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Subject: *Military Personnel: Military and Civilian Pay Comparisons Present Challenges and Are One of Many Tools in Assessing Compensation*

The Department of Defense's (DOD) military compensation package, which is a myriad of pays and benefits, is an important tool to attract and retain the number and quality of active duty servicemembers it needs to fulfill its mission. Compensation can be appropriate and adequate to attract and retain servicemembers when it is competitive with civilian compensation. However, comparisons between military and civilian compensation present both limitations and challenges. As we noted in 1986, exact compensation comparisons are not possible because no data exist which would allow an exact comparison of military and civilian personnel with the same levels of work experience.<sup>1</sup> Also, nonmonetary considerations complicate military and civilian pay comparisons because their value cannot be quantified. Specifically, military service is unique in that the working conditions for active duty service carry the risk of death and injury during wartime and the potential for frequent, long deployments unlike most civilian jobs.

Additionally, there is variability among past studies in how compensation is defined (e.g., pay or pay and benefits) and what is being compared. Most studies, including those done by the Congressional Budget Office (CBO) and RAND Corporation (RAND), have compared military and civilian compensation but limited the comparison to cash compensation—using what DOD calls regular military compensation—and did not include benefits.<sup>2</sup> DOD also has done studies comparing military and civilian compensation as part of its Quadrennial Review of Military Compensation (QRMC)—a review required by law, every 4 years, of the principles and concepts of the compensation system for members of the uniformed services.<sup>3</sup> The 2008 QRMC (the 10<sup>th</sup>) focused its attention on seven compensation-related areas, including the adequacy of compensation, and recommended, among other things, including both cash and some benefits, for example health care, when assessing military compensation. As a result, the DOD-sponsored review found that military compensation compares approximately with the 80<sup>th</sup> percentile of comparable civilian compensation (i.e., that 80 percent of the comparable civilian population made less than the

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<sup>1</sup>GAO, *Military Compensation: Comparisons with Civilian Compensation and Related Issues*, NSIAD-86-131BR (Washington, D.C.: June 5, 1986).

<sup>2</sup>Regular military compensation is the sum of basic pay, allowances for housing and subsistence, and the federal income tax advantage—which is the value a servicemember receives from not paying federal income tax on allowances for housing and subsistence. It was initially constructed by the Gorham Commission in 1962 as a rough yardstick to be used to compare military and civilian-sector pay.

<sup>3</sup>37 U.S.C. §1008.

# Report Documentation Page

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military population in the comparison). Previously, the 2004 QRMC (the 9<sup>th</sup>) found that regular military compensation met the 70<sup>th</sup> percentile of comparable civilian cash compensation.

The National Defense Authorization Act for Fiscal Year 2010 required that we conduct a study comparing pay and benefits provided by law to members of the Armed Forces with that of comparably situated private-sector employees to assess how the differences in pay and benefits affect recruiting and retention of members of the Armed Forces.<sup>4</sup> Specifically, our objectives were to (1) assess total military compensation for active duty officers and for enlisted personnel; (2) compare private-sector pay and benefits for civilians of similar age, education, and experience with similar job responsibilities and working conditions of officers and enlisted personnel of the Armed Forces; and (3) assess the 10<sup>th</sup> QRMC recommendation to include regular military compensation and select benefits when comparing military and civilian compensation to ascertain if it is appropriate.

The focus of this review was active duty servicemembers' perspectives on compensation. That is, we focused on cash compensation and the value of benefits to servicemembers versus the cost to the government of providing compensation. To address our objectives, we identified and reviewed studies on compensation by CNA Corporation (CNA), CBO, CRS, DOD, GAO, and RAND. We interviewed officials from DOD's Office of the Under Secretary of Defense for Personnel and Readiness, including the Deputy Under Secretary of Defense for Military Personnel Policy and officials within the Directorate of Compensation. We also interviewed officials from the Defense Manpower Data Center (DMDC), CBO, CNA, the Bureau of Labor Statistics (BLS), and the Military Officers Association of America (MOAA). For our first objective, to assess total military compensation, we reviewed a 2008 DOD-commissioned report—completed by CNA—and identified estimated values for the elements of military compensation—regular military compensation, health care, retirement, and additional tax advantages. We also identified the employee benefits available to active duty servicemembers and used DOD survey data to identify the utilization rates of these benefits by servicemembers. For our second objective, to compare military and private sector pay and benefits for civilians of similar age, education, and experience with similar job responsibilities and working conditions of officers and enlisted personnel, we used the DOD-commissioned report conducted by CNA to identify estimated values for private-sector compensation—pay and benefits—for comparable civilians. In addition, we reviewed the methods CNA used to estimate values for several benefits—retirement, health care, and additional tax advantages. For our third objective, to assess the 10<sup>th</sup> QRMC's recommendation to include regular military compensation and select benefits when comparing military and civilian compensation, we conducted a review of recent literature on compensation—including regular military compensation and select benefits, and conducted interviews with DOD officials and other knowledgeable individuals in the fields of compensation and human capital management. For our three objectives, we conducted a methodological review of the 2008 study completed by CNA. While we did not verify the calculations, we found the methodology that CNA used reasonable to compare military compensation to civilian compensation—except for the limitations and the areas of comment noted in this report. We found that the datasets used by CNA were appropriate, given their objectives, and were also appropriate for our purposes to estimate total military compensation for active duty and enlisted personnel compared with civilian compensation.

We conducted this performance audit from November 2009 through March 2010 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

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<sup>4</sup>Pub. L. No. 111-84, §606 (2009).

We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Further details on our scope and methodology can be found in appendix I.

## Summary

DOD provides active duty personnel with a comprehensive compensation package that includes a mix of cash, such as basic pay; noncash benefits, like health care; and deferred compensation, such as retirement pension; however, most studies that have examined the value of military compensation to servicemembers do not assess all components of the compensation package. While a number of organizations, including CBO, RAND, and CNA, have assessed military compensation using varying approaches, all of the studies include some components of compensation—for example, cash compensation beyond basic pay to include housing and subsistence allowances, the federal income tax advantage, and, when possible, special and incentive pay. The most recent study, a 2008 DOD-sponsored study—completed by CNA—assessed military compensation using regular military compensation and some benefits (specifically health care, the military tax advantage, and retirement benefits).<sup>5</sup> In particular, the results of this study state that in 2006, average enlisted servicemembers' compensation ranged from approximately \$40,000 at 1 year of service to approximately \$80,000 at 20 years of service.<sup>6</sup> Additionally, in 2006 the average officers' compensation ranged from approximately \$50,000 at 1 year of service to approximately \$140,000 for 20 years of service. Our analysis of CNA's 2008 study on military compensation found that overall CNA used a reasonable approach to assessing military compensation. In general, we agree that when assessing military compensation for the purpose of comparing it to civilian compensation, it is appropriate to include regular military compensation and benefits (as many as can be reasonably valued from the servicemembers' perspective). However, we identified two areas for comment with CNA's approach. First, CNA's methodology for calculating a value for retirement, health care, and tax advantage makes various assumptions that allow the study to approximate a value for these benefits. While the assumptions are reasonable, we note that other, alternate assumptions could have been made. Thus, a different assessment of military compensation could make different assumptions and generate, in some cases, substantially different values.<sup>7</sup> Second, the study omits the value of retiree health care, which is a significant benefit provided to servicemembers. This study and others of military compensation illustrate that valuing total military compensation from a servicemember's perspective is challenging given, among other reasons, the variability across the large number of pays and benefits, the need to make certain assumptions to estimate the value of various benefits, and the utilization of benefits by servicemembers or their dependents.

In comparing military and civilian compensation, CNA's 2008 study, as well as a 2007 CBO study,<sup>8</sup> found that military pay generally compares favorably to civilian pay; however, a

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<sup>5</sup>CNA was commissioned by the 10<sup>th</sup> QRMC to conduct a study comparing military and civilian compensation. The results of the study were used by the QRMC. Typically, discussions of the military tax advantage focus on the savings that arise because the allowances for housing and subsistence are not subject to federal income tax. However, CNA's study also included an estimation of the expected annual tax advantage that servicemembers receive because they do not pay state and FICA taxes on their housing and subsistence allowances and can often avoid paying any state income taxes depending on their state home-of-record.

<sup>6</sup>We did not verify the calculations underlying CNA's reported estimates of the value of these select benefits.

<sup>7</sup>For example, when applying discount rates to value retirement benefits, the rate assumed affects the value of the retirement. To illustrate, if a person is to receive \$100 in 20 years, the present value of that money is: \$3.65 using 18 percent, \$10.37 using 12 percent, or \$31.18 using 6 percent.

<sup>8</sup>CBO, *Evaluating Military Compensation* (Washington, D.C.: June 2007).

number of limitations and challenges exist in making such comparisons. Specifically, CNA found that in 2006, regular military compensation for enlisted personnel averaged \$4,700 more annually than compensation for civilians included in the study. Similarly, military officers received an average of about \$11,500 more annually than civilians included in the study. Further, CNA compared military and civilian compensation including three military benefits—health care, retirement, and the additional tax advantage for military members. By including those three benefits, the estimated result on average was about \$13,360 more annually for enlisted personnel and about \$24,870 more annually for officers, where CNA included the difference in the values for these three benefits. CNA asserted, and we agree, that including benefits allows comparisons of levels of compensation and allows one to approximate whether servicemembers are compensated at a level that is comparable to that of their civilian peers, except as noted below. While CNA’s approach provides a broad comparison of military and civilian compensation, which can provide some insight into how well military compensation is keeping pace with overall civilian compensation, there are limitations and challenges to making this type of comparison—such things as the mix of skills, education, and experience can differ between the comparison groups. For example, while some efforts were made to control for age (as a proxy for years of experience) and broad education levels (high school and college graduate), the civilian population is not necessarily an exact match for individuals with similar job responsibilities and working conditions as the military. In addition, there are other approaches to comparing military and civilian compensation, such as comparing average pay of occupations (e.g., military police and civilian police officers). However, if an occupational comparison approach is to be used to generalize to the entire military population, a very detailed comparison of occupations would be needed—recognizing that many military occupations would not have a civilian counterpart.

The 10<sup>th</sup> QRMC’s recommendation to include regular military compensation and select benefits when comparing military and civilian compensation appears reasonable because it provides a more complete measure of military compensation than considering only cash compensation. In considering either a military or civilian job, an individual is likely to consider the overall compensation—to include pay as well as the range and value of the benefits offered between the two options. The challenge with this approach, as mentioned previously, is how to “value” benefits and which benefits to include in the comparison. The 10<sup>th</sup> QRMC also recommended that, among other things, to maintain the same standard set by the 9<sup>th</sup> QRMC’s 70<sup>th</sup> percentile—which includes only regular military compensation—DOD adopt the 80<sup>th</sup> percentile as its goal for military compensation—when regular military compensation and the value of some benefits, such as health care, are included in the analysis.<sup>9</sup> While comparisons of military and civilian compensation are important management measures, they alone do not necessarily answer the question of how appropriate or adequate compensation is. Another measure is DOD’s ability to recruit and retain personnel. Given the fact that (1) the ability to recruit and retain is a key indicator of the adequacy of compensation and (2) DOD has generally met its overall recruiting and retention goals for the past several years, it appears that regular military compensation is adequate at the 70<sup>th</sup> percentile of comparable civilian pay as well as at the 80<sup>th</sup> percentile when additional benefits are included. Targeted bonuses, rather than across-the-board pay increases, may be most appropriate in meeting DOD’s requirements for selected specialties where DOD faces challenges in recruiting and retaining sufficient numbers of personnel.

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<sup>9</sup>According to senior officials in the Office of the Under Secretary of Defense for Personnel and Readiness’ Directorate of Compensation, DOD has not yet adopted the 10<sup>th</sup> QRMC’s recommendation of including benefits in comparing military and civilian compensation; thus, setting the department’s overall compensation goal at the 80<sup>th</sup> percentile of comparable civilian employees.

In commenting on a draft of this report, DOD provided oral comments. DOD noted that it generally agreed with the contents of our draft report. DOD also provided technical comments, which we incorporated, where appropriate.

## **Background**

### *Defining Military Compensation and Trends in Military Personnel Costs*

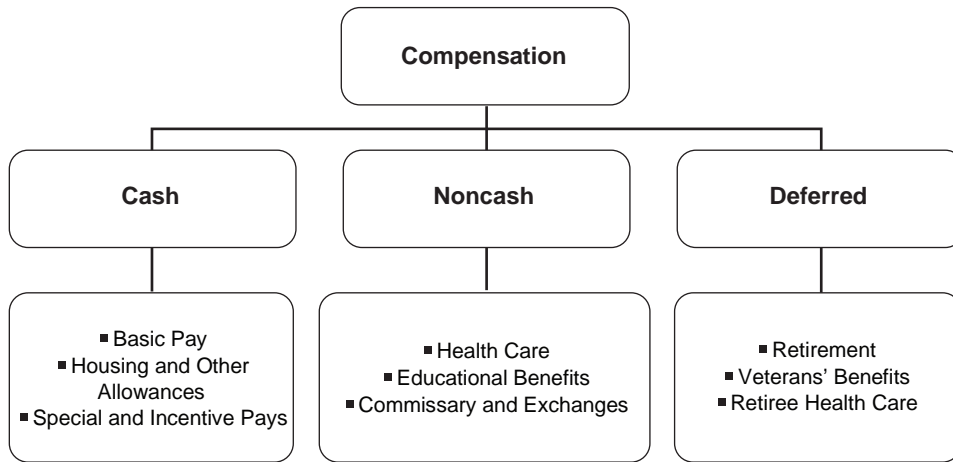
Military compensation includes a mix of cash, noncash benefits, and deferred compensation, and has been one of the primary tools used by DOD to recruit and retain servicemembers since the military transitioned to an all-volunteer force in 1973. Since transitioning to an all-volunteer force, the amount of military pay and benefits has progressively increased. Historically, “basic pay” has been the largest component of military compensation, and is paid to all servicemembers according to their respective rank and years of service. Over the years, Congress has provided for and DOD has implemented a number of additional benefits—some of which may be deferred until after the completion of active duty service. For example, in 2008 Congress enacted the Post 9-11 Veterans Educational Assistance Act,<sup>10</sup> which expanded the educational benefit for active and reserve component servicemembers who qualify for the maximum benefit by providing (1) full tuition and fees up to the amount of tuition and fees regularly charged to in-state students at the most expensive public institution in a given servicemember’s state, (2) a monthly stipend for living expenses, and (3) an annual stipend for books and required educational expenses. In addition, this new benefit allows eligible servicemembers to use it after discharge or release from active duty and authorizes the Secretary of Defense to give the service Secretaries authority to allow qualifying servicemembers to transfer unused educational benefits to spouses and dependents. We reported in 2009 that the Department of Veterans Affairs estimates that the net cost of this enhanced educational benefit will be nearly \$78.1 billion from fiscal years 2009 through 2018.<sup>11</sup> Figure 1 illustrates the distinctions in the type of military compensation afforded to active duty servicemembers. See also appendix II for a select list of active duty compensation—cash, noncash, and deferred compensation.

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<sup>10</sup>38 U.S.C. §§ 3301-3324.

<sup>11</sup>GAO, *Military Personnel: Reserve Compensation Has Increased Significantly and Is Likely to Rise Further as DOD and VA Prepare for the Implementation of Enhanced Educational Benefits*, GAO-09-726R (Washington: D.C.: July 6, 2009).

**Figure 1: Active Duty Military Pay and Benefits According to the Type of Compensation**



Source: GAO.

The Under Secretary of Defense for Personnel and Readiness has oversight of career development, recruitment, and pays and benefits for active duty personnel and is principally responsible for establishing active duty compensation policy. DOD sponsors regular studies on military compensation, called the QRMC, which typically focus on specific issues like flexibility in compensation.

In 2005 and 2007, we reported on the cost to provide active duty compensation. Specifically, in our 2005 assessment of active duty compensation, we raised concerns about the transparency, affordability, and appropriateness of DOD’s compensation system in light of the nation’s increasing fiscal imbalance.<sup>12</sup> In addition, we found that the cost to provide military compensation was substantial and rising.<sup>13</sup> Specifically, between fiscal years 2000 and 2008 total compensation costs grew because of (1) health care costs for retirees, (2) special and incentive pays, (3) basic allowance for housing and, (4) basic pay. For example, we estimated that basic pay alone has increased 46.1 percent, which represents an average annual increase of 4.3 percent. We also noted that a piecemeal approach to compensation involved increasing or making changes to compensation without completely understanding the impact that these changes might have on recruitment and retention—especially given that we found that about half of the cost of compensation was to provide noncash and deferred benefits. In 2007, we reported that DOD officials were concerned with their ability to manage personnel costs, because so many of the costs were in entitlements such as retirement and health care—items that managers have little to no control over. As a result, we were uncertain whether the increasingly costly military compensation system would be affordable, sustainable, and fiscally sound over the long term. Moreover, we noted that this challenge was especially acute given the nation’s increasingly constrained fiscal environment and DOD’s need to balance its personnel costs with its desire for new equipment and infrastructure.

<sup>12</sup>GAO, *Military Personnel: DOD Needs to Improve the Transparency and Reassess the Reasonableness, Appropriateness, Affordability, and Sustainability of Its Military Compensation System*, GAO-05-798 (Washington, D.C.: July 19, 2005).

