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Military Pay and Benefits: Key Questions and Answers

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SUMMARY

In the late1990s, the military services were facing considerable recruiting and career retention problems. Reasons for these included the end of the Cold War, private-sector job opportunities in the 1990s boom, increasing desire for and availability of a college education, rising living standards that put military housing and lifestyles at a disadvantage, and greater sensitivity among personnel to frequent family separation and overseas rotations.

In responding, Congress was mindful of how low pay had contributed to decreased recruit quality in the late 1970s. It authorized larger pay raises, increased special pays and bonuses, more recruiting resources, and repeal of planned military retired pay reductions for future retirees. In the midst of these efforts, the terrorist attacks of September 11, 2001, took place, providing a sense of national unity and military purpose. Recruiting has since improved substantially. Career retention is difficult to measure, due to (1) the suspended separation and retirement of many personnel since 09/11/01, (2) the Iraq war, and (3) and the virtual impossibility of disaggregating the effects of each of these factors.

Debate continues over what kinds of pay and benefit increases are best for improving recruiting and retention. Of particular interest is the balance between across-the-board pay raises on the one hand, and ones targeted by grade, years of service, and occupational skill, on the other; and between cash compensation on the one hand and improvements in benefits such as housing, health care, and installation services on the other.

The across-the-board increases in military pay discussed each year relate to military **basic pay,** which is the one element of military compensation that all military personnel in the same pay grade and with the same number of years of service receive. However, there are numerous other elements in the total military compensation "package." These other elements are important in determining whether a "pay gap" exists between military and civilian pay that favors civilians, because the numerous different elements of military pay makes it difficult to compare to civilian salaries and other benefits.

Since the early 1990s, in addition to each year's across-the-board raise, most changes in benefits have favored individual members. These include changes in the cash allowance received by personnel not living in military housing; a drastic overhaul of military health care; and repeal of military retired pay cuts first enacted in 1986.

Military personnel last received an across-the-board pay raise on January 1, 2003; all members received at least a 4.1% increase, and some got as much as 6.5%. For January 1, 2004, DOD has proposed a military pay raise averaging 4.1%, ranging between 2.0% and 6.5%; the House version of the FY2004 National Defense Authorization Act (NDAA) approved the DOD pay raise proposal; the Senate version made some comparatively minor changes in the DOD plan. A variety of other increases in various special pays and benefits are making their way through initial stages of the legislative process, in many cases accelerated because of the Iraq war; two were enacted in the FY2003 supplemental appropriations act, and others will be considered in the legislative vehicle of the FY2004 NDAA.

MOST RECENT DEVELOPMENTS

On August 14, 2003, DOD news releases and officials appeared to issue contradictory announcements regarding hostile fire/imminent danger pay and the family separation allowance for deployed military personnel. In a news release, DOD stated that it was committed to maintaining these two special pays for personnel serving in Iraq and Afghanistan. Later on the same day, however, the Under Secretary of Defense for Personnel and Readiness announced that the Department was committed to insuring that "total compensation" for personnel serving in Iraq, Afghanistan, and surrounding areas would not drop, suggesting that perhaps it was *not* committed to maintaining the two special pays. As of this writing this potential ambiguity has not been resolved.

BACKGROUND AND ANALYSIS

1. Why Did the Adequacy of Active Duty Military Pay Become a Major Issue Beginning in the Late 1990s?

Since the end of the draft in 1972-1973, the "adequacy" of military pay has tended to become an issue for Congress for one or both of two reasons: if it appears that

- the military services are having trouble recruiting enough new personnel, or keeping sufficient career personnel, of requisite quality; or

- the standard of living of career personnel is perceived to be less fair or equitable than that which demographically comparable civilians (in terms of age, education, skills, responsibilities, and similar criteria) can maintain.

The first issue is an economic inevitability on at least some occasions. In the absence of a draft, the services must compete in the labor market for new enlistees, and — a fact often overlooked — have always had to compete in the labor market for more mature individuals to staff the career force. There are always occasions when unemployment is low, and hence recruiting is more difficult, and others when unemployment is high and military service a more attractive alternative. The second situation, while often triggered by the first, is frequently stated in moral or ethical terms. From that viewpoint, even if quantitative indexes of recruiting and retention appear to be satisfactory, it is argued that the crucial character of the military's mission of national defense, and its acceptance of the professional ethic that places survival below mission accomplishment, demands certain levels of compensation.

The last time Congress dealt with inadequate active duty pay levels was in the early 1980s. Problems in recruiting sufficient new enlistees, and retaining enough career personnel of adequate quality, led to what most of those involved with the issue considered a real crisis. Congressional response over the next several years included back-to-back pay raises in 1980 (11.7%) and 1981 (14.3%) that increased basic pay by almost 28%, raised special pays and bonuses, and created (over DOD objections) the new, and immediately highly successful,

Montgomery GI Bill. These factors, coupled with a rise in unemployment in the early 1980s, led to a complete turnaround in recruiting and retention. By the mid-1980s recruit quality was judged to be at unprecedented high levels, recruiters could be selective in taking young men and women, and career force shortages had vanished.

