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CRS Report for Congress

The Ready Reserve Mobilization Income Insurance Program

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ABSTRACT

This report describes the creation and failure of the Ready Reserve Mobilization Income Insurance Program, a program designed to help military reservists protect themselves from financial loss during an involuntary order to federal active duty. This report also discusses and analyzes several alternative policy options for addressing the issue of income loss among reservists due to mobilization. This report will not be updated in the future.

The Ready Reserve Mobilization Income Insurance Program

Summary

The Ready Reserve Mobilization Income Insurance Program (RRMIIP) was a Department of Defense (DoD) program designed to help military reservists protect themselves from financial loss during an involuntary order to federal active duty. Though intended to be a self-financing program, the RRMIIP became insolvent soon after its debut in 1996 due to low enrollment and severe adverse selection. The program was terminated by Congress only a year later and Congress eventually appropriated a total of $119 million to pay off insurance claims associated with the RRMIIP. The failure of the RRMIIP diminished interest in mobilization insurance both in Congress and DoD, but there has been continuing pressure by some reservists and various reservist interest groups to implement a new program. This report examines the creation and failure of the RRMIIP and analyzes some possible options for addressing the issue of income loss due to mobilization, including a restructured mobilization insurance program, individual savings and investment, government reimbursement of loss, and private insurance.

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The Ready Reserve Mobilization Income Insurance Program

Background

The Ready Reserve Mobilization Income Insurance Program (RRMIIP) was instituted in response to growing concerns about the reported financial losses incurred by some reservists[1] who were activated for the Persian Gulf War (Operation Desert Storm/Shield, 1990-1991). Although the Soldier's and Sailor's Civil Relief Act (SSCRA)[2] has long given reservists some protection against financial loss due to mobilization, one survey sponsored by the Department of Defense (DoD) indicated that as many as two-thirds of the reservists activated during Operation Desert Shield/Storm suffered economic loss as a result of their deployment.[3] These losses occurred due to differences between the reservists' military and civilian pay, expenses incurred by reservists because of mobilization, and the decline in business experienced by self-employed reservists during and after release from active duty. Another DoD-sponsored survey indicated that the potential for income loss during an activation was a major concern for both officers and enlisted personnel in the reserves.[4] Given DoD's increasing reliance on the reserve components, DoD was especially concerned that this potential for financial loss would have a negative impact on recruiting and retention in the reserves, thereby undermining the readiness of the reserve component and its ability to carry out future missions.

In 1996, Congress directed DoD to establish an optional income insurance program for reservists who were involuntarily ordered to active duty for more than

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[1]Throughout this paper, the terms "reserves" and "reserve components" refer to the Ready Reserve, which is comprised of the Army National Guard, Army Reserve, Air National Guard, Air Force Reserve, Navy Reserve, Marine Corps Reserve, and Coast Guard Reserve. The term "reservist" refers to individual members of these organizations.

[2]Soldiers' and Sailors' Civil Relief Act of 1940. (October 17, 1940, Ch. 888, 54 Stat. 1178). Some of the financial protections offered by the SSCRA are: protection against foreclosures on homes and property, reduction of interest rates on loans, penalty free cancellation of leases, as well as postponement of various legal processes. For more information on this topic see CRS Report 91-342 A, *The Soldiers' and Sailors Civil Relief Act of 1940, as Amended to Date: A Summary,* by (name redacted). July 21, 1998.

[3]Department of Defense. Office of the Assistant Secretary of Defense for Public Affairs. Memorandum Number No. 056-M. *Memorandum for Correspondents: Information Provided on Mobilization Insurance for Reservists.* April 11, 1996: 1.

[4]U.S. Congress. House of Representatives. Committee on National Security. Subcommittee on Military Personnel. Prepared statement of Assistant Secretary of Defense (Reserve Affairs) Deborah R. Lee. *Status Report on the Ready Reserve Mobilization Income Insurance Program*. May 8, 1997: 1.