<sup>13</sup>GAO, *Military Personnel: DOD Needs to Establish a Strategy and Improve Transparency over Reserve and National Guard Compensation to Manage Significant Growth in Cost*, GAO-07-828 (Washington, D.C.: June 20, 2007).

*Defining Civilian Compensation and Recent Trends*

According to BLS, civilian compensation is generally comprised of two components—wages, which comprise about 70 percent of total compensation, and employer-sponsored benefits,<sup>14</sup> which comprise the remaining 30 percent. Of the benefits package that civilian workers receive, almost one-third is mandated by law. These include contributions to programs such as Social Security, Medicare, workers’ compensation, and unemployment insurance, except in the case of independent contractors.<sup>15</sup> The remaining portion of the benefits package is discretionary and includes such things as paid leave, retirement benefits, and the provision of health insurance or medical care. The benefits that an employer chooses to provide its workers serve a number of purposes, including attracting high-quality workers, reducing employee turnover, and encouraging productivity. Employers may also choose to provide their workers with specific benefits in order to receive favorable federal tax treatment for certain forms of compensation.<sup>16</sup> Table 1 lists the top five discretionary benefits that civilian workers most commonly have access to, according to BLS, which tracks data on civilian compensation and the incidence and key provisions of employee benefit plans.

**Table 1: Access Rates of Civilian Workers to Select Discretionary Benefits, as of March 2009**

<b>Benefit</b>	<b>Percentage of civilian workers with access to this benefit</b>
Paid holidays	76
Paid vacations	75
Medical care	74
Paid jury duty leave	73
Outpatient prescription drug coverage	72

Source: GAO analysis of BLS data from the March 2009 National Compensation Survey.

In 2006, we reported that recent developments had led employers to rethink the types of benefits they provide their workers.<sup>17</sup> For example, we noted that in recent years increases in the costs of benefits have outpaced increases in wages, forcing employers and their employees to make trade-offs between wages and benefits. We also noted that an aging population with longer life expectancies increases the long-term obligations of companies that provide retirement benefits, such as defined benefit pension plans,<sup>18</sup> and that some companies have cited this obligation as a contributing reason for terminating those plans, reorganizing, or even declaring bankruptcy. Further, we noted that advances in expensive

<sup>14</sup>Employer-sponsored benefits are benefits provided to employees that are provided by the employer. Examples include pension plans, health insurance, and paid leave.

<sup>15</sup>In general, a person is considered an employee if he or she is subject to another’s right to control the manner and means of performing the work, while independent contractors are individuals who obtain customers on their own to provide services (and who may have other employees working for them) and who are not subject to control over the manner by which they perform their services. Unlike employees, independent contractors are generally responsible for paying their own Social Security and Medicare tax liabilities and do not pay unemployment taxes because they are not eligible to receive unemployment insurance benefits.

<sup>16</sup>For example, while workers’ wages are taxed immediately, employer contributions to a qualified retirement plan and investment earnings on their contributions are typically not included when determining the employee’s income tax liability until benefits are received. The employer is also entitled to a current deduction (within certain limits) for contributions to a tax-qualified plan even though contributions are not currently included in an employee’s income. As another example, federal tax policies contain significant tax benefits for employer-sponsored health insurance and medical care.

<sup>17</sup>GAO, *Employee Compensation: Employer Spending on Benefits Has Grown Faster Than Wages, Due Largely to Rising Costs for Health Insurance and Retirement Benefits*, GAO-06-285 (Washington, D.C.: Feb. 24, 2006).

<sup>18</sup>Defined benefit pension plans typically offer periodic payments over a specified period beginning at retirement age.



medical technology, increased use of high-cost services and procedures, and an aging population have contributed to escalating health care costs. Consequently, employers continue to look for ways to reduce their costs—sometimes by reducing or eliminating the types of benefits they offer their employees.

### *Percentile Comparisons of Compensation*

Percentile comparisons of compensation are a compensation policy tool that uses market data to compare an organization's salary data against a comparable market to determine the competitiveness of a compensation structure. For example, if an organization chose to compensate its employees at the 70<sup>th</sup> percentile, it would mean that 70 percent of the comparable population makes less than the employees of that organization. Percentile comparisons are typically part of an organization's overall compensation philosophy. Taking such an approach, an organization would, for example, consider if it wants to pay its employees at, above, or below "the market level." An organization's pay philosophy would likely include consideration of the base compensation, as well as any additional compensation and benefits. According to one human resources consulting firm, having data on market pay allows an organization to determine the competitiveness of its pay. Also, according to that firm, using percentiles to compare compensation data shows how dispersed pay is around the 50<sup>th</sup> percentile or the median. Most companies aim to have pay range midpoints competitive with the market average. Using internal midpoints for benchmark jobs and comparing them to the market average helps enable organizations to determine if their current pay structure is competitive.<sup>19</sup>

There are many factors that could influence organizational decisions about salary competitiveness in the market. If an organization is going to establish a salary structure based on external market data, it is essential for the organization to develop a baseline for each occupation's compensation structure. An organization may choose to pay at the market level for certain positions and above or below the market level for other positions. Minimum and maximum rates for salary are usually established around the median compensation value for an occupation.<sup>20</sup> The resulting range is used to pay employees—generally, newer or less skilled staff will be paid in the lower part of the range, while the higher end of the range will typically be reserved for more experienced or skilled employees. Once a salary range is established, organizations will typically determine market competitiveness by identifying how staff compensation compares to a benchmark. According to the aforementioned firm, pay is considered competitive when it falls within 10 percent to 15 percent of the market median. Organizations may also examine related retention and hiring data to assess the adequacy of compensation. However, when considering retention statistics as part of a pay philosophy, it is necessary to determine whether or not compensation is a relevant factor in high or low turnover, or if another factor is influencing retention.

### *Active Duty Recruiting and Retention*

To maintain a highly skilled, well-trained, and professional volunteer military, the services must recruit and retain adequate numbers of personnel who meet quality standards. Each year, the services set recruitment quantity goals based on the difference between

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<sup>19</sup>Benchmark jobs are standard jobs used for making pay comparisons. Pay data for benchmark jobs are generally readily available from the surveys firms such as the consulting firm cited above.

<sup>20</sup>Unlike an average, or the mean, having data on the median level of pay—that is the middle item in a group of data, in this case pay, when the data are ranked in order of magnitude (from smallest to largest)—prevents data from being skewed by a small number of employers paying extremely high or extremely low salaries.

congressionally authorized levels of servicemembers and the number of personnel that each service expects to retain. In addition to quantity targets, the services also set separate “quality” goals for enlisted recruit accessions each year.<sup>21</sup> The military services currently measure aptitude and education, the results of which are used by the services to determine which recruits are considered to be “high quality.” Aptitude is generally determined by the results of a series of tests that measure word knowledge, paragraph comprehension, arithmetic reasoning, and mathematics knowledge. Education credentials of new enlisted recruits are divided into three tiers ranging from non-high-school graduates to individuals who hold high-school diplomas and may have completed some college credit.

Retention refers to the rate at which military personnel voluntarily choose to stay in the military after their original obligated term of service has ended.<sup>22</sup> For retention, much like recruitment, the military services set annual goals for the number of servicemembers they want to retain, the goals for which are divided into categories of selected time periods within servicemembers’ length of service. The military services track retention of servicemembers because imbalances in the retention rate can cause problems within the military personnel system. Specifically, if too few servicemembers are retained, the military will suffer from a lack of experienced leaders and decreased efficiency, while the retention of too many servicemembers will limit promotion opportunities and may result in a higher percentage of involuntary separations. Furthermore, it should be noted that, unlike nearly all other organizations, the uniformed services have closed personnel systems; that is, DOD relies almost exclusively on accession at the entry level (E-1 or O-1), and higher-ranking members must be retained and promoted from lower ranks. By contrast, most other organizations can and do hire from the outside at all levels. Thus, the failure to meet recruiting or retention goals at lower levels in a given year can have significant consequences for a service’s ability to produce experienced leaders for years to come.

There are a number of factors that impact the military’s recruiting and retention efforts—such as the size of the recruiting force, the size and characteristics of the youth population, the civilian economy, the military’s recruiting efforts, and the ongoing military operations since 2001, which has dramatically increased the operational tempo of the military services and has resulted in significant battle casualties. To offset some of these factors that have a negative affect on the military services’ ability to recruit, the services offer enlistment, accession, and reenlistment bonuses. For example, according to an official in the Office of the Under Secretary for Personnel and Readiness’ Directorate of Accession Policy, about 47 percent of recruits DOD-wide in 2008 were offered recruiting bonuses, which vary from \$1,000 to \$40,000.<sup>23</sup> Further certain specialties are authorized to receive additional bonuses—such as some in the medical profession including psychologists and some nurses. Although there have been times when goals have been missed, and quality has declined, the

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<sup>21</sup>In the case of the active component, “accessions” are individuals who have actually begun their military service, as distinguished from those who have signed a contract to serve but who have not yet begun their service. Accession for active component personnel usually occurs when an individual is “shipped” to basic training.

<sup>22</sup>The obligated term of service for enlisted personnel is determined by their initial enlistment contract. The normal service obligation incurred is 8 years, which may be service in the active component, reserve component, or some combination of both.

<sup>23</sup>According to an official in the Office of the Under Secretary of Defense for Personnel and Readiness’ Directorate of Accession Policy, enlistment bonuses range from a total amount of \$1,000 to \$40,000 and can be divided up over several years with a maximum of up to \$10,000 a year, which means that a servicemember receiving a \$40,000 bonus would receive \$10,000 over a 4 year period. In addition, the military services vary in the amounts they award. For example, the Navy bonuses range \$4,000 to \$40,000, the Marine Corps ranges from \$5,000 to \$25,000, the Army from \$1,000 to \$40,000, and the Air Force gives \$13,000 for a 6 year enlistment in a select skill.

department has recently experienced success in overall recruiting and retention. See table 2 for further information on the enlisted accessions since fiscal year 2000.

**Table 2: Total Enlisted Accessions to Active Duty and Percentage of “High Quality” Accessions**

Year	Objective number of accessions (goal)	Actual number of accessions	Actual number of accessions as a percent of goal	“High quality” <sup>a</sup> as percent of total accessions
2000	202,017	202,917	100%	57%
2001	195,324	196,355	101	59
2002	195,526	196,473	100	62.3
2003	184,366	184,879	100	65
2004	181,803	182,825	101	67
2005	169,452	163,259	96	64
2006	179,707	180,540	100	62
2007	180,376	181,171	100	59
2008	184,186	184,841	100	59
2009	163,880	168,968	103	64

Source: DOD.

Note: DOD missed its overall goal in 2005. In that year, the Army recruited 92 percent of its goal,

<sup>a</sup>“High quality” means recruit met the criteria as a “high school diploma graduate” and scored in the top 50<sup>th</sup> percentile of the Armed Forces Qualification Test.

## **Total Military Compensation for Active Duty Officers and Enlisted Personnel Is Broad and Difficult to Assess**

### *DOD Provides a Comprehensive Compensation Package*

DOD provides active duty personnel with a comprehensive compensation package that includes a mix of cash, such as pay and allowances; noncash benefits, such as education assistance and health care; and deferred compensation, such as retirement pensions and health care benefits for retirees.

The foundation of each servicemember’s compensation is regular military compensation—which consists of basic pay, housing allowance, subsistence allowances, and federal income tax advantage. Specifically, the amount of cash compensation that a servicemember receives varies based on rank, tenure of service, and dependency status. For example, a hypothetical servicemember with 1 year of service at the rank of O-1 and no dependents would receive an annual regular military compensation of \$54,663. Similarly, a hypothetical servicemember with 4 years of service at the rank of E-5 and one dependent would receive an annual regular military compensation of \$52,589.<sup>24</sup> Beyond regular military compensation, some servicemembers may, depending on the conditions of their service, receive one or more of the authorized special and incentive pays<sup>25</sup> and the combat zone tax

<sup>24</sup>These estimates come from DOD’s regular military compensation calculator, available at <http://militarypay.defense.gov/mpcalcs/Calculators/RMC.aspx>.

<sup>25</sup>DOD has more than 60 different special and incentive pays including reenlistment bonuses and hazardous duty pay, as well as other pays for specific duties like aviation and medical, and incentives for servicemembers to take certain assignments among others. Because most compensation is determined by factors such as tenure, rank, location, and dependent status, these special pays and allowances are the primary monetary incentives DOD has for servicemembers other than promotions and are used to influence certain behaviors such as extending a service contract or filling critical shortage occupations.

exclusion.<sup>26</sup> Therefore, the amount that servicemembers actually receive in their paycheck can vary and fluctuate based on factors such as deployment to combat zones, receipt of reenlistment or extension bonuses, or other changes to their duty conditions.

In addition to cash pay, DOD offers a wide variety of noncash benefits to current and retired servicemembers. These benefits range from family health care coverage and education assistance to installation-based services such as child care, youth, and family programs. To explain its pays and the value of its benefits, DOD provides active duty servicemembers with an annual statement of military compensation (see appendix III for a copy of a blank statement). For example, DOD estimated the value of the commissary at about \$3,280 annually for a servicemember with three dependents.<sup>27</sup> For active duty servicemembers who serve 20 years, the department provides a pension and retiree health care for life. Furthermore, DOD provides servicemembers with the option of an additional retirement savings and investment plan (i.e., the Thrift Savings Plan)<sup>28</sup> to which they can contribute to while serving on active duty. Retired servicemembers are also eligible for Veteran Affairs health care.

### *Most Studies Have Not Valued All Components of Active Duty Military Compensation*

Many studies of active duty military compensation have attempted to assess the value of the compensation package; however, most did not to assess all components of compensation offered to servicemembers. See appendix IV for an overview of studies that assessed military compensation and compared it to civilian compensation. For example, CBO, RAND and CNA have completed assessments of military compensation.<sup>29</sup> The results of these studies differ based on what is being assessed, the methodology used to conduct the assessment, and the components of compensation included in the calculations. However, despite the varying approaches, all of the studies include components of cash compensation beyond basic pay to include housing and subsistence allowances, the federal income tax advantage, and, when possible, special and incentive pays. The most recent study, completed by CNA in 2008, assessed military compensation using regular military compensation but also included select benefits, namely health care, the military tax advantage—servicemembers do not pay Federal Insurance Contributions Act (FICA) tax and state tax on housing and subsistence allowances—and retirement benefits. In particular, this study found that in 2006, the average enlisted servicemembers' annual

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<sup>26</sup>The combat zone tax exclusion allows servicemembers to exclude compensation received for active service—including basic pay, bonuses, special pays, and allowances but excluding pensions and retirement pay—for each month during which any portion is spent serving in a designated combat zone or hospitalized as a result of wounds, disease, or injury incurred while serving in a designated combat zone. Servicemembers who serve in a combat zone or have a related hospitalization for a minimum of 1 day are eligible to receive the combat zone exclusion for the respective month. Enlisted members' exclusions are not limited. Officers can exclude up to the maximum enlisted amount received.

<sup>27</sup>Additionally, DOD has estimated that a single servicemember saves about \$1,131 annually, while a couple with no dependents saves about \$2,075 annually.

<sup>28</sup>The Thrift Savings Plan (TSP) is a federal-government-sponsored retirement savings and investment plan. The Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001 extended participation in the TSP, which was originally only for federal civilian employees, to members of the uniformed services. The TSP offers the same type of savings and tax benefits that many private corporations offer their employees under so-called "401(k)" plans. The retirement income received from an employee's TSP account will depend on how much money is contributed to the account during working years and the earnings on those contributions.

<sup>29</sup>See CBO, *Evaluating Military Compensation* (Washington, D.C.: June 2007); RAND Corporation, *A Look At Cash Compensation for Active-Duty Military Personnel* (Arlington, VA: 2002); and James E. Grefer, CNA, *Comparing Military and Civilian Compensation Packages* (Alexandria, VA: March 2008).

compensation ranged from approximately \$40,000 at 1 year of service to approximately \$80,000 at 20 years of service. Additionally, in 2006 the average officers' annual compensation ranged from approximately \$50,000 at 1 year of service to approximately \$140,000 for 20 years of service.