Beginning in the mid-1990s, several new factors caused recruiting and retention problems severe enough to force Congress to once again deal with this issue. Among the factors cited by analysts were (1) a public impression that the end of the Cold War, meant that military service was no longer interesting, relevant, or even available as a career option; (2) the post-Cold War drawdown in active duty military manpower by 40%, which greatly reduced real and perceived enlistment and career retention opportunities; (3) the 1990s economic expansion, which led to the explosive growth of actual and perceived civilian career options; (4) a rise in civilian consumer living standards against which military families measure their own economic success or failure; (5) concerns over increased family separation due to more operations and training away from home, whether "home" was in the United States or in foreign countries; and (6) a decreased propensity for military service among young people for other reasons, such as anti-military parents and educators; skepticism about new missions such as "operations other than war," "peacekeeping," or "peace enforcement"; and the availability of government educational assistance from other sources ("the GI Bill without the GI").

2. What Effects Could the September 11, 2001 Terrorist Attacks on the United States, the U.S. Military Response to Them, and the Iraq War That Began on March 19, Have on Military Benefits?

It is not yet clear what, if any, long-term effects the ongoing war against terrorism and the more recent Iraq war will have on military pay and benefits. In the short term, recruiting and career retention, especially the former, began to improve in FY2000, up to a year before 09/11/01, and have continued to improve during FY2001-FY2003 during both the Global War on Terrorism and the Iraq war. However, it is difficult to disaggregate the precise effects of recruiting and retention initiatives from other war-related policies. For instance, the invoking, after 09/11/01, of "stop-loss" restrictions (authorized by 10 USC 12305, formerly 673c) that prevent military personnel in occupational specialties designated by DOD from separating or retiring from active duty, makes it difficult to measure career retention. Furthermore, the significance of the sense of national unity and military purpose that a direct attack on the American homeland has produced is almost impossible to quantify, yet operational military commanders at all echelons cite this unity of purpose when discussing the environment and outlook in which they operate today. The effects of the decisive and short conventional war with Iraq has probably reinforced these broadly similar effects. However, the ongoing low-intensity terrorist/guerrilla attacks on U.S. and coalition occupation forces in Iraq could have negative effects, if they seem to drag on without apparent end for several months or more, although even here resolute political leadership could mitigate such a potential "souring" of views in the ranks.

A wide range of possible additional effects on military compensation of the current situation can therefore be postulated, many of them related to future combat operations. Continued popular support for the President, for the war against terrorism, and for the Armed

Forces could continue to make recruiting easier and improve career retention, decreasing the requirement for special pays and bonuses and diminishing pressure to increase the annual comparability raise above what the permanent statutory formula provides each year. However, the requirement to pay active duty pay rates to the tens of thousands of reservists brought on active duty will push manpower costs up, as will large-scale overseas deployments. If it is decided that a permanent increase in active duty manpower strengths is required to support long-term anti-terrorism capabilities, then that too will increase total active duty pay costs.

The events of September 11, 2001, contributed to raising both actual and perceived unemployment — attitudes always good for recruiting, if bad for the country as a whole. Such recruiting might be even more popular, in that psychologically, those who join the armed forces, or decide to stay in, would do so to strike at the cause of America's problems. These factors would reduce the need for spending on both bonuses and higher across-the-board pay increases, in terms of military pay being competitive. They would not, however, affect countervailing desires that might be felt to provide more liberal pay and benefit increases as a way of showing gratitude to the armed forces.

In short, the prospect of combat could be counterbalanced by those attracted to service out of patriotism, anger, and likely adventure. Career personnel who stay in to fulfill their lifetime missions in a time of need, and because of liberal retention bonuses and special pays, could be balanced by those who feel ready to "pass the torch" to younger people and retire rather than face more combat or overseas deployments, regardless of how much money they were offered. Support for an Administration taking decisive military action, and one apparently strongly committed to its ends in Iraq, could falter if the continued deployment was not producing military success, by whatever index of military success the public, not necessarily the armed forces, feels is the most relevant.

3. What Kinds of Increases in Military Pay and Benefits Have Been Considered or Used in the Past?

Many military compensation analysts have strongly criticized across-the-board rather than selective pay raises. They argue that across-the-board increases fail to bring resources to bear where they are most needed. Percentage increases targeted on particular pay grades and number of years of service (often referred to as "pay table reform") and special pays and bonuses targeted on particular occupational skills, they suggest, would maximize the recruiting and retention gains for the compensation dollars spent. Across-the-board increases also affect a variety of other costs; retired pay, for instance, is computed as a percentage of basic pay. (However, there have been proposals to include special pays and bonuses in retired pay calculations, precisely to provide an additional incentive for the recipients to stay in service.)