30 days.[5] DoD implemented the program on October 1, 1996 under the name "Ready Reserve Mobilization Income Insurance Program." After being notified of the program,[6] current reservists were given a 60-day window in which to enroll in the program if they so desired. Upon joining the reserves, new reservists were automatically enrolled for $1,000 worth of income insurance, but were given the option to alter or eliminate the coverage within 60 days. Program participants were required to pay $12.20 per month for each $1,000 of coverage, up to a maximum of $61.00 per month for $5,000 of coverage. After 30 days of "covered service,"[7] the insured reservists were entitled to receive a monthly benefit payment equivalent to the amount of coverage purchased, for up to twelve months out of any eighteen month period. The program was meant to be self-financing, with benefits to be completely financed by the premiums paid into the system by enrolled reservists.

The RRMIIP ran into difficulties almost from the moment it started. First, reservists signed up for the program at a much lower rate than anticipated. On the basis of survey research, DoD anticipated that about 40 percent of reservists,[8] or approximately 360,000 individuals, would enroll in the program. In actuality, only about 3 percent of reservists, roughly 26,000 individuals, chose to enroll. This dramatically reduced the amount of money which was paid into the system. Second, the RRMIIP suffered from severe "adverse selection." Adverse selection occurs when those most likely to suffer loss are covered in greater proportion than others. This can create a situation where the actual losses incurred by the insurer are much greater than the losses originally anticipated. As insurance premiums are based on anticipated losses, the accumulated premiums in the insurance fund prove insufficient to pay for losses.

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[5]P. L. 104-106, section 512, February 10, 1996, National Defense Authorization Act for Fiscal Year 1996; 110 Stat. 299-305.

[6]The notification and enrollment process was decentralized, occurring at the unit level. Thus, the actual date on which individual reservists received notification, starting the 60-day "clock," varied from unit to unit.

[7]"The term 'covered service' means active duty performed by a member of a reserve component under an order to active duty for more than 30 days which specifies that the member's service — (A) is in support of an operation mission for which members of the reserve components have been ordered to active duty without their consent; or (B) is in support of forces activated during a period of war declared by Congress or a period of national emergency declared by the President or Congress." 10 U.S.C. 12521 (2).

[8]These statistics refer only to members of the Selected Reserve, a sub-element of the Ready Reserve which contains those units and individuals most essential to wartime missions. Selected Reservists generally perform one weekend of training each month, for which they receive a monthly paycheck, and two weeks of training each year, for which they receive a separate paycheck. Another sub-element of the Ready Reserve is the Individual Ready Reserve, which contains a manpower pool of pre-trained individuals who have already served in the Active component or the Selected Reserve, but who are not required to train regularly like the Selected Reserve. Members of the Selected Reserve (about 900,000 individuals) were the primary "target" of the RRMIIP, although members of the Individual Ready Reserve (about 500,000 individuals) were also eligible to enroll.

A certain amount of adverse selection was inevitable due to commonly known information about the recent patterns of reserve mobilization. Reservists in certain military specialties which have been in high demand in post-Cold War U.S. military operations (such as military police or civil affairs) or in units with high “readiness” ratings, could reasonably conclude, based on recent mobilization patterns, that their risk of mobilization was relatively high and, therefore, opt to purchase mobilization insurance. Reservists in military specialties or units less likely to be activated based on recent experience (such as infantry or armor), or in units with low “readiness” ratings, could similarly conclude that their risk of mobilization was minimal and opt not to purchase mobilization insurance. DoD recognized this risk of adverse selection and attempted to adjust the mobilization insurance premium accordingly.[9]

However, a different and more severe form of adverse selection occurred due to the unfortunate timing of the program’s debut. The RRMIIP was initiated at the same time the Clinton Administration decided to extend the U.S. presence in Bosnia beyond December of 1996. As a result, the enrollment period for the RRMIIP occurred at the same time many reservists were being mobilized for the third rotation[10] of Operation Joint Endeavor, the Bosnian peace-keeping mission. Thus, many of those who signed up for the RRMIIP were people who suspected, or knew, that they were about to be deployed. In striking contrast to the 3 percent of the general reserve population who signed up for mobilization insurance, some 85 percent of those activated for the third Bosnia rotation enrolled in the program. In most instances these reservists opted for the maximum benefit coverage of $5,000 per month.[11] As a result, the insurance program had to respond to large benefit claims almost immediately. However, due to the low enrollment rate and the short time it had been in operation, the program had not received sufficient premium payments to cover those claims.