Our analysis of CNA's 2008 study on military compensation found that overall CNA used a reasonable approach to assess military compensation. In general, we agree that when assessing military compensation for the purpose of comparing it to civilian compensation, it is appropriate to include regular military compensation and as many benefits as can reasonably be valued from the servicemembers' perspective. CNA's assessment of military compensation primarily included (1) regular military compensation, (2) health care, (3) retirement, and (4) tax advantages because these benefits are unconditionally available to all servicemembers and are a function only of continued active duty service. The following provides a general discussion of CNA's approach for each of these benefits:

- CNA's approach to use *regular military compensation* as a proxy for the value of cash compensation is a similar approach taken in past studies. However, CNA chose to exclude special and incentive pays since they are primarily given for combat, hardship, submarine, or sea duty, and/or for obtaining special and uncommon skills—such as munitions, foreign language proficiency, or nuclear power expertise.
- In order to value *health care*, CNA estimated the difference in value between military and civilian health benefits because servicemembers receive more comprehensive health care than most civilians. Specifically, active duty servicemembers are automatically enrolled in TRICARE Prime and do not pay premiums or out-of-pocket expenses. In contrast, many civilians do not receive any health benefit from their employer and even those that do usually pay some out-of-pocket expenses and part of the premium. So by calculating the amount that the typical civilian worker pays for premiums and out-of-pocket expenses, CNA finds the difference between what civilians and servicemembers pay. In other words, the benefit servicemembers receive is avoiding the costs civilians would have to pay to receive comparable health care.
- To calculate the value of retirement for the servicemember, CNA determined the probability that the member will stay in the service long enough to become eligible to receive the benefit and then chose a discount rate to use to calculate the current value of retirement that would be received in the future. Regarding civilian retirement, CNA pointed out that there are two types of civilian retirement plans—one in the form of a defined contribution plan, such as a 401K, and another in the form of a defined benefit plan, like that used for military retirement.<sup>30</sup> Private sector employees under both of these types of plans are typically vested faster than personnel under the military retirement system.<sup>31</sup> We do note that CNA used the same discount rates for civilian retirement as for military retirement, which is reasonable. However, because of the faster vesting of civilian retirement, the discount rate chosen has a smaller impact on the calculation of the value of civilian retirement benefits than for military retirement.

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<sup>30</sup>In general, defined benefit plans promise a specified benefit based on years of service, annual earnings, and a payment formula chosen by the firm. Under defined contribution plans, employers and employees or both make periodic contributions into individual accounts for each worker and benefits are based on the size of these accounts at retirement.

<sup>31</sup>The Employee Retirement Income Security Act of 1974, commonly known as ERISA, protects the interest of employees in private sector employee plans. It requires employers who offer retirement benefits to vest their employees under one of two vesting schedules. Under the first schedule, the employee's benefits are fully vested after five years of service. Alternatively, an employee's benefits may vest under a graded vesting schedule—for example, employees under this schedule vest to 20 percent after 3 years and an additional 20 percent every year thereafter until, at seven years of service, the employee is fully vested at 100 percent. These two private sector vesting schedules are unlike the military retirement system which requires 20 years of service to vest.

Further, given the probability of military members serving the 20 years necessary to vest under the military retirement system, the annualized value of the retirement benefit is higher for civilians than for military members in the early years of service and then switches as the military member moves closer to retirement. For the retirement benefit, CNA calculated the difference between the value of military and civilian retirement and added it to RMC.

- CNA calculated the *tax advantages* that servicemembers receive with regard to the FICA tax and state income taxes. This approach is similar to the calculation of federal tax advantage that is incorporated into the traditional measure of regular military compensation. It is an estimate of the amount of earnings that would have to be added to the member's net pay if the basic allowance for housing and basic allowance for subsistence were taxable in order to equal the same net pay. CNA's calculation takes into account how servicemembers are distributed by state of residence and relevant state income tax laws.

While we believe the approach used is reasonable, we identified two areas for comment regarding CNA's approach. Specifically, we found the following.

- CNA's methodology to calculate a value for retirement, health care and tax advantage makes various assumptions that allow the study to approximate a value for these benefits. While we generally agree that these assumptions are reasonable, we note that other reasonable assumptions could have been made. Thus, a different assessment of military compensation could make different assumptions and generate, in some cases, significantly different values.
  - For one, valuing retirement is difficult in terms of what is the most appropriate discount rate to apply.<sup>32</sup> CNA used a lower discount rate than others have projected that servicemembers apply toward the promise of future compensation (e.g., retirement).<sup>33</sup> In short, CNA's assessed value of the retirement pension is more than if higher discount rates had been applied.<sup>34</sup> Further, DOD's retirement is unique compared to most civilian sector plans in that most active duty servicemembers who serve at least 20 years become eligible to immediately retire and begin drawing their pension.<sup>35</sup>
  - In addition, CNA's methodology to calculate health care assumes that servicemembers and civilians receive the same quality of medical care. Since the

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<sup>32</sup>A discount rate is based on the economic assumption that a dollar today is more valuable than a dollar received in the future. When calculating the value today, or the present value, a future dollar amount is "discounted" or its value is reduced by a discount rate, which is an interest rate.

<sup>33</sup>CNA used discount rates of 10.5 percent for officers and 12.5 percent for enlisted. While the study acknowledges there is much uncertainty surrounding the estimation of personal discount rates, it justifies using lower rates for several reasons, including that its review of the literature suggested that people apply lower discount rates to retirement savings than they do for high-risk decisions inherent in experimental games, which some studies used to estimate discount rates, or for severance packages, which some of the studies used to estimate discount rates. For example, John T. Warner and Saul Pleeter, "The Personal Discount Rate: Evidence From Military Downsizing Programs," *American Economic Review* (March 2001) also estimated discount rates for servicemembers and found them to range from 10.4 to 18.7 percent for officers and 35.5 to 53.6 percent for enlisted.

<sup>34</sup>These assumed personal discount rates should not be confused with the interest rate projections that DOD uses to calculate how much it costs to set aside for future retirement benefits. These rates are based on the cost of borrowing to the government, and tend to be lower than the personal discount rates used by CNA and other researchers who have studied how future compensation is valued by servicemembers. If these rates were used, the value of retirement would be much higher than CNA's estimate.

<sup>35</sup>While DOD's retirement plan represents a significant cost to the department, according to the department's Office of the Actuary, only 15 percent of enlisted and 47 percent of officers become eligible to receive retirement.

two groups have access to different doctors and facilities, this may not be true. Furthermore, it is likely that servicemembers receive a greater quantity of health care than civilians because they are not subject to co-pays or deductibles. In other words, there is no cost associated with an additional doctor visit. Also, the military health plan also represents a reduction in the uncertainty of medical expenditures. According to economic theory, people place value on the reduction of risk, although that value can be difficult to measure. CNA's analysis assumed that none of these factors were significant, which is reasonable, but potentially false.

- The study omits the value of retiree health care for life, which like retiree pensions, is a significant benefit provided to servicemembers and the prospect of receiving this benefit is an important retention incentive. Further work would need to be done to estimate the value of this benefit.<sup>36</sup>

### *Challenges Exist to Value All Components of Military Compensation*

Existing studies of military compensation illustrate that valuing all components of active duty military compensation from a servicemember's perspective is challenging, yet it is important to have a comprehensive assessment of compensation which includes both pays and benefits. For example, we previously recommended that DOD develop a comprehensive communication and education plan to inform servicemembers of the value of their pay and benefits and the competitiveness of their total compensation package when compared to their civilian counterparts that could be used as a recruiting and retention tool.<sup>37</sup> However, various factors complicate any assessment of active duty compensation. As previously discussed, the active duty military compensation system consists of a large number of pays, noncash and deferred benefits. Although the foundation of the system, regular military compensation, is received by all servicemembers, there is variability in cash compensation based on factors such as rank, years of service, locality, and dependent status. In addition, DOD's use of targeted special and incentive pays, including bonuses, means that not all servicemembers receive these forms of compensation. Further, although DOD offers a large number of noncash benefits, the utilization of benefits by servicemembers or their dependents varies.

As noted previously, the existing studies of military compensation have valued the components of cash compensation that make up regular military compensation—basic pay, housing and subsistence allowances, and the tax advantage. Studies of military compensation also highlight that the valuation rates of noncash and deferred benefits prove more difficult to determine than cash compensation because servicemembers value these benefits differently and varying assumptions have to be made to assign value. Table 3 provides a list of components that have been valued in these studies.

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<sup>36</sup>While CNA did not attempt to value retiree health care as it did retiree pension, DOD's Office of the Actuary is required by statute to review valuations of the fund and to report periodically at least once every four years, to the President and Congress on the status of the fund. The board is required to include recommendations for changes that, in the Board's judgment, are necessary to protect the public interest and maintain the Fund on a sound actuarial basis. For example, the board estimates that about \$5,700 should be set aside to fund retiree health care for each servicemember in fiscal year 2011. This amount is based on a number of assumptions including but not limited to the cost of health care for current retirees, health care cost trends and interest rate projections that DOD uses to calculate how much it costs to set aside for future benefits.

<sup>37</sup>GAO-05-798.

**Table 3: Components of Military Compensation Valued in Studies Comparing Military and Civilian Compensation**

Type of compensation	Component
Cash	Basic pay Allowances (e.g., housing, subsistence) Special and incentive pays Bonuses Tax benefit
Noncash	Dental and health care Commissary benefits
Deferred	Retirement pension

Source: GAO analysis.

In addition to these components of compensation, there are many others that make up military compensation, such as education assistance; morale, welfare and recreation programs; and child and family service programs. These other components of compensation, mostly benefits, are also difficult to assess in terms of value to the servicemember because, among other reasons, the value varies depending on use of benefit. For example, a servicemember with no children would value child care significantly less than one with children and a working spouse. While we and others did not assess these components, we were able to identify, as reported by active duty servicemembers as part of DOD’s Status of Forces Survey, the percentage of servicemembers who reported that they used various benefits offered by DOD. Table 4 provides a list of some benefits and their utilization rates. See appendix V for more benefits and corresponding utilization rates.

**Table 4: Self Reported Utilization Rates of Various Components of Military Compensation**

Compensation component	Utilization rate
Commissary	90%
Exchange	90
Personally visited military health care provider	85
Personally visited on-base military dentist	82
Thrift Savings Plan (TSP) <sup>a</sup>	44
Child care (on base)	37
Tuition assistance programs for college/higher education	34
DOD-run school	18

Source: DOD’s 2007-2009 Status of Forces Survey for Active Duty Members.

Note: The margin of error ranges from +/-1 to +/- 3 percent.

<sup>a</sup>The TSP is a federal-government-sponsored retirement savings and investment plan.

**Studies Conclude that Military Compensation Generally Compares Favorably to Civilian Compensation but Challenges Exist with These Comparisons**

*Military Compensation Compares Favorably with Comparable Civilians Compensation According to Some Studies*

In comparing military and civilian compensation, CNA’s 2008 study, as well as another recent study by CBO, found that military pay generally compares favorably to civilian pay. Specifically, CNA found that in 2006, regular military compensation for enlisted personnel averaged \$4,700 annually more than comparable civilian earnings. Similarly, military officers received an average of about \$11,500 more annually than comparable civilian earnings. Further, CNA compared military and civilian compensation including three military benefits—health care, retirement, and the additional tax advantage for military



members. Specifically, it found when values for these benefits were included, an average of \$8,660 annually for enlisted and an average of \$13,370 annually for officers was added to the differences. This means that by including those three benefits, the estimated result on average was about \$13,360 more annually for enlisted personnel than their civilian equivalents compared to \$4,700 more annually when only comparing cash. For officers, compensation was an average of \$24,870 more annually than just the \$11,500 annually when only comparing cash.

A 2007 study by CBO also found that military compensation fared well compared to civilian compensation, overall. For example, CBO's report suggests that DOD's goal to make regular military compensation comparable with the 70<sup>th</sup> percentile of civilian earnings has been achieved.<sup>38</sup> The major difference between CBO's and CNA's studies is how the CNA study defined compensation. CNA asserted, and we agree, that including benefits allows comparisons of actual levels of compensation and allows one to approximate whether servicemembers are compensated at a level that is comparable to that of their civilian peers, although the caveats that we discuss below should be considered. We also agree with CBO that including benefits can add another level of complexity to these analytical studies. Specifically, the cost of providing benefits may be significantly different from the value an employee places on those benefits. For example, the age of an employee may affect the value placed on health or retirement benefits. Therefore, developing a methodology to "value" benefits requires some assumptions to be made.

#### *Difficulties in Overall Comparisons of Military and Civilian Compensation*

A number of variables and challenges exist in comparing military and civilian compensation. In general, comparisons of levels of military and civilian compensation provide policy makers in Congress and DOD with a broad comparison or frame of reference, which can provide some insight into how well military compensation (either cash or cash and select benefits) is keeping pace with overall civilian compensation. However, these broad comparisons may not be a sufficient guide for determining appropriate military pay levels. Specifically, differences in average age, demographics (other than age), work experience, fields of degree, and other characteristics—normally needed in these types of comparisons—can make direct comparison of salary and earnings difficult. For example, generally, engineers earn a higher salary than social scientists, and newer employees earn less than those with more experience. Some other circumstantial factors that could limit the usefulness of this analysis include degree combinations and advanced degrees (such as masters, doctorates, or law degrees), worker productivity, quality of the school or department from which the individual received degree(s), quality of the employer, and lifestyle or family-related choices. Additionally, labor force surveys tend not to capture information on all individual skill sets, personal background and attributes, or other variables that may affect compensation.<sup>39</sup> While some efforts were made in the CNA study to control for age (as a proxy for years of experience) and broad education levels (some college up to an Associate degree and Bachelor's degree or better), that study did not

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<sup>38</sup>CBO, *Evaluating Military Compensation* (Washington, D.C.: June 2007).

<sup>39</sup>There are various data sets available that present information on the civilian labor force. For example, the Current Population Survey and American Community Survey are surveys of households that contain information on respondents' labor market activities. These surveys provide data on the demographic characteristics (e.g., age, sex, race, and educational attainment) of individuals who are surveyed. However, because survey respondents who are employed are classified into hundreds of occupations, the number of respondents will be large enough to permit a statistically meaningful analysis only for selected occupations. As another example, the BLS Occupational Employment Statistics program is a survey of employers that collects information on a larger number of employees, permitting meaningful analysis of wages and benefits for particular occupations. However, it does not provide any demographic data on the individuals in these occupations.

include some of the other factors we mentioned, such as field of degree, demographics (other than age), and other characteristics that would be needed to make an adequate comparison. Furthermore, as mentioned previously, the civilian population data that were available was not an exact match for individuals with similar working conditions and occupations as those in the military. Another complicating factor, as discussed earlier, is the definition of compensation being used for the military—regular military compensation or regular military compensation and select benefits.

Moreover, there are nonmonetary considerations that complicate military and civilian pay comparisons. For example, servicemembers (1) may be in a different mix of occupations, (2) may have greater responsibilities than their civilian counterparts, and (3) have had a continuous work history, whereas civilian workers may be underemployed—working part-time or having experienced periods of unemployment. In addition, it may be necessary to enhance military compensation by a factor—frequently referred to as the “X-factor”—to compensate for those disadvantages of service life (e.g., working conditions, risk of death or injury, and, during war, frequent deployments with long separations from family, and frequent moves making it more difficult for spouses to establish careers at one location). In addition, servicemembers must complete their military service obligation—they cannot resign or change jobs at will.

While the approaches discussed above assess the overall levels of pay, there are other approaches to comparing compensation, which have significant limitations and, in some cases, shortcomings. For example, one could make comparisons between occupations, such as military police and civilian police officers. While this type of analysis provides policymakers and others illustrations of how much certain occupations may earn, it is not an effective tool for making compensation policy decisions or determining if military pay is adequate or appropriate because the results of a specific occupation are not generalizable to the entire military population. However, if an occupational comparison approach is to be used to generalize to the entire military population, a very detailed, exhaustive, and time-consuming comparison of all occupations would be needed—recognizing that many military occupations would not have an exact civilian counterpart. See appendix VI for examples comparing select military occupations to comparable civilian occupations. These comparisons have limitations and we present examples solely for illustrative purposes. Along the same lines, other studies have discussed comparisons of military and civilian pay that tracked the difference between the Employment Cost Index (ECI) and increases in basic pay over time.<sup>40</sup> This comparison has significant shortcomings in that regular military compensation is a more inclusive assessment of military pay than basic pay alone. See appendix VII for more information on the approach of comparing military and civilian compensation using the ECI along with a discussion about the appropriateness of using the ECI as a tool to adjust basic pay annually.

### **10<sup>th</sup> QRMC Recommendation to Include Regular Military Compensation and Select Benefits When Comparing Military and Civilian Compensation Appears Reasonable**

The 10<sup>th</sup> QRMC’s recommendation to include regular military compensation and select benefits when comparing military and civilian compensation appears reasonable because it provides a more complete assessment of military compensation. The 10<sup>th</sup> QRMC noted, among other things, that previous assessments of military compensation, which compare regular military compensation and civilian pay, omit several very important components of the military compensation package, specifically health care, retirement, and tax advantages. The 10<sup>th</sup> QRMC recommended that, among other things, DOD adopt the 80<sup>th</sup> percentile as its

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<sup>40</sup>The ECI is a nationally representative measure of labor cost for the civilian economy and measures changes in wages and employers’ costs for employee benefits.

goal for military compensation, which includes regular military compensation and the value of some benefits, including health care and retirement in order to maintain the same standard set by the 9<sup>th</sup> QRMC's 70<sup>th</sup> percentile—which compares only regular military compensation and civilian pay.<sup>41</sup> In general, when comparing levels of military and civilian compensation, a more complete or appropriate measure of compensation would include cash and benefits. Further, the 10<sup>th</sup> QRMC noted that the benefits package offered to servicemembers coupled with the tax advantages they receive have generally been considered more robust than what is typically offered in the civilian sector. According to that QRMC, omitting military benefits from the comparison results in an incomplete analysis that substantially understates the value of DOD's compensation package. Given the large proportion of servicemember compensation that is comprised of in-kind and deferred benefits, the QRMC emphasized that taking these additional components of compensation into account shows that servicemember compensation is generous relative to civilian compensation—more so than traditional comparisons of regular military compensation suggest.<sup>42</sup>

Similarly, in 2005 and 2007, we reported that noncash and deferred benefits made up about half of the total compensation costs to the federal government.<sup>43</sup> While an individual considering either a military or a civilian job would not likely consider the cost of compensation to the federal government, the individual would likely consider the overall compensation package that is available—to include pay as well as the range and value of the benefits offered between the two options. That is, a person would not just consider one aspect of the compensation if the other aspects add value.<sup>44</sup> However, the challenge with taking an approach that includes benefits is how to “value” the benefits and which benefits to include in the comparison—as we previously discussed.

