back in 1967 by the President's First Quadrennial Review of Military Compensation. "These" in the above statement, referred to the 26 compensation elements which comprised the military compensation system. (27:S-4) Today, almost 18 years later, the military compensation system has essentially the same 26 elements plus more than a dozen new ones, like the variable and rent plus housing allowances. Although each of the now 40-plus compensation elements were added for a specific purpose, isn't it time to review them to ensure they each continue to satisfy all the objectives of the compensation system?

This study analyzed only one slice of the military compensation system. It reviewed the three military housing allowances which together comprise about 10 percent of the total compensation dollars spent each year. (30:Table 1) What would happen if these three housing allowances were combined into a single, area specific housing allowance? Would this one allowance satisfy all the objectives of the compensation system? Will servicemembers be able to more easily compute the value of their housing reimbursements?

CONCLUSIONS

Will an area housing allowance (AHA) satisfy the underlying principles of the military compensation system? The study showed that an AHA would be consistent with the primary principles, subprinciples, concepts, and policies of the military compensation system.

An AHA system will work in "peace and war." (26:II-2 - II-6) Servicemembers will have basically the same disposable income under an AHA concept as they receive under the current system. An AHA will be easier to implement during war since the Service finance centers will be concerned with starting or stopping one allowance for each member rather than, in most cases, two or more.

An AHA will be "fair and equitable" to servicemembers. (32:1-8) All servicemembers regardless of location of assign-

ment, will have equal opportunity to receive the same level of housing reimbursement as their fellow servicemembers.

An AHA will be at a level "no higher or lower than necessary to fulfill the basic objective of attracting, retaining, and motivating a sufficient quantity and quality of service personnel." (26:II-2 - II-6) The AHA reimburses servicemembers for their housing expenses. It does not provide more or less than necessary for the servicemember to obtain adequate housing at each location.

"Reimbursements, including allowances, should repay actual expenses whenever possible." (32:1-8) As chapter three pointed out, in 1985 BAQ, VHA, and RPHA were adjusted by actual housing expenses. Since the AHA is only the combining of these three housing allowances into one, it, too, is based on reimbursing members for their actual housing expenses.

An AHA is "understandable." (32:1-8) It's easier to compute what Captain Doe's housing allowance is by looking at one allowance (i.e., AHA) instead of two (e.g., BAQ plus VHA). It will also reduce the number of elements needed to compute RMC from six to four without changing the value of RMC.

An AHA will operate at the "lowest cost to the taxpayer." (32:1-8) Compared to the current three housing allowances system, the AHA could save about six million dollars annually in combined conversion savings and lower housing allowances (grandfathering would probably have to be employed for those few servicemembers whose housing costs are currently less than their BAQ (overseas) or less than their BAQ plus absorption rate (CONUS)).

The final conclusion involves the underlying principle behind the military compensation system; i.e., "to ensure mission readiness and sustainability," (26:1-2) and how this principle interrelates with the subprinciple that military compensation "be comparable with the American economy...." (32:1-8)

...it is essential to maintain a stable, understandable compensation system which is perceived by personnel to be fair and equitable. With each percent increase in military pay currently costing \$375 million [over \$430 million today, (40:4)], it is critical that a pay adjustment mechanism works to maintain pay comparability for military personnel while at the same time remains fair to the taxpayer. To do this requires that any system used for the pay adjustment task be allowed to operate without interference. Several years of recent

experience with pay caps (to produce short-term savings) inevitably results in less than adequate recruiting and retention (and subsequent high training and replacement wage costs). Consequently, depressing military pay below comparability is no bargain for the taxpayers who will ultimately have to pay more in the long run to rebuild the lost military personnel experience base. Nor is it a bargain for the national leadership who depend on the military Services to be ready to accomplish national security objectives. (28:I-3)

The primary point of this 1982 statement made by a joint Services study, is stability and comparability in the military pay raise process are paramount to readiness and sustainability.

As seen in chapter three, stability and comparability in the pay raise process have been almost non-existent. Comparability was only achieved in 1972 through 1974 and then only once again in 1981. There was little stability in the pay raise system. (28:2-4 - 2-6) At onetime (pre-1974), RMC was the comparability measurement. Later (post-1974), only basic pay, BAQ, and BAS were used to measure comparability. However, this measurement proved to be imprecise because of the offsetting effects of the CONUS and overseas housing allowances (i.e., it essentially didn't matter what the BAQ adjustment was since VHA and RPHA made up the difference between BAQ and housing costs).

Will an AHA improve the situation? It could, if allowed to work as intended--to reimburse members for their housing costs.

RECOMMENDATIONS

1. One way an AHA could improve stability and help ensure pay comparability would be to use the RMC concept again as the comparability measurement standard.

In 1962 the Gorham Committee concluded that the total of basic pay and allowances (quarters and subsistence) was the compensation upon which the military member sets his standard of living, and, therefore, for comparison of compensation systems it is considered that military basic pay, including quarters and subsistence allowances, plus the income tax savings...is comparable [underlining added for emphasis] to civilian wages and salaries. (33:5)

If this first definition of RMC were taken literally today, comparability pay raises would again be measured against RMC

rather than the sum of basic pay, BAQ, and BAS. This was the system employed by the military prior to 1974. However, unlike the pre-1974 system, where the entire pay raise was packed into basic pay, under the AHA concept much less would have to be allocated to basic pay to achieve RMC comparability to the private sector--because of the automatic adjustment of AHA to keep pace with changes in local area housing costs. For example, if housing costs increase 6 percent while private sector wages increase 5 percent, then under RMC comparability system, with an AHA, basic pay and BAS would have to be increased by slightly less than 5 percent each. This takes into account the 6 percent AHA increase and the associated federal tax advantage. Under the pre-1974 system, basic pay would have had to increase well over 6 percent. This new system would eliminate the undesirable aspects of the pre-1974 system where "inflating basic pay rates to absorb the entire RMC increase resulted in a corresponding inflation in items linked to basic pay, such as bonuses,...and retired pays." (29:9) The RMC comparability system, with an AHA, if allowed to work, would also save the substantial training and replacement costs associated with large catch-up pay raises which (as experience has shown) eventually result from holding pay below reasonably comparable levels. (28:1)

2. Have the Office of the Assistant Secretary of Defense prepare a legislative proposal to Congress to combine the three military housing allowances (i.e., basic allowance for quarters (BAQ), variable housing allowance (VHA), and rent plus housing allowance (RPHA)) into a single, area specific military housing allowance and call this single housing allowance an AHA.

SUMMARY

The proposed AHA is a positive step to make the military compensation system more understandable. The necessary systems are, or easily could be, in place to implement an AHA. It's cost effective, fair to servicemembers, and will work well in peace and war. However, although this study showed that an AHA system has several advantages over the current system, the real bottom line is: "this Nation will receive the size and quality of defense force it is willing to pay for." (37:190)

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