This problem was not unforeseen. The DoD Education Benefits Board of Actuaries specifically warned then-Secretary of Defense William Perry of this potentiality almost two months before the program was to begin. In discussing the difficulty of setting an appropriate premium for the insurance fund, the Board of

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[9]Seventeen percent of the RRMIIP premium cost was related to DoD’s assumption about the extent of adverse selection in the program. Source: Department of Defense. Office of the Secretary of Defense for Reserve Affairs. *Questions and Answers for HNSC (Manpower & Personnel S/C) Hearing on 8 May 1997 Concerning the Ready Reserve Mobilization Income Insurance Program (RRMIIP)*. May 8, 1997: 2.

[10]Reservists were activated for Operation Joint Endeavor under a provision of law which authorized reservists to serve on active duty for no more than 270 days. Therefore, shortly before reaching this statutory limit, activated reservists were replaced by another “rotation” of newly mobilized reservists. Most members of the third rotation of reservists for Operation Joint Endeavor received official notification of their impending mobilization between October, 1996 and January, 1997. Unofficial notification may have occurred slightly earlier. Actual mobilization for most members of the third rotation occurred between November, 1996 and February, 1997.

[11]Department of Defense. Office of the Secretary of Defense for Reserve Affairs. *Questions and Answers for HNSC (Manpower & Personnel S/C) Hearing on 8 May 1997 Concerning the Ready Reserve Mobilization Income Insurance Program (RRMIIP)*. May 8, 1997: 1-2.

Actuaries stated "[t]he Bosnia call-up appears likely to extend beyond October 1, 1996, when the insurance program takes effect. Although reservists then on active duty are ineligible, others who replace them can purchase insurance and trigger substantial benefits in fiscal year 1997. Such outlays may endanger the Fund right away."[12] DoD considered this warning, but believed that "a callup during the start-up period for the mobilization insurance program, while a risk, was considered manageable in view of the premium income projected from overall enrollment."[13] The premium income which DoD projected, however, failed to materialize due to the low level of overall enrollment in the program.

By December of 1996, $1,568,033 was needed to cover insurance claims from about 500 mobilized reservists, but only $634,361 had been paid into the fund in premiums, creating a deficit of $933,673.[14] Faced with the insolvency of the RRMIIP, DoD officials announced in December of 1996 that they would only be able to pay eligible reservists 4 percent of their monthly benefit payment, although they promised that full payment would eventually be made. The fund's deficit passed $40 million in May, 1997, and continued to grow rapidly.[15] In June, 1997, Congress approved an emergency supplemental appropriation of $72 million to cover the program's liability in the 1997 Emergency Supplemental Appropriations Act.[16] Soon thereafter, in the FY 1998 National Defense Authorization Act, Congress terminated the program.[17]

In terminating the program, Congress agreed to provide benefits to any enrolled reservist who, on November 18, 1997, "(1) is serving on an order to covered service, (2) has been issued an order directing performance of covered service, or (3) has served on covered service before that date for which benefits under the program have not been paid to the member."[18] However, the enrollments of all other reservists in the insurance program were terminated as of that date. Thus, reservists who received orders calling them to active duty after November 18, 1997, were not eligible for any benefits. Additionally, no provision was made to refund the premiums of those

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[12]Department of Defense. Education Benefits Board of Actuaries. Letter to Honorable William J. Perry. August 9, 1996: 2.

[13]Department of Defense. Office of the Secretary of Defense for Reserve Affairs. *Questions and Answers for HNSC (Manpower & Personnel S/C) Hearing on 8 May 1997 Concerning the Ready Reserve Mobilization Income Insurance Program (RRMIIP)*. May 8, 1997: 3.