Although comparisons of military and civilian compensation are important management tools, they alone do not necessarily answer the question of how appropriate or adequate compensation is to maintain recruiting and retention. We have reported in the past that compensation systems are tools used for recruiting and retention purposes. Similarly, in 2009, CBO stated that ultimately, the best barometer of the effectiveness of DOD's compensation system is how well the military attracts and retains high-quality, skilled personnel.<sup>45</sup> One key reason for comparing levels of military and civilian compensation is the concern that if military compensation is significantly below compensation in the civilian sector, the military will not be able to recruit and retain the aggregate numbers of personnel it needs, nor will it be able to attract and retain the skills and quality of people it wants.

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<sup>41</sup>According to senior officials in the Office of the Under Secretary of Defense for Personnel and Readiness' Directorate of Compensation, the department has not yet adopted the 10<sup>th</sup> QRMC's recommendation of including benefits in comparing military and civilian compensation; thus setting the departments overall compensation goal at the 80<sup>th</sup> percentile of comparable civilian employees.

<sup>42</sup>According to 2005 and 2007 GAO reports, about half of active duty compensation costs are comprised of benefits compared to about 18 percent in the private sector and about 33 percent for federal civilian employees (see GAO-05-798 and GAO-07-828). Similarly, in 2004 CBO estimated the cost of active duty compensation and also found that benefits comprise over half of the costs of compensation.

<sup>43</sup>Noncash and deferred benefits include such things as health care for the servicemember and dependents, Veteran Affairs health care and compensation and pensions for veteran members after leaving the service, retirement payments and health care for military retirees or those who become disabled. In addition, military members and their families can receive subsidized child care, they can use fitness center and recreational facilities, and they can use the commissaries and exchanges.

<sup>44</sup>If the various military benefits are valued at zero by servicemembers, this raises the question of why the government is spending money on benefits that are valued at zero by servicemembers. Further, only considering cash in comparisons of military and civilian compensation suggests that other benefits—those other than cash—have a zero value.

<sup>45</sup>CBO, *Statement of Matthew S. Goldberg: Long-Term Implications of the Department of Defense's Fiscal Year 2010 Budget Submission* (Washington, D.C.: Nov. 18, 2009).

Senior officials within the Office of the Under Secretary of Defense for Personnel and Readiness' Directorate of Compensation told us that, in setting military compensation, the department concluded that regular military compensation must be higher than the median civilian pay in order to take into account a couple of factors specific to DOD. Specifically, given DOD's emphasis on the quality of the individuals it recruits, servicemembers must get paid more than the civilians to attract individuals with traits and abilities the department wants and to account for the sacrifices servicemembers make—including work in dangerous environments and lifestyle challenges and frequent moves.

While DOD recognizes that the military's compensation package is not just a cash package and agrees with the 10<sup>th</sup> QRMC's recognition that benefits are important to servicemembers, according to senior DOD officials, the department does not plan to adopt the recommendation to include select benefits when comparing military and civilian compensation. Specifically, senior officials told us that the department views its compensation as directly related to its ability to meet recruiting and retention goals. As a result, the department would rather rely on a known measure—regular military compensation compared to cash compensation for civilians—than to base its comparisons on a measure that is unknown and could vary depending on methodology used to estimate the value of benefits. According to senior DOD officials, comparing civilian cash compensation with regular military compensation allows for a more homogeneous comparison of military and civilian compensation. For example, officials cited differences in health care availability and coverage as well as other benefits that may not be offered to civilians. While we acknowledge the department's concerns, we believe that when making broad-based comparisons of military and civilian compensation, it is important to look at the total compensation package—to include both cash compensation and benefits. This does not, however, eliminate or minimize the need to understand cash compensation and how it compares with civilian cash compensation. In fact, we believe it is also important for DOD to continue to compare its regular military compensation with civilian pay. For example, as we reported in 2005, cash compensation tends to spur actions—such as enlisting or reenlisting. Similarly, CBO reported in 2007 that the relatively low value that young people place on deferred compensation—combined with the relatively low probability that a new recruit will stay in active duty for 20 years to become eligible for retirement—suggest that the recruiting and retention value of deferred benefits is lower than that of current cash compensation.<sup>46</sup>

DOD officials also told us that the department measures the adequacy of its compensation by its ability to meet overall recruiting and retention goals. For example, to sustain its all-volunteer military force, DOD recruits approximately 180,000 new enlistees each year and maintains an active duty enlisted force of approximately 1.2 million servicemembers. Given the fact that (1) the ability to recruit and retain is a key indicator of the adequacy of compensation and (2) DOD has generally met its overall recruiting or retention goals over the past several years, it appears that regular military compensation is adequate at the 70<sup>th</sup> percentile of comparable civilian pay, as well as at the 80<sup>th</sup> percentile when additional benefits are included. Since 1982, DOD has only missed its overall annual recruiting target three times—in 1998 during a period of very low unemployment, in 1999, and most recently in 2005.

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<sup>46</sup>A sum of money received in the future is worth less than the same sum received today. To estimate the value of a future sum in terms of today's money, analysts use discounting. Specifically, in discussing discount rates for the military a 2001 study by John T. Warner and Saul Pleeter, *The Personal Discount Rate: Evidence from Military Downsizing Programs*, found that servicemembers in general had a high discount rate, which would imply a lower value for deferred benefits.

Although the services have generally met their overall recruiting goals in recent years, certain specialties, such as medical personnel, continue to experience recruiting and retention challenges. Given the range of recruiting and retention challenges facing the department, permanent, across-the-board pay increases may not be seen as the most efficient recruiting and retention mechanism. Our previous work has shown that the use of targeted bonuses, rather than across-the-board pay increases, may be most appropriate in meeting DOD's requirements for critical specialties where shortages exist.<sup>47</sup> Senior officials we spoke with at DOD agreed that targeted bonuses, may be more appropriate to fill critical specialties experiencing shortages.<sup>48</sup> According to DOD, efficiency is the amount of military compensation—no higher or lower than necessary—that is required to fulfill the basic objective of attracting, retaining, and motivating the kinds and numbers of active duty servicemembers needed. According to a recent report on recruiting conducted for the Directorate of Accession Policy,<sup>49</sup> cash incentives—such as enlistment bonuses—designed to induce potential recruits to enlist are extremely valuable to the services' ability to meet recruiting goals, as well as for channeling high-quality recruits into hard-to-fill career fields. The report further notes that enlistment bonuses, unlike a basic pay increase which must be paid to all enlistees, can be targeted to particular high-quality recruits who are willing to enlist in skill areas where there are shortages, making bonuses a much more cost-effective incentive. According to DOD, bonuses can help to sustain end strength by selectively controlling attrition and narrowly focusing assets to retain the necessary balance of skills and grades required to fill existing and emerging requirements. For example, DOD has also noted that the Selective Reenlistment Bonus and the Critical Skills Retention Bonus are among the most effective incentives to attract and retain qualified personnel in critical military specialties because these programs allow DOD to influence retention behavior in military specialties with one or more of the following factors: (1) the services have recruiting challenges for the specialties; (2) involves lengthy and/or costly skills training; (3) there is a high demand for or marketability in the private sector; (4) there are persistent manning shortages; (5) the specialty is low density and high demand; and (6) the specialty is crucial to combat readiness. Thus, DOD's use of these and other pay flexibilities may allow it to more efficiently meet its recruiting and retention needs because these special pays and bonuses can be turned on and off as necessary, making them useful in addressing short-term shortfalls.

## Concluding Observations

Comparisons between military and civilian compensation are important management tools—or measures—for the department to assess the adequacy and appropriateness of its compensation. However, such comparisons, as we have previously noted, present both limitations and challenges. Specifically, data limitations prevent exact comparisons of military and civilian personnel. Moreover, these comparisons represent points in time and are affected by factors, such as the health of the economy. To illustrate, it is not clear the degree to which changes in civilian health care availability or retirement benefits affect the

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<sup>47</sup>GAO, *Human Capital: Effective Use of Flexibilities Can Assist Agencies in Managing Their Workforces*, GAO-03-2 (Washington, D.C.: Dec. 6, 2002); *Military Personnel: Observations Related to Reserve Compensation, Selective Reenlistment Bonuses, and Mail Delivery to Deployed Troops*, GAO-04-582T (Washington, D.C.: March 24, 2004); *Military Personnel, DOD Needs More Effective Controls to Better Assess the Progress of the Selective Reenlistment Bonus Program*, GAO-04-86 (Washington, D.C.: Nov. 13, 2003); and *Military Personnel: DOD Needs More Data to Address Financial and Health Care Issues Affecting Reservists*, GAO-03-1004 (Washington, D.C.: Sept. 10, 2003).

<sup>48</sup>According to DOD, it has relied on the practice of using certain pay flexibilities to target and fill critical specialties since 1973.

<sup>49</sup>Strategic Analysis, *Recruiting an All Volunteer Force: The Need for Sustained Investment in Recruiting Resources—An Update* (Arlington, VA: December 2009).

outcome of comparing military and civilian compensation. In addition, valuing military service is complicated. While serving in the military offers personal and professional rewards, such service also requires many sacrifices—frequent moves and jobs that are arduous and sometimes dangerous. As a result, ultimately the department’s ability to recruit and retain personnel is an important indicator of the adequacy—or effectiveness—of its compensation.

### **Agency Comments and Our Evaluation**

The Deputy Under Secretary of Defense for Military Personnel Policy provided oral comments on a draft of this report. The senior official noted that the department appreciated our review and generally agreed with the contents of our draft report. The official stated that numerous public and private sector studies have attempted to estimate the value military members place on noncash and deferred benefits and that each study has found that identifying relevant assumptions, valuing these benefits, and finding appropriate benchmarks and comparisons are significant challenges. The official further agreed with our evaluation that in conducting a comparison of military and civilian compensation, different assumptions can generate significantly different results.

However, because of the variation in the results of these studies, the Deputy Under Secretary stated that further study is necessary before the department is willing to consider measuring and benchmarking military compensation using a measurement that incorporates benefits. Specifically, the official stated that DOD believes regular military compensation is the appropriate metric to use in comparing both the competitiveness and comparability of military compensation with private sector compensation. The official further said that the department believes regular military compensation is a well known and respected metric and noted that it allows for a relatively homogeneous comparison of military and civilian compensation. Moreover, the official stated that DOD remains concerned with using any metric that includes noncash or deferred benefits because of the difficulty in making a direct comparison between military benefits and corresponding private sector benefits. Nevertheless, we continue to believe that when making broad-based comparisons of military and civilian compensation, it is important to look at the total compensation package—to include both cash compensation and benefits. As we noted in the report, this does not, however, eliminate or minimize the need to understand cash compensation and how it compares with civilian cash compensation. In fact, we believe it is also important for DOD to continue to compare its regular military compensation with civilian pay because, as we reported in 2005, cash compensation tends to spur actions—such as enlisting or reenlisting.

The Deputy Under Secretary further noted that DOD agrees that our examples of compensation for selected military and civilian occupations can be informative but have limited utility and are unsuitable for making compensation policy decisions. The official further stated that seemingly similar occupations differ considerably when one considers the additional impact on the military member due to working conditions, risk of death or injury, frequent deployments, separation from family members, and frequent relocations.

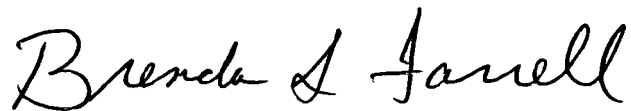
The official also noted that, unlike the private sector which can laterally hire an employee from another organization, the military must grow its leaders internally because there is no private sector labor market from which the military can hire for certain unique occupations—such as an infantry battalion commander. Thus, according to the Deputy Under Secretary, an evaluation of the comparability of military and private sector compensation must also consider the cost to the military of growing a replacement member lost to the private sector or the additional cost to retain a member through a bonus or other retention payment. We agree and acknowledge these points in our report. In addition, officials from the Directorate

of Compensation provided us with technical comments, which have been incorporated into our report, where appropriate.

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We are sending copies of this report to the Secretary of Defense and appropriate congressional committees. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions on the matters discussed in this report, please contact me at (202) 512-3604 or [farrellb@gao.gov](mailto:farrellb@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions are listed in appendix VIII.

A handwritten signature in black ink that reads "Brenda S. Farrell". The signature is written in a cursive style with a large initial 'B'.

Brenda S. Farrell  
Director, Defense Capabilities and Management

*List of Congressional Committees*

The Honorable Carl Levin  
Chairman  
The Honorable John McCain  
Ranking Member  
Committee on Armed Services  
United States Senate

The Honorable Daniel K. Inouye  
Chairman  
The Honorable Thad Cochran  
Ranking Member  
Subcommittee on Defense  
Committee on Appropriations  
United States Senate

The Honorable Ike Skelton  
Chairman  
The Honorable Howard P. McKeon  
Ranking Member  
Committee on Armed Services  
House of Representatives

The Honorable Norm Dicks  
Chairman  
The Honorable C. W. Bill Young  
Ranking Member  
Subcommittee on Defense  
Committee on Appropriations  
House of Representatives



## Appendix I: Scope and Methodology

In conducting this review, we limited our scope to active duty officers and enlisted servicemembers. In addition, we focused on cash compensation and the value of some benefits to the servicemembers versus the cost to the government of providing such compensation to the servicemember.

To address our objectives, we identified and reviewed studies on compensation, comparisons of military and civilian compensation, human capital, and military benefits and personnel issues—including those conducted by CNA Corporation (CNA), the Congressional Budget Office (CBO), the Congressional Research Service (CRS), the Department of Defense (DOD), GAO, and RAND Corporation. We interviewed or obtained information from DOD officials in Washington, D.C., from the Office of the Under Secretary of Defense for Personnel and Readiness: (1) the Deputy Under Secretary of Defense for Military Personnel Policy, (2) Directorate of Compensation, (3) Directorate of Officer and Enlisted Personnel Management, and (4) Directorate of Accession Policy. In addition, we interviewed officials from DOD’s Defense Manpower Data Center, the Department of Labor’s Bureau of Labor Statistics (BLS), CNA, CBO, the Military Officers Association of America (MOAA). During the interviews with DOD and others, we obtained and subsequently reviewed supporting documentation on, for example, historical and current compensation policy, prior reports, and trends in compensation.

With regard to the 2008 CNA report,<sup>50</sup> we conducted a methodological review of the study. We analyzed the report and its appendices. We also interviewed the author of the report about the methodology and the reasoning behind it. We also examined the datasets used by CNA for appropriateness, along with the sources of the data and looked for information on survey design, collection mode, and content. Additionally, we reviewed other select research on the topic of comparing military and civilian compensation. We found that the methodology and data used by CNA, such as the Current Population Survey and personnel data from the Defense Manpower Data Center, were appropriate for CNA’s estimates—with the exception of the limitations and areas of comment noted in this report. As is the case with any research of this nature, it is possible that errors exist in CNA’s estimates or that improvements could be made in these calculations. Furthermore, we note that other reasonable modeling assumptions could have been made and other alternative sources of data could have been used, potentially generating different results.

For our first objective, to assess total military compensation, including pay and benefits, for officers and enlisted personnel, in addition to the methods listed above, we reviewed CNA’s 2008 report entitled *Comparing Military and Civilian Compensation Packages* and identified estimated values for the elements of military compensation—regular military compensation, health care, retirement, and additional tax advantages. To provide examples of military compensation for a hypothetical individual servicemember, we used data from the 2010 Selected Military Compensation Tables to identify a “typical”—meaning existing in a relatively high proportion among the population—enlisted and officer pay grade and the associated family size for the pay grade. We then used DOD’s regular military compensation calculator to estimate compensation levels for an individual with the identified characteristics. We analyzed data on the utilization of benefits provided to servicemembers from DOD’s Status of Forces Survey of Active Duty Members. We also identified the employee benefits available to active duty servicemembers, by leveraging our prior work on military compensation, reviewing DOD financial management regulations, service budget

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<sup>50</sup>James E. Grefer, CNA, *Comparing Military and Civilian Compensation Packages* (Alexandria, VA: March 2008).

documents, military compensation background papers, DOD and service Web sites, and other department documents.

For our second objective, comparing military compensation and private-sector pay and benefits for civilians of similar age, education, and experience with similar job responsibilities and working conditions of officers and enlisted personnel, in addition to the methods mentioned above, we reviewed CNA's report to identify estimated values for private-sector compensation, including cash pay and benefits. We also reviewed the methods that CNA used to estimate values for several benefits—retirement, health care, and the additional tax advantages received by military servicemembers—which were then used to compare the pay and benefits received by military servicemembers with that of comparable civilians. Through these reviews, the methods used by CNA were deemed acceptable for our purpose of reporting the estimated values for these benefits. Additionally, we assessed the reliability of the Employment Cost Index (ECI) by reviewing BLS documentation and interviewing BLS staff. Based upon these checks, we determined that the ECI was sufficiently reliable for the purposes of our work.

For our third objective, to assess the 10<sup>th</sup> Quadrennial Review of Military Compensation (QRMC) recommendation to include regular military compensation and select benefits when comparing military and civilian compensation and determine if it is adequate and appropriate, in addition to the methods mentioned above, we conducted a literature review of previously published reports on compensation policy and management. In addition, we interviewed DOD officials from the aforementioned offices to determine the department's position on the 9<sup>th</sup> and 10<sup>th</sup> QRMC's recommendations related to percentile comparisons, the adequacy of current military compensation, and percentile comparisons, in general. Finally, we analyzed the information we obtained to ascertain if including benefits is appropriate when comparing military and civilian compensation.

We conducted this performance audit from November 2009 through March 2010 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Appendix II: Selected Active Duty Military Compensation and Benefits

This appendix summarizes compensation and benefits that relate to direct cash compensation, indirect cash compensation, and indirect deferred compensation, which the federal government provides to active duty servicemembers and their dependents. This appendix is not intended to be an exhaustive list of all available compensation and benefits. To compile this list, we drew from several sources, including Department of Defense (DOD) informational materials, directives, instructions, and regulations; studies on military compensation; prior GAO reports; and relevant sections of the U.S. Code.

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### Direct Cash Compensation

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#### *Regular Military Compensation*

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Basic Pay	The largest component of regular military compensation. Basic pay rates are based on rank and years of service with pay increasing as servicemembers are promoted to higher grades or accumulate additional years of service.
Basic Allowance for Housing	An allowance designed to provide military personnel in nongovernment housing with the resources necessary to live in housing comparable to their civilian counterparts. A servicemember's allowance is calculated by their location, pay grade and family status. The Secretary of Defense may prescribe an overseas basic allowance for housing for a member of a uniformed service who is on duty outside of the United States.
Basic Allowance for Subsistence	A cash payment designed to defray the costs of a servicemember's meals. There are different monthly rates for enlisted personnel and officers. Both rates are required to be adjusted annually based on the increase in food costs determined by the Secretary of Agriculture each year.
Tax Advantage	Servicemembers receive an income tax advantage due to the fact that the basic housing allowance and basic allowance for subsistence are not subject to federal income tax.

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#### *Allowances*

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Clothing Allowances	There are many different types of clothing allowances available to assist eligible servicemembers in covering the cost of obtaining and replacing prescribed uniforms. These include but aren't limited to the initial clothing allowance, the cash replacement clothing allowance and the extra clothing allowance.
Continental United States Cost of Living Allowance	Servicemembers assigned to high-cost locations in the continental U.S. and certain servicemembers who have dependents that reside in high-cost locations in the continental U.S. are paid a Cost of Living Allowance. The Cost of Living Allowance compensates for a

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	<p>portion of costs for non-housing expenses incurred in areas that exceed costs in an average U.S. military location by more than 8 percent. Allowance rates are based on a number of factors including the servicemember's rank, duty location, and dependent status. The Continental United States Cost of Living Allowance is a taxable allowance, and an amount is added to offset average income tax.</p>
Family Separation Allowance	<p>Eligible servicemembers may be entitled to a monthly allowance of \$250 during qualifying periods of separation from the servicemember's dependents.</p>
Family Subsistence Supplemental Allowance	<p>This allowance is intended to supplement an individual's basic allowance for subsistence to raise it to a level sufficient to remove that member's household from, or obviate the need for, benefits under the food stamp program.</p>
Outside the Continental United States Cost of Living Allowance	<p>A Cost of Living Allowance is authorized to assist a member in maintaining the purchasing power of the discretionary portion of spendable income while assigned to a location outside the continental United States. The allowance is derived by comparing the cost-of-living in the assigned location with the cost-of-living in the Continental United States, and varies based on several factors including the member's rank, duty location, and dependent status.</p>
<b><i>Bonus, Incentive and Special Pays</i></b>	<p>These are additional forms of cash compensation used to attract and retain personnel into hard-to-fill occupations or specialties, or to provide extra compensation for hazardous or special duty. The National Defense Authorization Act for Fiscal Year 2008<sup>51</sup> provided authority to consolidate existing bonus, incentive and special pay authorities into eight broad categories: general bonuses for enlisted members; general bonuses for officers; special bonus and incentive pay authorities for nuclear officers; special aviation incentive pay and bonus authorities for officers; hazardous duty pay; assignment pay or special duty pay; skill incentive pay or proficiency bonus; and bonus and incentive pays for officers in health professions. In addition, the consolidation includes the 15 year career status bonus and retention incentives for members qualified in critical military skills or assigned to high priority units. The Act provided DOD with ten years to implement the consolidation and transition of all special and incentive pay programs to the new authorities. The following are among the more than 60 existing bonus, incentive and special pay authorities:</p> <ul style="list-style-type: none"> <li>• Enlistment Bonus</li> <li>• Selected Reserve Reenlistment Bonus</li> <li>• Accession Bonus for new officers in Critical Skills</li> </ul>

<sup>51</sup>Pub. L. No. 110-181, § 661, 662 (2007).

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- 15 year Career Status Bonus
  - Critical Military Skills or High Priority Unit Retention Bonus
  - Health Professional Bonuses
  - Nuclear Career Accession Bonus
  - Nuclear Career Annual Incentive Bonus
  - Skill incentive pay or proficiency Bonus
  - Conversion to Military Occupational Specialty Bonus
  - Transfer Between Armed Forces Bonus
  - Volunteer Incentive Bonus for Retired or Reserve Members
  - Acceleration or Deceleration Experimental Subject Pay
  - Air Weapons Controller Flight Pay (AWACS)
  - Career Sea Pay
  - Chemicals Munitions Handling Pay
  - Dangerous Organisms or Toxic Pesticides Exposure Pay
  - Demolition Duty Pay
  - Dental Officers Special Pays
  - Diving Duty Pay
  - Engineering and Scientific Career Continuation Pay
  - Firefighting Crew Member Duty Pay
  - Flight Deck Duty Pay
  - Flying Duty Pays
  - Foreign Language Proficiency Bonus
  - Hardship Duty Pay
  - Hazardous Duty Incentive Pay
  - High or Low Pressure Chamber Duty Pay
  - Hostile Fire/Imminent Danger Pay
  - Judge Advocate Continuation Pay
  - Medical Officer Special Pays
  - Nuclear Qualified Officers Continuation Pay
  - Officers Holding Positions of Unusual Responsibility and of Critical Nature
  - Parachute Duty Pay
  - Separation Pay (Non-disability)
  - Special Duty Assignment Pay
  - Special Pay for Members of Weapons of Mass Destruction
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Civil Support Teams

- Special Warfare Officer Continuation Pay
- Surface Warfare Officer Continuation Pay
- Submarine Duty Pay
- Thermal Stress Experimental Subject Pay
- Service or Testing of Aircraft or Missiles with Toxic Fuels/Propellants Pay
- Veterinarians Special Pay

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***Other***

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Additional Tax Advantage	Servicemembers do not pay state, local and Federal Insurance Contributions Act (FICA) taxes on their housing and subsistence allowances and can often avoid paying any state taxes depending on their state home-of-record.
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Combat Zone Tax Advantage	The combat zone tax exclusion allows servicemembers to exclude compensation received for active service—including basic pay, bonuses, special pays, and allowances but excluding pensions and retirement pay—from their gross income for each month during which any portion is spent serving in a designated combat zone or hospitalized as a result of wounds, disease or injury incurred while serving in a designated combat zone. Servicemembers who serve in a combat zone or have a related hospitalization for a minimum of 1 day are eligible to receive the combat zone exclusion for the respective month. Enlisted members' exclusions are not limited. Officers can exclude up to the maximum enlisted amount received.
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Savings Deposit Program	This program provides the opportunity for eligible members of the uniformed services to make deposits in special savings accounts, during qualifying tours of duty, and to earn an annual interest rate of 10 percent on those funds.
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**Indirect Noncash Compensation**

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***Death and Burial***

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Burial Benefits	Among other benefits, the Department of Veterans Affairs or DOD may provide a casket, a government headstone or marker, or a burial flag at no cost to a deceased servicemember or veteran. In addition, servicemembers and veterans who have completed service requirements are eligible for burial in a Department of Veterans Affairs national cemetery. Secretaries of the military departments may provide a travel allowance for eligible family members to attend burial ceremonies for deceased members who die while on duty.
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Burial Costs	DOD may reimburse up to \$8,800 for a member's burial expenses, depending on the type of arrangements. DOD may provide travel allowances for eligible next of kin. The Department of Veterans Affairs will pay a burial allowance of up to \$2,000 if the veteran's death is a result of a service-connected disability, upon the request of a survivor. In some cases, it may also pay the cost of transporting the remains of a service-disabled veteran to the national cemetery with available gravesites that is nearest the last residence of the deceased.
Continued Health Benefits for Surviving Family Members	According to TRICARE, surviving family members of a deceased active duty servicemember remain eligible for health care benefits under TRICARE at active duty family member rates for a 3-year period following the servicemember's death, in the case of surviving spouses, or until eligibility ends, in the case of children.
Continued Military Privileges for Surviving Family Members	The unremarried surviving spouse and qualified dependents of a deceased member are eligible for unlimited shopping privileges at military commissaries and exchanges. Dependents of a servicemember who dies while on active duty may be eligible for continued housing benefits.
Death Gratuity Payments	Eligible survivors of a servicemember who dies while on active duty or in certain other circumstances receive an immediate cash payment of \$100,000.
Dependency and Indemnity Compensation	The Department of Veterans Affairs provides a nontaxable payment to eligible surviving spouses, eligible unmarried children, and eligible parents of servicemembers who die from a service-connected or compensable disability.
Survivor and Dependent Education	Surviving spouses and children are eligible for up to 45 months of education benefits.
Tax Benefit	When a member of the Armed Forces dies while in a combat zone in active service, or as a result of wounds, disease, or injury while so serving, tax forgiveness rules for federal income taxes apply. Additionally, favorable tax rules apply when an individual dies as a result of wounds or injury that was incurred outside the United States in a terrorist or military action. Generally, benefits received from the Department of Veterans Affairs by a beneficiary of a deceased member are exempt from taxation.
Unused Leave	Survivors of a deceased member may be entitled to payment for the deceased's unused accrued leave, if any. The amount of the payment is based on the member's basic pay at the time of death.

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***Dental and Medical Care***

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Continued Health Care Benefit Program	Members leaving the military before retirement can purchase health care benefits to cover medical bills incurred by them and their families while between jobs.
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Dental	Active duty servicemembers are entitled to dental care in more than 400 military dental treatment facilities on a space available basis. Eligible family members may enroll in the TRICARE Dental Program, which requires monthly premiums and copayments. The dental program covers a wide range of diagnostic, preventive, and restorative services.
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TRICARE	DOD provides health care to active duty members and their dependents through TRICARE, a managed care program. Care is provided in more than 500 military treatment facilities worldwide, supplemented by civilian providers. TRICARE offers beneficiaries three health care options: Prime, Standard, and Extra. Active duty personnel are required to enroll in TRICARE Prime when it is offered. This program offers care in military treatment facilities and does not require copayments from active duty members for care obtained from military treatment facilities. Dependents may choose to enroll in TRICARE Prime where available or may elect to receive care under TRICARE Extra, a preferred provider option, or under TRICARE Standard, a fee-for-service option. Beneficiaries obtaining care may be subject to deductibles and a cost share.
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***Education Assistance***

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Educational Benefits	The Services offer an array of educational benefits that support members' continuing education while they are in the military and after they return to civilian life. Examples include the Montgomery GI Bill, the Post 9-11 GI Bill, federal student loan repayment programs, and voluntary education programs.
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***Insurance***

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Servicemembers Group Life Insurance	A government-sponsored program that provides insurance coverage to members of the Armed Forces and certain dependants of members. Under the program, active duty members, certain reserve members and eligible dependants are insured to certain dollar thresholds <sup>52</sup> by default. Members may elect less coverage or no coverage.
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<sup>52</sup>\$400,000 in the case of a member, \$100,000 in the case of a member's spouse, and \$10,000 in the case of a member's child.



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Traumatic Injury Protection Program	This program is a rider to Servicemembers Group Life Insurance that provides for payment to servicemembers who are severely injured (on or off duty) as the result of a traumatic event and suffer a loss that qualifies for payment. Every member who has SGLI also has TSGLI effective December 1, 2005. This benefit is also provided retroactively for members who incurred severe losses as a result of a traumatic injury between October 7, 2001 and December 1, 2005, if the loss was the direct result of injuries incurred in Operations Enduring Freedom or Iraqi Freedom. This program will pay a benefit of between \$25,000 and \$100,000 depending on the nature of the loss resulting from the traumatic injury.
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***Installation-based benefits***

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**Child and Youth Programs**

Child Development Programs	This system provides child care services for children aged birth through 12 years, of DOD personnel provided in child development facilities, to include contract locations, family child care homes, and alternative locations. Care may be provided on a full-day, part-day, or hourly basis. Care is designed to protect the health and safety of children and to promote their physical, social, emotional, and cognitive development and to enhance children’s readiness for later school experience. The goals of the child development system include assisting DOD military and civilian personnel who are parents of children under the age of 6, or who are full-time students, in locating at least one affordable option for quality child care; assisting DOD personnel who are parents of school-aged children in locating child care; expanding availability of care through use of resource and referral programs to quality affordable options both on and off DOD installations; and, whenever possible, supporting the needs of their personnel for hourly care and preschool programs by expanding the use of facilities and programs other than the Child Development Centers.
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Exceptional Family Member Program	The Exceptional Family Member Program (EFMP) is a mandatory program for all active duty servicemembers with eligible family members. The program identifies family members with special medical and/or educational needs, documents the services they require, and takes those needs into consideration during the personnel assignment process. Additionally, DOD policy allows (but does not require) the military services to provide family support services specifically for exceptional family members at family centers on military installations with an EFMP. When the family centers provide support services for exceptional family members, the assistance generally includes providing information about and referrals to programs and services that can accommodate an exceptional family member.
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Youth Programs	Youth programs are a comprehensive series of planned and self-directed activities and events responding to the recreational, developmental, social, physiological, psychological, cultural, and educational needs of eligible youth. Youth programs are intended to focus on five core areas: character development and leadership development; education support and career development; health and life skills; the arts; and sports, fitness, and recreation.
<b>Discount Shopping</b>	
Commissaries	Active duty servicemembers, their dependents, and retirees can purchase discounted grocery items at more than 280 commissaries worldwide. Because commissaries sell food and household items free of local sales tax and at cost, plus a 5-percent surcharge to help defray operational expenses, customers can save more than 30 percent on their purchases compared to commercial supermarkets.
Exchanges	Active duty servicemembers, their dependents, and retirees may purchase a variety of goods and services at 1,522 military exchanges worldwide. Exchanges are similar to department stores, selling apparel, footwear, household appliances, jewelry, cosmetics, food, and other merchandise. Some exchanges offer gas stations, florist shops, optical shops, fast food restaurants, and liquor stores.
<b>Family Support Services</b>	
Deployment and Mobilization Support	Deployment and mobilization support programs help servicemembers and their families prepare for and cope with the challenges associated with mobilization, remote assignments, and deployments. Programs address a range of issues that may arise prior to, during, and upon return from deployments. Programs may include briefings on available support services; free telephone, video electronic mail, and teleconferencing calls; and benefits such as a free oil change for the family's personal vehicle. Upon return from deployment, workshops may be held to help members and their families readjust to life together.
Family Advocacy Programs	Family Advocacy Programs (FAPs) are designed to address prevention, identification, evaluation, treatment, rehabilitation, follow-up, and reporting of family violence. FAPs consist of coordinated efforts designed to prevent and intervene in cases of family distress, and to promote healthy family life.
New Parent Support Program	The New Parent Support Program is a standardized prevention program using an intensive, voluntary, home visitation model developed specifically for expectant parents and parents of

	<p>children from birth to 3 years of age to reduce the risk of child abuse. The Healthy Parenting Initiative is a part of the New Parent Support Program that is described as a user-friendly, diverse set of materials to help military parents with young children increase their parenting effectiveness, and to inform parents about topics related to parenting in the context of deployment, relocation, and dangerous work, as well as general parenting information.</p>
<p>Personal Financial Management Programs</p>	<p>Personal Financial Management Programs are conducted by trained counselors who provide personal and family financial planning education, information services, and assistance, including but not limited to, consumer education, advice and assistance on budgeting and debt liquidation, retirement planning, and savings investment counseling.</p>
<p>Relocation Assistance Programs</p>	<p>The Relocation Assistance Programs provide the information and services necessary to support DOD personnel and their families who are undergoing a permanent change of station. The programs provide pre-move destination information, relocation counseling, and settling-in services. Typical programs address information on the shipment and storage of household goods, financial planning, permanent change of station entitlements, and child care. A special Web site provides information about more than 300 military installations. The services may offer additional seminars and programs tailored to members' needs. Such programs include information seminars for spouses and new military families and the loan of household items for use prior to the arrival of personal household goods.</p>
<p>Employment Assistance Program</p>	<p>The Employment Assistance Program provides career related services such as assessments, career counseling, resume preparation services, job guidance services, seminars, and personalized career assistance on career research, and is available to military spouses.</p>
<p>Transition Assistance Program</p>	<p>The Transition Assistance Program provides services to departing military members to help them adjust to civilian life and obtain jobs. Services include pre-separation counseling, individual transition planning, employment assistance, excess leave and permissive temporary duty, and relocation assistance for personnel overseas. In 2001, DOD launched a Web site that offers courses on conducting job searches, writing resumes, and using the Internet to find jobs.</p>
<p><b><i>Leave</i></b></p>	
<p>Annual Leave</p>	<p>Members accrue leave at the rate of 2-1/2 days per month of active service, excluding certain specified periods. Leave accumulated in excess of 60 days is lost at the end of a fiscal year, although current law permits members to keep up to 75 days (until</p>

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September 30, 2013). Other exceptions authorize a member to maintain more than 60 days of leave as of the end of a fiscal year, several of which involve circumstances during which it is unlikely that leave will be used.