[14]Department of Defense. Office of the Actuary. *Monthly Tracking of Reserves Activated and Cost to Fund*. Report generated July 7, 1998.

[15]Department of Defense. Office of the Actuary. *Monthly Tracking of Reserves Activated and Cost to Fund*. Report generated July 7, 1998.

[16]P.L. 105-18, Title I, Chapter 1, June 12, 1997, 1997, Emergency Supplemental Appropriations Act for Recovery from Natural Disasters, and for Overseas Peacekeeping Efforts, Including Those in Bosnia.

[17]P.L. 105-85, Div. A, Title V, sec. 512(a), November 18, 1997, FY 1998 National Defense Authorization Act; 111 Stat. 1729.

[18]Ibid.

reservists who signed up for the program, paid premiums, but were never deployed.[19] A final appropriation of $47 million was provided in the 1998 Supplemental Appropriations and Recissions Act[20] in order to pay everyone still owed benefits and to "close the books" on the program.

Current Issues

In terminating the RRMIIP, Congress left the door open for DoD to study and propose options for a new mobilization insurance program. However, informal contacts with DoD personnel and congressional committee staffers indicate that there is little inclination within DoD or Congress to push for a new mobilization insurance program at the current time. The failure of the RRMIIP, and the intense criticism which accompanied that failure, is still fresh in the minds of many key policymakers. Nonetheless, there is continuing pressure by some reservists, and interest groups which represent some reservists, to implement a new mobilization insurance program. Still, the experience of the RRMIIP raises some serious questions about the mobilization insurance concept which are discussed below.

Is there a real need for mobilization insurance?

An issue when considering any new proposal for mobilization insurance is the level of demand for such a program among reservists. The willingness of reservists to participate in such a program is vital to its success. However, as the RRMIIP demonstrated, accurately assessing the demand for mobilization insurance may not be an easy task.

According to former Assistant Secretary of Defense for Reserve Affairs Deborah Lee, years of study showed that "the potential income loss resulting from involuntary activation was the number one concern for reserve personnel."[21] Moreover, an analysis conducted by the RAND Corporation under contract to DoD indicated that most reservists were willing to purchase mobilization insurance in order to protect themselves from income loss. According to Lee, RAND reported that "[o]ver 67 percent of enlisted personnel and 55 percent of officers said they

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[19]There was some disagreement about whether or not to refund premiums. DoD reportedly favored a policy of refunding premiums due to the quick collapse of the fund. The Senate agreed and, in its version of the Defense Authorization Act for Fiscal Year 1998 (S. 924), required the Secretary of Defense to refund premiums paid by reservists who had not received benefits under the program. The House version contained no such provision, reflecting the view that mobilization insurance was similar to fire or auto insurance — premiums are not refunded simply because the insured never files a claim. The House view prevailed in conference. See Maze, Rick. "No Refunds for Those Who Didn't File Mobilization Claims." *Army Times,* October 6, 1997: 26.

[20]P.L. 105-174, Title I, ch. 1, sec. 3, May 1, 1998. 1998 Supplemental Appropriations and Recissions Act.

[21]Lee, Deborah. "We Will Do Right By Our Troops." *Army Times*, May 26, 1997: 30.

would buy mobilization insurance if the monthly cost were $1.00 per $100 of coverage."[22]

Yet the actual experience of the RRMIIP contradicted the survey research. The enrollment rate of 3 percent came nowhere near the 67 and 55 percent mentioned by Assistant Secretary Lee, nor did it come anywhere near the more conservative 40 percent enrollment rate anticipated by DoD.[23] One explanation of this huge discrepancy is that the survey research drastically overstated the demand for mobilization insurance among reservists. Those questioned about mobilization insurance may have supported it in principle, but when actually required to pay for the insurance, many reservists may have concluded that their risk of mobilization was minimal and, therefore, declined to participate. Such a decision may have been quite rational in light of recent mobilization patterns. Alternatively, the survey data, which was collected in 1991-1992, may have been obsolete by the time the program was implemented in 1996. The passage of time may have diminished the recollection of financial loss among those reservists who served during the Gulf War and the natural turnover of personnel between 1991 and 1996 brought a substantial number of new reservists into the reserve components who had no experience whatsoever with mobilization and the financial troubles it could cause.

Another possible explanation is that the program was poorly marketed. RAND telephone surveys conducted after the start up of the program found that 27 percent of reservists stated they were never informed of the program. Another 16 percent stated that they were informed, but did not have sufficient information or time to make a decision about enrolling.[24] However, these survey responses also confirm that demand for mobilization insurance was much lower than anticipated, for among the 57 percent of reservists who apparently *were* aware of the program, and had sufficient information and time to make a decision, only a small percentage chose to enroll.

Recruiting and retention rates in the reserve components also seem to indicate that the problem of income loss is not as great a concern as previously anticipated. Presumably, if the risk of income loss associated with mobilization was a serious problem for reservists, recruiting and retention rates would suffer. Yet, according to DoD, recruiting and retention rates for the reserve components have remained stable

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[22]U.S. Congress. House of Representatives. Committee on National Security. Subcommittee on Military Personnel. Prepared statement of Assistant Secretary of Defense (Reserve Affairs) Deborah R. Lee. *Status Report on the Ready Reserve Mobilization Income Insurance Program*. May 8, 1997: 1.

[23]The disparity between RAND's estimate and DoD's estimate is perplexing, considering that both estimates were apparently derived from the same information.

[24]U.S. Congress. House of Representatives. Committee on National Security. Subcommittee on Military Personnel. Statement of Mark E. Gebicke, Director, Military Operations and Capabilities Issues, National Security and International Affairs Division, General Accounting Office. *Observations on the Ready Reserve Mobilization Income Insurance Program*. May 8, 1997: 6.

since the Persian Gulf War.[25] Assistant Secretary of Defense Lee conceded that "the widespread recruiting and retention problems which were widely predicted from increased use of the Guard and Reserve have simply not occurred."[26]

In light of this experience, an argument can be made that there is not sufficient demand among reservists for mobilization insurance to warrant the creation of a new program. Thus, one policy option is to do nothing. This option would be a logical response to low interest among reservists for mobilization insurance and would eliminate the possibility of taxpayer dollars being used for another insurance fund bailout.

On the other hand, maintaining current policy means that a number of reservists will experience financial problems during any future reserve mobilization, for even if there is little demand for mobilization insurance among reservists in general, there may be a great demand for it by specific individuals and among specific *categories* of reservists. For example, those reservists who hold exceptionally high paying jobs in their civilian life -- doctors, lawyers, pilots, business owners -- would likely experience a dramatic reduction in income during a mobilization. Although constituting a small percentage of the total number of reservists, their financial losses would nonetheless be real and, owing to the critical skills these reservists often possess, of concern to military and civilian leaders.

If demand for mobilization insurance is primarily concentrated among certain types of reservists, then a smaller, more focused program might be considered rather than a broad, all inclusive program. Such a narrowly tailored program could, however, be criticized for protecting wealthier reservists while doing little to help middle and low income reservists. Wealthier reservists, critics might point out, may suffer substantial losses during a mobilization, but they often have greater financial resources with which to cushion their losses. Lower income reservists may suffer smaller losses than their wealthier counterparts, but they often have lower levels of saving or other resources with which to protect themselves.

Another factor when assessing the need for mobilization insurance is the future utilization of the reserve components. With the drawdown of active duty forces, the military is increasingly relying on the reserves to augment the active force, not only for major combat operations like Desert Storm, but for smaller peacekeeping and nation-building operations, like Bosnia and Haiti. Thus, the past experience with the RRMIIP may not be a good guide to the current and future needs of reserve personnel. To the extent that reservists come to view mobilizations as a routine occurrence rather than a rarity, their interest in mobilization insurance might increase.