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Other Leave

Members may be eligible for other forms of leave, including:

- Convalescent Leave
  - Education Leave of Absence
  - Graduation Leave
  - Public Holidays
- 

***Other***

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Adoption Expenses

Federal law authorizes reimbursement for qualifying adoption expenses for eligible members. Members may be eligible for a maximum of \$2,000 per child, not to exceed \$5,000 per calendar year.

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Legal Assistance

Eligible servicemembers and their families can receive free legal advice and assistance from judge advocates or civilian attorneys for many personal, civil legal matters.

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Privileges at Military Facilities (Morale, Welfare, and Recreation)

Servicemembers and their families have access at installations to morale, welfare, and recreation programs. These programs include fitness centers, golf courses, movie theaters or free movies, automotive skills development, crafts and hobby programs, guest quarters, swimming pools, enlisted clubs, game rooms and arcades, coffeehouses, intramural sports, bowling centers, libraries, rifle and pistol ranges, and outdoor recreation.

---

Space Available Travel

Space Available Travel permits military members and their families to travel free,<sup>53</sup> under certain conditions, on military transportation, space permitting. For example, family members may use this benefit to accompany an active duty servicemember on immediate family emergencies and on house-hunting trips related to a pending permanent change of station move.

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Mass Transportation Benefit Program

Active duty servicemembers may be eligible to receive benefits to offset commuting costs associated with using public transportation.

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Veterans Affairs –

Members may obtain guaranteed home loans from the Department

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<sup>53</sup>Under certain circumstances, a fee is sometimes assessed for space available travel. For example, baggage over a certain size, weight, or quantity will result in an additional fee.

Home Loan	of Veterans Affairs in order to purchase homes, make home improvements, and refinance home loans.
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**Indirect Deferred Compensation**

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Retirement	Military members presently are covered by one of three separate retirement systems, depending on when they joined the military. All three systems require no contribution from the servicemember, and ordinarily allow retirement after 20 years of service. <sup>54</sup> Benefits received are based on years of service and salary.
Retiree Dental and Health Care	Members retiring from active duty are eligible to reenroll in TRICARE and pay an annual enrollment fee to maintain continued health coverage. In addition, DOD offers other benefits including a voluntary Retiree Dental program and a pharmacy program.
Survivor Benefit Plan	The Survivor Benefit Plan provides members who reach retirement eligibility an opportunity to leave a portion of their retired pay to their survivors.
Thrift Savings Plan (Uniformed Services Plan)	Servicemembers may contribute a percent of their basic pay into this government retirement savings and investment program that offers participants the same type of savings and tax benefits that many private corporations offer their employees under “401(k)” plans. The retirement income that servicemembers receive from their accounts depends on the amount contributed during working years and the earnings on these contributions.
Veterans Affairs – Health Care	Eligible retirees may enroll in the Veterans Affairs health care system.

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<sup>54</sup>Enlisted personnel in the Navy and Marine Corps with more than 20 and less than 30 years of creditable service, are not eligible for voluntary retirement. Instead, at 20 years of service they may request a transfer to the Fleet Reserve or Fleet Marine Corps Reserve, and draw “retainer pay” which is computed on the same formula as retirement pay. When a Fleet Reserve or Fleet Marine Corps Reserve member completes 30 years of service they are then transferred to the “retired list” and receive retirement pay.

## Appendix III: Sample of a Personal Statement of Military Compensation

### PERSONAL STATEMENT OF MILITARY COMPENSATION

This statement outlines the total value of your military pay, allowances and benefits. By making your compensation more "visible," this statement could be useful when applying for credit or loans (including home loans) from businesses or lending institutions. Another way this summary could be used is to help determine whether specific civilian employment offers would let you maintain the same standard of living you had while serving in the military. Start with the Total Direct Compensation on page 1, add the Federal Tax advantage from page 2, and then add any additional expense a civilian employer would expect you to pay for health and life insurance, retirement contributions, etc. This will tell you approximately what level of civilian salary you must earn in order to maintain a similar standard of living as that provided by your military take home pay. Each section of this statement contains an explanation. However, if you have any questions, please contact your local pay office.

<b>SUMMARY:</b>	A. Basic Military Compensation as of March 2009 .....	\$	V	.00
	B. Special Pay and Bonuses .....	\$	AA	.00
	C. Expense allowances .....	\$	AF	.00
	TOTAL DIRECT COMPENSATION .....	\$	AM	.00
	Added value of Service-estimated indirect compensation .....	\$	AO	.00
	Added considerations/programs (Your estimate) .....	\$	_____	
	TOTAL COMPENSATION .....	\$	_____	

The following information provides more details on the value of your personal compensation. Adding the indirect compensation and additional considerations to your direct compensation should provide a clearer picture of your total military compensation package.

#### DIRECT COMPENSATION AS OF MARCH 2009 (NOTE 1)

**A. BASIC COMPENSATION.** Describes the basic elements of compensation paid to all military members. This includes Basic Pay, the value of living in government quarters or receiving Basic Allowance for Housing (BAH), and the value of meals furnished or received Basic Allowance for Subsistence (BAS). Your basic compensation is:

	Monthly		Annual	
Basic Pay .....	\$ .00	J	\$ .00	K
BAH or quarters valued at actual BAH for your location, rank and dependency status (see Note 2).....	\$ .00	L	\$ .00	M
BAS .....	\$ .00	N	\$ .00	O
TOTAL BASIC COMPENSATION .....	\$ .00	U	\$ .00	V

**B. SPECIAL PAY AND BONUSES.** Describes pay in addition to Basic Compensation for people in certain skills and assignments. As an example, Special Duty Assignment Pay is a monetary allowance to compensate personnel who serve in designated duties involving the performance of extremely difficult duties or duties demanding an unusual degree of responsibility. Another example is Foreign Language Proficiency Bonus (FLPB); it is a monetary incentive paid to eligible and qualified military personnel possessing foreign language proficiency. The objective of FLPB is to encourage the acquisition, maintenance, and enhancement of foreign language skills vital to national defense.

Special and Incentive Pays .....	\$ .00	W	\$ .00	X
Bonuses .....	\$ .00		\$ .00	Y
TOTAL SPECIAL PAY AND BONUSES .....	\$ .00	Z	\$ .00	AA

**C. EXPENSE ALLOWANCE.** Some individuals receive allowances to help compensate for extra expenses they incur based on the location of their duty assignment. These include overseas housing allowance (OHA), cost of living allowance (COLA) (Note 1) only payable in certain areas, family separation allowance (FSA), and clothing replacement allowance (CRA). Your total expense allowances are:

TOTAL EXPENSE ALLOWANCES .....	\$ .00	AE	\$ .00	AF
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Note 1: Pay items on your March 2009 LES, marital status and dependents taken from your personnel records. Annual rates for COLA are for 365 days, not 12 times the March rate.

Note 2: If BAH was not in effect in March 2009, we assumed you received quarter's worth about as much as BAH. If you received partial BAH, we assumed that the partial BAH and value of quarters together roughly equal full BAH.

#### SERVICE-ESTIMATED INDIRECT COMPENSATION

Other programs supplement your direct compensation. These have a cash value to you in terms of spendable income. They are an important part of your compensation and should be considered in adding up your real pay value.

**A. MEDICAL CARE.** As an active duty member, the military provides you and your family with comprehensive medical care. TRICARE is the name of the Defense Department's regional health care program. TRICARE has three health plan options: TRICARE Prime (all active duty are automatically in Prime, but family members may also choose to enroll in this HMO-type plan); TRICARE Standard (an indemnity plan, formerly called CHAMPUS); TRICARE Extra (a Preferred Provider Organization plan). Under TRICARE Prime, you will have an assigned military or civilian primary care manager who will manage all aspects of your care, including referrals to specialists. Prime has no deductibles, cost-shares, or co-payments (unless the Point of Service option is used) except a nominal co-payment for prescriptions filled at a retail pharmacy or through the National Mail Order Pharmacy program. TRICARE Standard offers more choice of providers, but requires an annual \$150 deductible/person or \$300/family (E-1 to E-4: \$50/person, \$100/family) plus a 20% cost-share for outpatient care and a \$15.65/day (\$25.00 minimum) charge for inpatient care. TRICARE Extra offers the same benefit as Standard, but when you elect to use a network provider, the outpatient visit cost-share is only 15%. Please contact the Beneficiary Counseling and Assistance Coordinator at the nearest military treatment facility for additional information. The personal costs experienced by you or your family will vary depending on the TRICARE option you select. For more information, visit [www.tricare.mil](http://www.tricare.mil).

**B. FEDERAL TAX ADVANTAGE.** This represents the amount of additional Federal tax you would have to pay if your quarters (BAH), and meals (BAS) allowances were taxed. Your tax advantage is based on **SINGLE 0 DEPN(S) P Q R**

SERVICE-ESTIMATED INDIRECT COMPENSATION (A + B)	Monthly Rate \$ .00 S	Annual Rate \$ .00 T
	Monthly Rate \$ .00 AN	Annual Rate \$ .00 AO

**ADDITIONAL CONSIDERATIONS (AS YOU ESTIMATE)**

When adding up the total worth of your compensation package, you should also consider the many other programs and privileges you have. Their worth will be different for each person depending on use. This page is presented for you to determine the yearly value/savings you estimate each of these programs has been worth to you.

**A. YOUR RETIREMENT BENEFIT** is a combination of your military pension and the Thrift Savings Plan (TSP).

1) **MILITARY PENSION.** One of the most attractive incentives of a military career is the retirement system that provides a monthly retirement income for those who serve a minimum of twenty years. There are currently, three retirement plans in effect -- Final Basic Pay, High-3, and Choice of High-3 or Redux with \$30K Career Status Bonus (CSB). A description of each follows. Information on all three plans is available at: <http://www.afpc.randolph.af.mil/>. Additional information on the new High-3 and Redux/\$30K CSB choice is available at: <http://www.defenselink.mil/home/features/2007/EmpRes/index.html>.

Plan	Eligible (as determined by DIEUS) (Note 1)	Retired Pay Formula (Notes 2, 3 & 4)	Cost-of-Living Adjustment (COLA) (Note 5)
Final Basic Pay	Entered service prior to 8 Sep 80	2.5% times the years of service times final basic pay	Full inflation protection; COLA based on Consumer Price Index (CPI)
High-3 (Note 6)	Entered service on or after 8 Sep 80 and before 1 Aug 86	2.5% times the years of service times the <i>average</i> of the highest 36 months of basic pay	Full inflation protection; COLA based on Consumer Price Index (CPI)
High-3 Choice  -----OR----- Redux/CSB Choice: Instead of retiring under High-3, members may choose to receive a \$30,000 (Note 7) "Career Status Bonus" at 15 years of service in exchange for agreeing to serve to at least 20 years of service and then retiring under the less generous Redux plan.	Entered service on or after 1 Aug 86	High-3: 2.5% times the years of service times the <i>average</i> of the highest 36 months of basic pay  -----OR----- *Redux/CSB option: 2.5% times the years of service, minus one percentage point from the product for each year less than 30 years, times the <i>average</i> of the highest 36 months of basic pay. At age 62, retired pay is recalculated without deducting the one percentage point for each year less than 30, which allows it to catch up to what it would have been without the Redux penalty.	High-3: Full inflation protection; COLA based on Consumer Price Index (CPI)  -----OR----- *Redux/CSB option: Partial inflation protection; COLA based on Consumer Price Index (CPI) minus 1 percent. At age 62, retired pay is adjusted to reflect full COLA since retirement. Partial COLA then resumes after age 62.

Note 1: Date initially entered uniformed service (DIEUS) refers to the fixed date the member was first enlisted, appointed, or inducted. This includes cadets at the Service Academies, students enrolled in a reserve component as part of the Services' senior ROTC programs or ROTC financial assistance programs, students in the Uniformed Services University of the Health Sciences, participants in the Armed Forces Health Professions Scholarship program, officer candidates attending Officer Training School, and members in the Delayed Entry Program.

Note 2: The maximum multiplier is 75 percent times basic pay.

Note 3: Members should be aware that the Uniformed Services Former Spouses Protection Act allows state courts to consider military retired pay as divisible property in divorce settlements. The law does not direct state courts to divide retired pay; it simply permits them to do so.

Note 4: Retired pay stops upon the death of the retiree unless he or she was enrolled in the Survivor Benefit Plan. See "Survivor Benefit Plan (SBP)" on page 3 for additional information on this program.

Note 5: COLA is applied annually to retired pay.

Note 6: High-3 is a reference to the average of the high three years or, more specifically, the high 36 months of basic pay as used in the formula.

Note 7. Effective 28 Dec 01, members may elect one of 5 options to receive the \$30K CSB: one lump sum payment of \$30K; two annual payments of \$15K; three annual payments of \$10K; four annual payments of \$7.5K; or five annual payments of \$6K.

(For Retirement-Eligible Personnel) If you were to retire in your present grade, your initial gross monthly retired pay would be **\$00 AG** increased annually for inflation. For each year you continue to stay on active duty, you will receive an additional 2.5% of your basic pay up to a maximum of 75%. Your retirement represents a considerable value over your life expectancy. While retired pay stops upon death, you can ensure your survivors receive a portion of it by enrolling in the Survivor Benefit Plan when you retire (see below). Retired pay calculation is for illustration only. It does not consider any active duty service commitment or time-in-grade requirement, which may preclude your retiring immediately in your present grade. Further, the date used to determine years of service in your actual retired pay computation (the "1405" date) will be determined by the MPF from paper records and could be different than the total active Federal military service used in this example.

2) **UNIFORMED SERVICES THRIFT SAVINGS PLAN (TSP):** You can gain additional tax deferred advantages through participation in the TSP. You are authorized to contribute up to 100% of your base pay, special and incentive pays, and bonuses, up to the annual contribution limits identified below. If you perform duty in a designated combat zone, your contributions to TSP may be tax-exempt (versus tax deferred) and not count against your tax deferred limits. The combination of your tax-exempt and tax deferred contributions is limited by the Internal Revenue Service to \$ 55,000 for 2009. More information can be found at: <http://www.tsp.gov/>

<u>Year</u>	<u>% of Base Pay</u>	<u>Total Annual Tax Deferred Limits</u>	
2009 +	(unlimited)	\$16,500	\$ _____

**B. DEATH AND SURVIVOR PROGRAMS.** If you die on active duty, your survivors are eligible for life insurance and other payments.

1) **SERVICEMAN'S GROUP LIFE INSURANCE.** You may buy life insurance in **\$50,000** increments up to **\$400,000** at a very low cost. You are currently paying premiums for SGLI coverage of \$400,000 AU on yourself and \$.00 AV on your spouse.

2) **DEATH GRATUITY, VA DEPENDENCY AND INDEMNITY COMPENSATION (DIC), HOUSING.** In the event of your death, your dependents would receive a death gratuity payment of up to **\$100,000** and monthly non-taxable Dependency and Indemnity Compensation (DIC) payments (non-taxable) of **\$1,067** for the surviving spouse and an additional **\$250** for each surviving child. DIC is adjusted annually for inflation. More information can be found at <http://www.vba.va.gov/>. In addition, a Basic Allowance for Housing (at the rate that is payable for members of the same grade and dependency status as the deceased member for the area where the dependents are residing) may be paid to the dependents of a member of the uniformed services who dies while on active duty and shall terminate 365 days after the date of the member's death.

3) **SURVIVOR BENEFIT PLAN (SBP).** All pay stops when a member dies. However, if you die on active duty, in the line of duty, your surviving spouse and children are automatically protected by the SBP--at no cost to you. The surviving spouse will get an annuity equal to the difference between the dependency and indemnity compensation DIC payment, paid by the Department of Veterans Affairs, and the SBP payment that would be paid if you had been retired on the date of your death. In some cases, if it would be beneficial to the family, the Secretary of the Air Force may authorize payment of the SBP to the children instead of the surviving spouse. To determine the amount of the SBP, the maximum applicable rate of retired pay that would be due you will be used. The only way retirees can guarantee their survivors receive a share of their retired pay is to enroll in SBP before they retire. The maximum annuity is equal to 55% of retired pay until the spouse attains age 62. Beginning 1 Apr 2009, there will no longer be a reduction to the SBP annuity that was originally required when surviving spouses attained age 62. The SBP annuity for your survivor is adjusted each year by the same percentage increase given to military retired pay. Additional information can be found at <http://ask.afpc.randolph.af.mil>.