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[25]Department of Defense. Office of the Secretary of Defense for Reserve Affairs. *Questions and Answers for HNSC (Manpower & Personnel S/C) Hearing on 8 May 1997 Concerning the Ready Reserve Mobilization Income Insurance Program (RRMIIP)*. May 8, 1997: 14.

[26]U.S. Congress. House of Representatives. Committee on National Security. Subcommittee on Military Personnel. Oral statement of Assistant Secretary of Defense (Reserve Affairs) Deborah R. Lee. *Status Report on the Ready Reserve Mobilization Income Insurance Program*. May 8, 1997: 3.

Can the problems experienced by the RRMIIP be avoided in a new program?

The principal problems experienced by the RRMIIP were low enrollment and adverse selection. Perhaps most importantly, the problem of adverse selection was severely exacerbated by the coincidence of some Bosnia mobilization orders with the beginning of the mobilization insurance program. These problems could certainly be hedged against, or even eliminated, by various policy options. Several of these policy options are discussed below.

A. Add a waiting period or exclude an ongoing event. An insurance program similar to the RRMIIP could be set up, with a provision that coverage would not become effective for a period of time, say six or nine months, after enrollment; or with a provision that precludes coverage for any military operation in progress at the time of enrollment. This would eliminate the severe adverse selection which occurred under the RRMIIP when reservists with knowledge of their imminent mobilization were offered mobilization insurance. However, this would not solve the more general problem of adverse selection. Reservists have some valuable knowledge of their relative risk of being deployed, and would certainly use this knowledge in deciding whether to purchase income insurance or not. Nonetheless, this type of adverse selection would be less severe than that encountered by the original RRMIIP and might be compensated for by somewhat higher insurance premiums. Adding a waiting period or excluding an ongoing event would do nothing to reduce the problem of low enrollment experienced by the RRMIIP. Restricting eligibility for benefits in these ways could even decrease interest in the program.

B. Make mobilization insurance mandatory. Perhaps the most direct way to address the issues of adverse selection and low enrollment -- in administrative terms -- would be to make the mobilization insurance mandatory. By enrolling all reservists automatically, the two problems that plagued the RRMIIP would be greatly mitigated. Additionally, mandatory enrollment would substantially lower the cost of coverage. Currently, a similar policy is in place with respect to life insurance for reservists (known as Servicemember's Group Life Insurance or SGLI). All reservists are automatically enrolled in SGLI for $200,000 worth of coverage. They can opt for less coverage, or no coverage at all, but the default coverage if the service member does nothing is $200,000.

Mandatory enrollment would also strengthen the insurance fund's ability to respond to the problem encountered by the RRMIIP, where the RRMIIP's liabilities were greater than its accumulated assets, producing insolvency. By providing the fund with a guaranteed income stream, mandatory enrollment would facilitate borrowing from the Treasury to maintain solvency. Any such loan could then be paid back over time out of the stream of income flowing into the fund.

The biggest stumbling block to this approach would likely be the reaction of reservists to mandatory enrollment in a program that would cost them money each month. Many reservists would probably judge their possibility of being mobilized to be so remote as to make this coverage a waste of their money. Of course, an opt-out provision similar to that available for SGLI coverage could mitigate such a negative reaction; but if a substantial number of reservists chose to opt-out, the problems of adverse selection and low enrollment might reappear.

Another point to consider would be the size of the liability which could be incurred under a mandatory enrollment policy. If every member of the Selected Reserve were enrolled in the mobilization insurance program, and the United States became involved in a major conflict necessitating the mobilization of several hundred thousand reservists, the monthly cost of providing insurance benefits would be very substantial. For example, assume that every Selected Reservist (about 900,000 individuals) was enrolled for $1,000 worth of mobilization insurance coverage and paid $10.00 per month[27] in premiums. This would generate $9 million in income for the fund every month. In five years, the fund would accumulate a little more than $702 million.[28] Yet a mobilization of 250,000 reservists would create a liability of $250 million *per month*. Thus, if the fund had been in existence for five years at the time of the mobilization, it would be insolvent by the fourth month of the mobilization.[29]

Of course, if the fund were in existence for a longer period of time before a major mobilization occurred it might have sufficient assets to pay off the claims. Even if it did not have sufficient assets, the fixed stream of income provided by mandatory enrollment might make it easier for the fund to borrow money from the Treasury to cover these losses. Alternatively, Congress might be willing to appropriate money to cover the shortage as part of the "cost" of the war. However, it is important to note the potential for extraordinary demand on the fund under this policy option. Mandatory mobilization insurance, coupled with a major reserve mobilization, could produce an unfunded liability much larger than that encountered by the RRMIIP.

C. Make the insurance program loss based, rather than value based. The RRMIIP was a value based policy, as participants purchased insurance with a set value — say $1,000 per month. Whether they actually experienced income loss or not, they received benefits equal to that amount each month. Under a loss based policy, also known as an "indemnity" policy, reservists would only be eligible for benefits to the extent that they could demonstrate financial loss caused by their mobilization. Such a policy would eliminate the incentive to purchase mobilization insurance when no financial loss was anticipated as a result of mobilization. While this policy would not eliminate adverse selection, it could help reduce it to a more manageable level, as many of those who anticipate being mobilized might nonetheless decline coverage.

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[27]$10.00 per month for $1,000 of coverage is slightly lower than the $12.20 per month charged by the RRMIIP. Mandatory coverage would produce lower premiums because every reservist would have to pay premiums, even those with almost no chance of mobilization.

[28]Assumes the fund invests in private markets, and those investments earn a ten percent compound interest rate.

[29]Assumes that, as with the RRMIIP, no benefits are paid for the first month of service.

A significant downside of this policy option is that it would entail burdensome administrative requirements for verifying the amount of loss, especially among those who are self-employed. This could have the effect of delaying payments to mobilized reservists at a time when they need benefits most. Additionally, this policy option would do little to address the issue of low enrollment, and could produce even lower enrollment than that experienced under the RRMIIP. Finally, the people most likely to enroll in a loss-based program would be those with the largest differential between civilian and military incomes -- doctors, lawyers, and pilots, for example. An insurance program whose benefits flow primarily to these groups would probably be subject to criticism as a "perk" for the rich.

Are there other ways to help reservists protect themselves against income loss besides a new mobilization insurance program?

There are other ways to address the income loss problems associated with mobilization, but they tend to be expensive -- either for the government or for the individual. One of the great virtues of insurance is that it is a relatively *inexpensive* way for the individual to protect himself or herself against the risk of a future loss. Nonetheless, there are other options, some of which are outlined below.

A. Individual saving and investment. One set of policy options clusters around the notion that the individual reservist is primarily responsible for managing his own financial affairs in light of his status as a reservist. From this perspective, mobilization is an obvious risk associated with reserve service. Those who join the reserve components receive compensation such as cash, educational benefits, and other privileges in return for accepting this risk. Therefore, it is in large part the reservist's responsibility to ensure that he/she has sufficient savings or investments to carry himself or herself through a mobilization, although the government can certainly implement policies which assist the individual in doing so.

For example, the government could allow reservists to set aside a certain amount of money each year in a special savings account, similar to an Individual Retirement Account (IRA). Contributions and accumulated interest could be tax-free, allowing the reservist to build up a fund that could be accessed during a mobilization. Upon discharge or retirement from the reserve components, the funds could be rolled over into an IRA or made available for any use. Alternatively, the account could be structured more like the Thrift Savings Plan (TSP) for federal civilian employees, whereby the reservists contributions are matched, in whole or in part, by the federal government.

While these ideas may have merit, there are some drawbacks to them as well. First of all, as mentioned previously, they are relatively expensive, costing substantially more than a mobilization insurance policy would. For example, a reservist who anticipated an income loss of $1,000 per month during a deployment, would have to put aside $9,000 to cover his anticipated loss for a standard 270 day mobilization. Even if the reservist made regular contributions over a five year period, with interest accruing tax free, the reservist would still have to contribute about $115 per month[30] in order to accumulate $9,000. For many reservists, the amount of money required to be put aside in such an account could prove to be unrealistically high.