\$ \_\_\_\_\_

**C. PAY GROWTH.** Pay raises each year, longevity increases, and competitive promotion opportunities.

\$ \_\_\_\_\_

**D. STATE/LOCAL TAX ADVANTAGE.** Besides being exempt from Federal taxes, your BAH, BAS, and overseas allowances and in-kind housing may be exempt from State and Local taxes, depending upon the state you claim as a legal residence. Relative to the tax laws of your legal residence, this can save you hundreds of dollars each year.

\$ \_\_\_\_\_

**E. DISCOUNTED SERVICES AND BENEFITS.**

1) **COMMISSARY.** Studies have found that commissary shoppers save an average of 31.1% or more on their grocery purchases, amounting to about \$3,354.00 annually for a family of four. If you spend the following, your savings will be approximately:

\$ \_\_\_\_\_

<b>Monthly Grocery Purchases</b>			
<b>Supermarket</b>	<b>Commissary</b>	<b>Savings</b>	<b>% Savings</b>
\$200.00	\$137.80	\$62.20	31.1%
\$300.00	\$206.70	\$93.30	31.1%
\$400.00	\$275.60	\$124.40	31.1%

**Discover your benefit. Find your nearest commissary through the locations link at [www.commissaries.com](http://www.commissaries.com).**

2) **ARMY AND AIR FORCE EXCHANGE SERVICE (AAFES).** Now in our second century of service, the Army and Air Force Exchange Service (AAFES) remains committed to serving you, the "best customer in the world". Your exchange provides products and services to authorized customers worldwide and generates reasonable earnings to supplement appropriated funds for Army and Air Force morale, welfare, and recreation (MWR) programs. Earnings fund new and improved stores with most of the profits going to MWR programs – about \$272 million in 2007 and more than \$2.4 billion over the past 10 years. AAFES' shelf prices provide you an average of 20 percent overall savings compared to off post/base retail operations. While you and your family can enjoy your exchange benefit at your home station, in many ways AAFES' greatest value is our pledge to "Go Where You Go." Your Exchange currently operates over 317 stores and fast food outlets in Iraq, Afghanistan and other contingency locations, all run by AAFES Associate volunteers. And remember, AAFES offers 24/7 convenience through its website 'www.aafes.com' where you can "Find, Click, and Save."

3) **FEDERAL LONG-TERM CARE INSURANCE PROGRAM (FLTCIP):** The FLTCIP is the only long term care insurance program sponsored by the Federal Government. It is managed by the Office of Personnel Management and offered by two insurance leaders--John Hancock



and MetLife. It provides comprehensive benefits to included home care, informal care, and inflation options at competitive group premiums. The FLTCIP helps preserve your retirement savings should a long-term care need arise. Those eligible for the FLTCIP include all Federal Employees (Uniformed Service members), their spouses, adult children (including natural, adopted & step), parents, parents-in-law, and stepparents. Call 1-800-LTC-FEDS (1-800-582-3337) or visit the web site at: <http://www.LTCFEDS.com>

\$ \_\_\_\_\_

4) **EDUCATION PROGRAMS.** Members in accredited schools pursuing degree programs receive up to 100 percent of tuition costs, up to a maximum of \$250.00 per semester hour, \$4,500 per fiscal year, paid by the Government through the Military Tuition Assistance Program. Search tools to find military-friendly colleges are on the Air Force Virtual Education Center (AFVEC) through the AF Portal. Members who had established an account in the Veterans Educational Assistance Program (VEAP) by contributing \$25-\$100 each month or by lump sum payment (up to \$2700), have a Government \$2 for \$1 matching contribution for a total of up to \$8,100. Members must serve on active duty for at least 181 continuous days, and enlisted for the first time between 1 Jan 1977 and 30 Jun 1985 inclusive, and signed up prior to 1 Apr 1987 to make contributions. Members who elected to participate in the Montgomery GI Bill upon entering active duty (after 30 Jun 1985), and agreed to payroll reduction of \$100 per month for a total of 12 months, can receive a benefit of \$47,556 with yearly increases as determined by the consumer price index.

\$ \_\_\_\_\_

5) **SERVICES ACTIVITIES.** Provide conveniently located, low-cost, professionally managed activities and entertainment. You and your family members receive significant savings when you participate in Services programs such as fitness, libraries, child development and youth programs, arts and crafts, auto skills, outdoor recreation activities, golf, bowling, clubs, equipment checkout, aero clubs, etc.

\$ \_\_\_\_\_

6) **COUNSELING AND ASSISTANCE PROGRAMS.** Military members and their family members can receive free personal financial management counseling, relocation services assistance, transition counseling, spouse employment consultation, and assistance from a wide range of other services available from Airman and Family Readiness Centers. Air Force Aid Society provides zero interest emergency loans, grants, education assistance and community enhancement programs to members who qualify (total assistance given in 2007 was \$19,300,000 in all programs). Below are some estimated costs if services were procured in the civilian sector:

Personal Financial Counseling/Education	\$ 250.00
Spouse Employment Counseling	\$250.00
Transition Assistance Services	\$4,200.00
Non-medical Counseling	\$100.00

\$ \_\_\_\_\_

7) **LEGAL COUNSELING.** Military members and dependents can get free basic estate planning, legal counseling and assistance. Below are some estimated costs if services were procured in the civilian sector:

Consultations with an attorney:	\$200.00
Wills:	\$250.00
Notaries:	\$5.00
Advance Medical Directives:	\$75.00
Client Correspondence:	\$50.00
Powers of Attorney:	\$50.00

\$ \_\_\_\_\_

8) **SPACE AVAILABLE TRAVEL.** Space available travel for Uniformed Services members can provide substantial savings over commercial airline fares. Space available travel is defined by DoD policy as a privilege (not an entitlement), which accrues to Uniformed Services members as an avenue of respite from the rigors of Uniformed Services duty. Under one of the categories of space available travel, members on leave can travel with one dependent on permissive TDY house hunting trips. For additional information on this special privilege, consult the AMC Space Available web page at <http://www.amc.af.mil/questions/topic.asp?id=380>.

\$ \_\_\_\_\_

9) **TRICARE DENTAL PROGRAM (TDP).** TDP eligibility includes spouses and eligible children of active duty members of the Uniformed Services, Selected Reserve and Individual Ready Reserve. Additionally, the Selected Reserve and Individual Ready Reserve members themselves are eligible for the TDP. Enrollees may be treated in both CONUS and OCONUS locations. TDP monthly premiums for Selected Reserve members and family members of active duty are cost-shared by the Department of Defense (DoD) (i.e., the government pays 60% of the premium, sponsor pays 40%). The sponsor's monthly premium payment is \$11.58 for a single enrolled family member and \$28.95 for families with two or more members enrolled. Basic preventive, diagnostic and emergency services are covered at 100%; the plan pays 50%-80% of the cost for certain specialized services such as restorations, orthodontics, and prosthodontics. Moreover, DoD cost-shares other specialty care (periodontic, endodontic, and oral surgery) at a higher percentage for E-1s to E-4s.

\$ \_\_\_\_\_

(Add this amount to Summary Total on page 1)

TOTAL

\$ \_\_\_\_\_

Contents:

V – Monthly BP X 12

AA - Includes all Special "Pays". Annual amount paid for Special Pays such as FLPP and SDAP, etc.

Includes all Bonuses. Annual amount paid for Bonuses such as ACIP, Medical, Dental, Re-enlistment, enlistment, etc.

AF - Includes expense allowances such as OHA, COLA, FSA, Annual Clothing/CRA, etc.  
AM - Annual total of the entitlements above.  
AO - These figures are the addition of the Medical Amount and the Tax Advantage. The Medical amount is from the figures provided by the Service (this year 0). The tax advantage is the computed amount of what the member would be taxed if all his pay and allowances were taxable, based on his marital status and number of dependents. The annual amount is the monthly amount multiplied by 12.  
J - The Monthly amount of Basic Pay.  
K - Amount of J X 12.  
L - The Monthly amount of BAH.  
M - Amount of L X 12.  
N - The Monthly amount of BAS.  
O - Amount of N X 12.  
U - Total Monthly amount of BP, BAH, and BAS.  
V - Total Annual amount of BP, BAH, and BAS.  
W - Monthly amount of Special Pays such as FLPP and SDAP, etc.  
X - Annual amount of Special Pays such as FLPP and SDAP, etc.  
Y - Annual amount of all Bonuses paid such as ACIP, Medical, Dental, Re-enlistment, enlistment, etc.  
Z - Monthly total amount of Special Pays.  
AA - Annual amount of Special Pays and Bonuses.  
AE - Monthly amounts paid for OHA, COLA, FSA, Clothing/CRA, etc.  
AF - Annual amounts paid for OHA, COLA, FSA, Clothing/CRA, etc.  
P,Q,R - Your W-4 declared marital status and number of exemptions  
S - The actual monthly tax advantage realized by not taxing BAS and BAH.  
T - The actual annual tax advantage realized by not taxing BAS, and BAH.  
AN - The actual monthly tax advantage realized by not taxing BAS, BAH and Medical care.  
AO - The actual annual tax advantage realized by not taxing BAS, BAH and Medical care.  
AG - The monthly amount of the member's estimated retired pay (based on grade and number of years service) . Amount will only be present if member is over 20 years.  
AU - Amount of SGLI coverage for member (i. e. \$400,000.)  
AV - Amount of SGLI coverage for spouse (i. e. \$100,000.)

## Appendix IV: Overview of Studies Comparing Military and Civilian Compensation

Over the years, there have been a variety of public and private sector studies on the parity of military and civilian compensation and the role of compensation in recruiting and retaining military personnel. Specifically, organizations such as RAND Corporation (RAND),<sup>55</sup> the Congressional Budget Office (CBO),<sup>56</sup> CNA Corporation (CNA),<sup>57</sup> and the Congressional Research Service (CRS)<sup>58</sup> have compared military and civilian compensation and studied the extent to which a pay gap exists between military and civilian pay. Although the methodology and results of these studies vary, they similarly recognize the complexities of conducting such a comparison. The first of these four studies was conducted by RAND, which reported in 2002 on the role played by the different components of military pay in total cash compensation and how cash compensation varies according to rank, service, occupational group, and years of service.<sup>59</sup> Specifically, RAND found that considerable variation existed among the services in the incidence and average amounts of non-regular military compensation pays and allowances; however, these differences are overshadowed by the similarity in the average amount of regular military compensation.

In June 2007, CBO issued a report in which it discussed common problems with comparing the compensation of active-duty enlisted personnel to civilian sector pay and benefits.<sup>60</sup> Specifically, CBO noted that evaluating the comparability of military and civilian jobs can be difficult because the extent to which job security, autonomy in performing tasks, group solidarity, and other intangible rewards are valued, may differ. Further, CBO noted that the inclusion of employment benefits further complicates assessments of compensation comparability in that (1) qualitative differences between military and civilian benefits may be difficult to measure, (2) private employers offer a wide variety of non-cash compensation, thus making it difficult to identify the “average” civilian benefit package, and (3) the cost of providing these benefits may significantly differ from the perceived value placed on those benefits by an employee. In addition, CBO identified four ways to assess the comparability of military and civilian pay, including (1) comparing cumulative increases over time in private-sector wages and salaries and in military basic pay, (2) comparing levels of military and civilian pay, adjusted for people’s years of experience and education, (3) comparing total compensation including non-cash and deferred cash benefits, and (4) comparing military and civilian trends in cash compensation—including special pays and bonuses—for selected occupations. CBO reported that estimates made using each of the four methods suggest that, as of 2006, DOD has achieved its goal to make regular military compensation comparable with the 70<sup>th</sup> percentile of civilian earnings.

A third study was conducted by CNA, which in March 2008 issued a report on the findings from its analysis of the comparability of civilian and military pay.<sup>61</sup> Specifically, the CNA report highlighted the complexity of estimating compensation benefits but also noted that without the inclusion of benefits, the value of a pay comparability study is limited. For example, CNA suggested that servicemembers value each benefit differently, depending on their own unique needs, interest, and personal circumstances. Furthermore, CNA found that

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<sup>55</sup>RAND Corporation, *A Look at Cash Compensation for Active-Duty Military Personnel* (Arlington, VA: 2002).

<sup>56</sup>CBO, *Evaluating Military Compensation* (Washington, D.C.: June 2007).

<sup>57</sup>James E. Grefer, CNA, *Comparing Military and Civilian Compensation Packages* (Alexandria, VA: March 2008).

<sup>58</sup>CRS, *Military Pay and Benefits: Key Questions and Answers* (Washington, D.C.: Dec. 29, 2009).

<sup>59</sup>RAND Corporation, *A Look at Cash Compensation for Active-Duty Military Personnel* (Arlington, VA: 2002).

<sup>60</sup>CBO, *Evaluating Military Compensation* (Washington, D.C.: June 2007).

<sup>61</sup>James E. Grefer, CNA, *Comparing Military and Civilian Compensation Packages* (Alexandria, VA: March 2008).

it is difficult to analyze the value of such benefits, due, in part, to a lack of consistent data on the extent to which benefits are utilized. Based on its analyses, CNA concluded that regular military compensation compared quite favorably with cash compensation of the 70<sup>th</sup> percentile of civilians and the 80<sup>th</sup> percentile when three select benefits were included.

In December 2009, CRS also reported on the challenges of military-civilian compensation comparisons, similar to those identified in the previously mentioned reports.<sup>62</sup> Specifically, CRS noted that it is difficult to find a common index or indicator on which to base a comparison of the dollar values of military and civilian compensation because (1) military compensation applies to multiple branches of the Armed Forces, whose receiving population and taxability vary widely, (2) the various ranks and pay grades of military personnel complicate a comparison of compensation within the Armed Forces, much less conducting a comparison with comparable civilians, (3) with some exceptions, the conditions of military service are frequently more arduous than those of civilian employment, even in peacetime, for both military personnel and their families, (4) comparisons between and the use of different sets of military pay compensation statistics can yield very different results, and (5) the level of specificity used in a pay comparison can lead to sharply differing results.

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<sup>62</sup>CRS, *Military Pay and Benefits: Key Questions and Answers* (Washington, D.C.: Dec. 29, 2009).

**Appendix V: Benefits and Corresponding Utilization Rates Reported in DOD’s Status of Forces Surveys**

Benefits represent a significant portion of The Department of Defense’s (DOD) overall compensation package for active duty servicemembers. Valuing benefits from a servicemember’s perspective presents a number of challenges because, for example, the military compensation system includes a large number of pays and noncash and deferred benefits. Specifically, to determine how servicemembers view some of the benefits DOD provides, we reviewed the results of DOD’s Status of Forces Survey for Active Duty Servicemembers. That is, we looked at self-reported utilization rates of various benefits. Table 6 provides a list of benefits we reviewed and corresponding utilization rates.

**Table 6: Self-Reported Utilization Rates of Various Components of Military Compensation**

<b>Compensation component</b>	<b>Utilization rate</b>
Commissary	90%
Exchange	90
Child care (on-base)	37
Tuition assistance programs for college/higher education	34
Adult continuing education/counseling	19
Basic skills education	10
Technical/Vocational programs	6
DOD-run School	18
Thrift Savings Plan	44
Personally visited military health care provider	85
Family member used military health care provider	86
Personally Visited On-Base Military Dentist	82
Family member used military dental care	46
Bowling center	56
Outdoor recreation programs or facilities	53
Libraries	46
Community center programs or facilities	45
Information ticket and tours services	39
Military lodging program	38
Do-it-yourself Automotive Facility	27
Golf course	26
Recreation programs for deployed servicemembers	18
Arts and crafts skill development programs or facilities	14

Source: DOD’s Status of Forces Survey for Active Duty Members.

Note: These results are from the 2007-2009 Status of Forces Surveys. The margin of error ranged from +/-1 to +/-3 percent.

## **Appendix VI: Examples Comparing Select Military Occupations to Comparable Occupations and Limitations of Such Comparisons**

Comparisons of compensation of select enlisted and officer occupations to comparable civilian occupations face many limitations. For example, if an occupational comparison approach is to be used to generalize to the entire military population, a very detailed, exhaustive, and time-consuming comparison of occupations would be needed. However, such comparisons of military and civilian occupations are still lacking because many military occupations do not have an exact civilian counterpart and other characteristics and attributes may not be adequately reflected or recognized in this type of comparison because of data limitations, as discussed below. Since these, and other limitations, would exist, a comprehensive occupational comparison would still not answer the question, “Is military pay adequate compared to civilian pay or which sector receives more compensation?”

Furthermore, for the occupations that are being compared, a number of assumptions must be made to assign monetary values, for example the discount rate used to calculate retirement values. These assumptions, while they may be reasonable, produce approximations of values for each side of the comparison and these values could significantly change if other reasonable assumptions were made. As we discussed in other sections of the report, the examples comparing compensation of select enlisted and officer occupations do not present the value of all components of the compensation system—only those for which we were able to assign value during the course of this engagement.