For example, in 1998 an officer in the reserves in the 0-3 paygrade[31] with seven years of service made $433 for a typical weekend drill. An enlisted reservist in the E-4 paygrade[32] with four years of service made $184 for a typical weekend drill.[33] Setting aside $115 per month would consume 26.5 percent and 62.5 percent of their monthly paychecks, respectively. Rather than set aside such a large portion of their reserve paychecks every month for years on end to cover a potential future loss, many reservists would likely choose to ignore their risk (and thereby leave themselves in a financially precarious situation upon mobilization) or, alternatively, to quit the reserves. Additionally, such a "savings and investment" plan, even if generously subsidized by the government with matching contributions, would do little to help mobilized reservists who had only recently joined the reserves. Unlike their longer serving comrades, they would not have had sufficient time to accumulate any significant savings.

A final point to consider would be the cost of any incentives offered by the government to stimulate saving and investment among reservists. The tax benefits offered under an IRA or TSP type program would decrease revenue to the Treasury, and the matching contributions offered under a TSP type program would require direct government expenditure. Although the total cost to the government would depend on how the program was structured and how popular it was among reservists, it could be substantial.

B. Government reimbursement of loss. Another alternative to mobilization insurance would be direct government reimbursement of income loss. Under such a policy, a reservist who suffered a loss in income could file a claim for the loss and be reimbursed by the government, either in full or in part. Such a policy would be ideal from the perspective of the financially injured reservist: it would require no advance financial planning, nor any direct cost. However, there are clear problems with such a policy. First of all, it likely would prove to be quite expensive to the government. In a time of tight budget constraints, such a generous government program could be extemely difficult to justify. Secondly, there would be a problem of equity. If the federal government directly reimbursed any income loss, some mobilized reservists could be paid dramatically more than their active duty

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[30]Assuming a ten percent compound interest rate.

[31]The 0-3 paygrade is the paygrade of Navy and Coast Guard Lieutenants, and Army, Air Force, and Marine Corps Captains.

[32]The E-4 paygrade is the paygrade of Army Corporals and Specialists, Navy and Coast Guard Petty Officers Third Class, Marine Corps Corporals, and Air Force Sergeants and Senior Airmen.

[33]The weekend drill pay figures reflect base pay only. They do not reflect any special pays, nor do they incorporate deductions for taxes or life insurance premiums. The "typical" drill weekend referred to is also known as a MUTA-4, usually two full days of training conducted on Saturday and Sunday.

counterparts and other mobilized reservists for doing the exact same job.[34] Such a divergence could possibly cause dissension and hostility within the military. Finally, such a policy would require substantial administrative effort in order to verify the amount of loss, especially among those who are self-employed. This could have the effect of delaying payments to mobilized reservists at a time when they need their benefits most, as well as adding to the overall cost of the program.

C. Private insurance. Another option would be encouraging private companies to offer reservists an insurance product similar to mobilization insurance. If successful, such a policy option would capitalize on the expertise of successful insurance companies, relieve the government of most of the risks associated with underwriting insurance policies, and reduce the risk of insurance fund insolvency. On the other hand, it might be quite difficult to persuade a private firm to provide such a policy to reservists. The unpredictability of the size, frequency, and duration of reserve mobilizations, along with the strong evidence of adverse selection encountered in the RRMIIP, might make this unattractive to business. Of course, there are any number of incentives that the government could offer these firms to make the business more attractive: automatic payroll deductions for premiums, mandatory coverage for reservists, and protection against catastrophic losses, for example. However, providing these incentives might prove to be economically costly or politically unpopular.

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[34]Of course, this same objection can be raised against the concept of mobilization insurance. Certain reservists with mobilization insurance policies would make dramatically more than their active duty counterparts, or other mobilized reservists without insurance policies, for doing the exact same job. However, in the case of mobilization insurance, there would probably be a perception that the extra pay was the result of the individual's prudent financial management, while in the case of direct government reimbursement, there would probably be a perception that the extra pay was simply extra pay.