In addition to the numerous assumptions being made (see table below for the specific assumptions we made), there are data limitations that cannot be overcome. These limitations prevent one from controlling the characteristics of the civilian selected for each comparison. For example, we could not identify existing data of civilian earnings by the selected occupations that contained a representative sample population with demographic information on the sample population. Thus, we could not provide earnings data for a civilian within the selected occupations that exactly matched the characteristics of military personnel to include years of experience, family size, and tax filing status.

Further, it is worth noting that many question whether a military job is comparable to a civilian job since the working conditions of military personnel may require different risks and levels of responsibility, among other differences. From this perspective, examples showing occupational comparisons of civilian and military compensation, such as that presented in table 7, is somewhat limited in its usefulness. As a result, these examples are presented solely for illustrative purposes.

**Table 7: Examples Comparing Select Military Occupations to Comparable Civilian Occupations**  
**(For Illustrative Purposes Only)**

Occupation		Earnings <sup>a</sup>		Regular military compensation <sup>b</sup>				Total cash	Health care <sup>d</sup>	Retirement <sup>e</sup>	Commissary	Total benefits	Total compensation	
				Basic pay	Housing allowance	Subsistence allowance	Tax advantage							
							Federal							FICA <sup>c</sup>
Truck driver <sup>9</sup>	Civilian	\$37,270	n/a	n/a	n/a	n/a	n/a	\$37,270	-\$3,692	\$766	n/a	-\$2,926	\$34,344	
	E-4, with 4 years, married, filing jointly, no other dependents	n/a	\$24,574	\$13,524	\$3,533	\$2,459	\$1,413	\$45,502	\$0	\$309	\$2,075	\$2,384	\$47,886	
Police	Civilian	\$51,410	n/a	n/a	n/a	n/a	n/a	\$51,410	-\$3,692	\$766	n/a	-\$2,926	\$48,484	
	E-4, with 4 years, filing single, no dependents	n/a	\$24,574	\$11,172	\$3,533	\$2,595	\$1,218	\$43,092	\$0	\$309	\$1,131	\$1,440	\$44,532	
Automotive service technician/mechanic	Civilian	\$35,100	n/a	n/a	n/a	n/a	n/a	\$35,100	-\$3,692	\$766	n/a	-\$2,926	\$32,174	
	E-4, with 4 years, married, filing jointly, no other dependents	n/a	\$24,574	\$13,524	\$3,533	\$2,459	\$1,413	\$45,502	\$0	\$309	\$2,075	\$2,384	\$47,886	
Fire fighter	Civilian	\$44,260	n/a	n/a	n/a	n/a	n/a	\$44,260	-\$3,692	\$766	n/a	-\$2,926	\$41,334	
	E-4, with 4 years, filing single, no dependents	n/a	\$24,574	\$11,172	\$3,533	\$2,595	\$1,218	\$43,092	\$0	\$309	\$1,131	\$1,440	\$44,532	
Registered nurse	Civilian	\$62,450	n/a	n/a	n/a	n/a	n/a	\$62,450	-\$3,648	\$1,776	n/a	-\$1,872	\$60,578	
	O-3, with 10 years, married, filing jointly, two other dependents	n/a	\$61,884	\$19,656	\$2,433	\$3,898	\$1,830	\$89,701	\$0	\$4,679	\$3,280	\$7,959	\$97,660	

Occupation		Earnings <sup>a</sup>		Regular military compensation <sup>b</sup>				Total Cash	Health care <sup>d</sup>	Retirement <sup>e</sup>	Commissary <sup>f</sup>	Total benefits	Total compensation
		Basic pay	Housing allowance	Subsistence allowance	Tax advantage								
					Federal	FICA <sup>c</sup>							
Civil engineer	Civilian	\$74,600	n/a	n/a	n/a	n/a	n/a	\$74,600	\$-3,481	\$1,602	n/a	\$-1,878	\$72,722
	O-3, with 8 years, married, filing jointly, no other dependents	n/a	\$60,026	\$19,656	\$2,433	\$3,898	\$1,830	\$87,843	\$0	\$2,978	\$2,075	\$5,053	\$92,896
Electrical engineer	Civilian	\$82,160	n/a	n/a	n/a	n/a	n/a	\$82,160	\$-2,705	\$1,439	n/a	\$-1,266	\$80,894
	O-3, with 6 years, married, filing jointly, no other dependents	n/a	\$57,157	\$19,656	\$2,433	\$3,898	\$1,830	\$84,974	\$0	\$1,894	\$2,075	\$3,969	\$88,943
Computer and information systems manager	Civilian	\$112,210	n/a	n/a	n/a	n/a	n/a	\$112,210	\$-2,705	\$1,439	n/a	\$-1,266	\$110,944
	O-3, with 6 years, married, filing jointly, no other dependents	n/a	\$57,157	\$19,656	\$2,433	\$3,898	\$1,830	\$84,974	\$0	\$1,894	\$2,075	\$3,969	\$88,943

Source: GAO analysis of Bureau of Labor Statistics (BLS), Department of Defense (DOD), and CNA data.

Note: Compensation is presented in 2008 constant dollars. Some totals may not add due to rounding.

<sup>a</sup>Earnings include pays and production bonuses. These data are the median earnings figure for the occupation from the BLS Occupational Employment Statistics. The experience level of the civilian worker is not known; therefore, it is unknown if the median earnings correspond to the years of service of the selected military scenario.

<sup>b</sup>For each of the components of regular military compensation, the value is calculated by using the demographics of the military personnel selected for comparison. While location is a factor that determines the value of the basic housing allowance, the scenario was calculated using the average basic allowance for housing for continental U.S. locations. In addition, special and incentive pays are not included in the analysis due to the difficulty of determining whether or not all service military specialties within a select occupation group were entitled to a special or incentive pay.

<sup>c</sup>The Federal Insurance Contributions Act (FICA) tax advantage is not defined as being a part of regular military compensation. FICA is included under tax advantage for the purpose of visual presentation.

<sup>d</sup>The health care value is based on CNA's differential analysis of what it would cost for a civilian to obtain similar health care as what is offered by DOD. These numbers are calculated based on years of experience for the civilian equivalent of an enlisted and officer. We note that this number is based on an aggregate assumption about employer-sponsored health care. However, a more accurate estimation of the value of health care would have taken into account that employer-sponsored health care most likely varies by occupation.

<sup>e</sup>The retirement value is based on CNA's analysis of retirement for years of experience for enlisted and officer and their civilian counterparts.

<sup>f</sup>The value of the commissary benefit is based on a DOD analysis of savings by family size. According to DOD, the estimates provided may underestimate the value of commissary savings because non-food items were not included in the Defense Commissary Agency's original calculations.

<sup>g</sup>The full standard occupational classification for truck driver, according to BLS, is "Truck Driver, Heavy or Tractor Trailer."



In order to compare pay and benefits for civilians with pay and benefits of enlisted and officers in comparable occupations, we identified criteria for selection of occupations based on factors such as ability to crosswalk a military occupation to a civilian occupation, military occupations with a large population based on percentage of force, and inclusion of some military critical specialties. We selected four enlisted occupations and four officer occupations. We reviewed existing data on the active duty force by primary military occupation to confirm the size of these populations.

Using a crosswalk of military occupations—prepared by DOD’s Defense Manpower Data Center (DMDC)—to the standard occupational classification system used by the Bureau of Labor Statistics (BLS), we identified the various service-specific occupations codes that crosswalked to the select occupations. Next, we identified large groups of personnel by rank and years of service within these occupational groups, through queries provided by DMDC of the Active Duty Strength file. We selected the personnel defined by rank and years of service with the largest distribution to calculate the military scenario compensation. In addition, the DMDC queries included information on the number of dependents of these personnel. We made assumptions that married personnel would file taxes jointly. Using this information, we calculated basic pay, basic housing allowance, and basic allowance for subsistence using information contained in the 2008 Selected Military Compensation tables prepared by DOD’s Directorate of Compensation. DOD provided the values for the federal income tax advantage<sup>63</sup> (i.e., the value of allowances for housing and subsistence not being subject to income tax) and additional FICA tax advantage for each of the military personnel scenarios. Although special and incentive pays are part of cash compensation, we did not make assumptions about entitlement that could be generalized to all service military specialties within a select occupation.

For civilian cash compensation within a select occupation group, we used BLS’s Occupational Employment Statistics to obtain median earnings. These figures include pay and production bonuses. However, the Occupational Employment Statistics does not contain demographic information on civilian employees. For this reason, we were unable to include salary information that matched the age, education, and experience of the military personnel included in the study. For other data on civilian compensation included in the comparison, we included information that matched the years of service of the military personnel.

In order to include values for health care and retirement for civilians and military with similar years of experience, we included values calculated by CNA from a 2008 commissioned study to compare military and civilian compensation packages. We converted the 2006 CNA values into 2008 dollars. For military retirement, we inflated using the percentage increases to basic pay in 2007 and 2008. For civilian retirement, we adjusted by increases in the 2007 and 2008 ECI for salaries. Finally, civilian health care expenditures were adjusted using the percentage increase in 2007 and 2008 in the medical care expenditure category of the Consumer Price Index for All Urban Consumers. We note that we reviewed CNA’s methodology and found it to be reasonable. However, we did not verify the calculations underlying CNA’s estimates of value. Finally, to include the value of the benefit to servicemembers for the commissary, we used DOD calculations of savings based on family size. We reviewed DOD’s methodology and found it to be reasonable. However, we did not verify the calculations underlying DOD’s estimates of value.

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<sup>63</sup>The tax advantage calculation includes adding the amount of earnings that would have to be added to the member’s net pay if the basic allowance for housing and basic allowance for subsistence were taxable in order to equal the same net pay.

## **Appendix VII: Reasonableness of Using the Employment Cost Index to Adjust Basic Pay Annually and Use of Employment Cost Index as an Approach to Compare Military and Civilian Compensation and Its Shortcomings**

The Employment Cost Index (ECI), a nationally representative measure of labor costs for the civilian economy, is used by businesses and other organizations to, among other things, adjust wage rates to keep pace with competitors; and while it has its strengths and weaknesses, it is generally reasonable to use the measure to adjust basic pay. However, comparing changes over time in the ECI with changes over time in the rates of basic pay does not show whether there is a difference or “pay gap” in military and civilian compensation, because among other things, the analysis assumes that basic pay is the only component of compensation that should be compared to changes in civilian pay.

### *ECI Is Generally Reasonable to Adjust Basic Pay Annually but Shortcomings Exist When Comparing Increases in Basic Pay and Changes in the Employment Cost Index for Civilian Compensation*

Using the ECI for the purpose of determining the amount of the annual basic pay raise has both strengths and weaknesses but is generally reasonable to use to adjust basic pay annually. On the one hand, the ECI is a nationally representative measure of labor costs for the civilian economy. The ECI is also produced in a consistent fashion, using a transparent methodology.<sup>64</sup> In addition, the ECI provides separate data series for different occupational groups, industries, and geographic areas.<sup>65</sup> On the other hand, the ECI is not tailored to the specific segments of the civilian economy most relevant to DOD—for example, those occupations and industries that the military services primarily compete with for workers.<sup>66</sup> Also, because the ECI is constructed from data collected from surveys of employers, it does not provide data about the demographics of the civilian workforce—such as workers’ education and experience—both of which are important factors that are often taken into account when setting employee pay. Nevertheless, we have previously reported that creating more tailored indices would be challenging.<sup>67</sup> Further, none of the experts whom we consulted, nor any reports published by other organizations that we reviewed during the course of our review, suggested that any other existing indices or data series would provide

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<sup>64</sup>There are adjustments in the methodology from time to time. For example, in 2006 the Bureau of Labor Statistics changed the way the ECI classified industries and occupations to reflect new industry and occupational classification systems and rebased the index, among other changes.

<sup>65</sup>To be included in the ECI, employees in occupations must receive cash payments from their employer for services performed and the employer must pay the employer’s portion of Medicare taxes on that individual’s wages. Agricultural workers, federal employees, the military, the self-employed, and individuals who set their own pay (for example, owners, major stockholders, and partners in unincorporated firms), among others, are excluded.

<sup>66</sup>In 2007, Congressional Budget Office pointed out that the sample of civilian worker included in the ECI survey is older than military personnel, on average, and more likely to have a college degree.

<sup>67</sup>See GAO, *Poverty Measurement: Adjusting for Geographic Cost-of-Living Difference*, GAO/GGD-95-64 (Washington, D.C.: March 9, 1995) and *Developing a Consumer Price Index for the Elderly*, GAO/T-GGD-87-22 (Washington, D.C.: June 29, 1987). In the 1990s, researchers at RAND Corporation developed a more tailored index called the defense employment cost index; however, the index did not gain the acceptance of the Office of Management and Budget or Congress and was never adopted by DOD.

more useful data than what are already provided by the ECI.<sup>68</sup>

The ECI is a measure of changes in wages and employer costs for employee benefits.<sup>69</sup> Created in the mid-1970's, the ECI is published quarterly by the Bureau of Labor Statistics and is part of the Bureau's National Compensation Survey program, which provides measures of occupational wages, employment cost trends, and benefit incidence and detailed plan provisions. Closely watched by economists, the ECI is one indicator of cost pressures that could lead to price inflation for finished goods and services. Organizations use the ECI to inform their decision making in a variety of ways—for example, to adjust their wage rates to keep pace with what their competitors pay or to adjust wage rates in collective bargaining agreements. The federal government also uses the ECI to inform its decision making. For example, Congress included a provision in the National Defense Authorization Act for Fiscal Year 2004 tying the annual basic pay raise to the ECI.<sup>70</sup> That law contains a provision allowing the President to propose alternative pay adjustments to Congress, in certain circumstances, if the President deems the standard increase required by the law to be inappropriate.

### *Shortcomings of Comparing Annual Increases in Basic Pay and the Employment Cost Index*

While the ECI helps inform a variety of decision making with regard to setting compensation, comparing changes in the ECI with changes in the rates of basic pay does not show whether there is a difference, or “pay gap,” in compensation between the two, nor does it facilitate assessing how military pay rates compare with what civilian employers provide. For example, one approach that is sometimes taken to illustrate a “pay gap” between basic pay and civilian pay is to compare the annual increase in basic pay with the corresponding increase in the ECI. Using this approach, the reported “pay gap” for each year is the cumulative difference between the two increases, expressed as a percentage of the cumulative increases in basic pay. However, conducting this type of analysis does not reveal a “pay gap” because it assumes that basic pay, which servicemembers receive on a regular basis,<sup>71</sup> is the only component of compensation that should be compared to changes in civilian pay. While basic pay represents the largest portion of compensation, servicemembers may also receive basic allowance for housing and basic allowance for subsistence.<sup>72</sup> By excluding such elements, such an analysis simply illustrates how a portion of military compensation—basic pay—and civilian compensation has changed over time.

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<sup>68</sup>The Congressional Budget Office pointed out that Bureau of Labor Statistics publishes a variant of the ECI called the employer costs for employee compensation (ECEC) index, which is based on the same underlying surveys of employers as ECI, but also reflects changes in the occupational mix in the civilian economy more frequently. However, it is not clear whether ECEC would represent an improvement over ECI for the purpose of setting military pay, because it shares the same limitations as ECI discussed here.

<sup>69</sup>Specifically, the ECI is an employment-weighted measure of change in the cost of employing a fixed set of labor inputs. Labor inputs measured by the ECI include wages, salaries, and employer costs of employee benefits. The ECI relates to payroll periods, including the 12<sup>th</sup> of March, June, September, and December, and the data are presented as index levels as well as 3-month and 12-month changes.

<sup>70</sup>Pub. L. No. 108-136, § 602 (2003), codified at 37 U.S.C. § 1009. The law requires that all eligible servicemembers' monthly basic pay be increased annually by the annual percentage increase in ECI, except for fiscal years 2004, 2005, and 2006 when the law required that servicemembers' basic pay increase be equal to the annual percentage increase in the ECI, plus an additional one half percentage point.

<sup>71</sup>The amount of basic pay that a servicemember receives depends on the member's pay grade and length of service.

<sup>72</sup>The housing and subsistence allowances are paid to all servicemembers not living in military housing or eating in military dining facilities or using field rations.

Because the ECI is a measure of the change in the cost of labor, a more appropriate and analogous comparison of changes in military compensation to the ECI uses regular military compensation—which includes basic pay, the allowances for housing and subsistence, and the federal tax advantage.

The Congressional Budget Office, in a 1999 report<sup>73</sup> discussing what the “pay gap” between military and civilian compensation means, described three other shortcomings of conducting such an analysis. Specifically, the Congressional Budget Office noted that such an analysis (1) selects a starting point for the comparison without a sound analytic basis, yet the results of the pay-gap calculation are very sensitive to changes in that starting point, (2) does not take into account differences in the demographic composition of the civilian and military labor forces, and (3) compares military pay growth over one time period with a measure of civilian pay growth over a somewhat different period.

In undertaking a similar analysis as described above, but comparing the total average change in military compensation—a weighted average of basic pay and the housing and subsistence allowances—to the ECI, different results may be obtained. However, the shortcomings discussed above also apply to such an analysis. The key difference is that comparing the total average change in military compensation to the ECI includes the three major components of military cash compensation, all of which have changed over time.

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<sup>73</sup>CBO, *What Does the Military “Pay Gap” Mean?* (Washington, D.C.: June 1999).

## Appendix VIII: GAO Contact and Staff Acknowledgement

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