The services already do a great deal of such targeting, having maintained a large system of special pays and bonuses since the end of conscription almost 30 years ago. Personnel managers report no indication that such targeted compensation has had the deleterious effects on morale and cohesion that some had feared. Across-the-board pay increases, however, are believed by many to have the advantages of simplicity, visibility, and equity. If everyone gets a similar percentage increase, nobody feel, or can claim, that he or she has been left out.

It also shows up immediately, in the person's next paycheck, rather than months or years later when a particular individual is next eligible for a lump sum special pay or bonus (some special pays and bonuses are paid monthly or biweekly, as part of regular pay). It appears certain that, as in the past, overall increases in military cash compensation over the next several years will combine both across-the-board and targeted increases. Both of these increases, because of their broad appeal, may well be the most psychologically sound approach in improving recruiting and retention as much as possible. In addition, there is bipartisan support for major increases in Montgomery GI Bill benefits, although these tend to be among the most costly benefit increases being considered.

Recruiting and retention problems are not necessarily solved only by increasing military pay. Many components of the military compensation system that are important to recruiting and retention efforts, especially the latter, do not involve cash pay. These include health care; housing; permanent change of station (PCS) moving costs and policies; exchanges, commissaries, and other retail facilities; and recreational facilities. A wide range of views about existing military personnel management practices suggest that the services' requirements for both new enlistees and career people could be significantly reduced by changing often long-standing and inter-related assignment, promotion, career development, or retirement policies. Survey research also reveals that the sense of patriotism, public service, and *esprit de corps* found in capable and combat-ready armed forces is extremely significant to both new enlistees and career members.

Furthermore, there are always limits to what increased compensation, whether cash or in-kind, can do to help any organization cope with personnel difficulties. Job and career satisfaction; public and elite views of the importance and legitimacy of the military as an institution; unit morale; success in operational deployments and especially in combat — these may well be independent of compensation variables. High "scoring" in these intangibles, especially for a unique organization and culture like the Armed Forces, can and frequently does balance more tangible problems in compensation. However, few analysts believe that recruiting and retention rates can be brought up to service target levels without substantial increases in pay, so long as an economic expansion continues to generate higher-paying job opportunities in the civilian sector. Many long-time observers seem to feel that money alone cannot keep a person in the military for a full career if the person does not like the military culture; they assert that the lifestyle is too demanding and too arduous for most. At the same time, it is argued that people can be driven out of the military if their compensation and living standards are not at least somewhat close to those of their demographic and educational counterparts in civilian life.

4. How Are Each Year's Increases in Military Pay Computed?

Definitions. The across-the-board increases in military pay discussed each year relate to military **basic pay**. Basic pay is the one element of military compensation that all military personnel in the same pay grade and with the same number of years of service receive. **Basic allowance for housing**, or **BAH**, is received by military personnel not living in military housing, either family housing or barracks). **Basic allowance for subsistence**, or **BAS**, is the cost of meals. All officers receive the same BAS; enlisted BAS varies, based on the type and place of assignment. A **federal income tax advantage** accrues because the BAH and BAS are not subject to federal income tax.

Basic pay, BAH, BAS, and the federal income tax advantage all comprise what is known as **Regular Military Compensation (RMC)**. RMC is that index of military pay which tends to be used most often in comparing military with civilian compensation; analyzing the standards of living of military personnel; and studying military compensation trends over time, or by service geographical area, or skill area. Basic pay is between 65 and 75% of RMC, depending on individual circumstances. RMC specifically *excludes* all special pays and bonuses, reimbursements, educational assistance, deferred compensation (i.e., an economic valuation of future retired pay), or any kind of attempt to estimate the cash value of non-monetary benefits such as health care or military retail stores.

Annual Percentage Increases in Military Basic Pay.

Military Basic Pay Raises Linked to Federal General Schedule (GS) Civil Service Pay Raises. Permanent law (37 USC 1009) provides that monthly basic pay is to be adjusted upward by the same "overall average percentage increase in the General Schedule [GS] rates of both basic pay and locality pay for [federal] civilian employees," and is to "carry the same effective date." The upward adjustment is based on the GS percentage pay increase that would result from operation of the permanent statutory GS pay raise formula. It need not, therefore, be identical to the actual percentage increase in GS pay, if Congress acts to either (1) authorize a GS pay increase different from that which would result from operation of the permanent formula for a particular fiscal year and/or (2) authorize a different military pay increase that differs from operation of the permanent formula.

How GS Civil Service Pay Raises Are Computed. The GS formula employed here is that specified in 5 USC 5303(a). It is based on (but is not identical to, as will be discussed below) the increase in the Employment Cost Index (ECI) calculated by the Department of Labor's Bureau of Labor Statistics. The ECI measures annual percentage increases in wages for all private-sector employees, although it can be subdivided to measure increases in specific categories of such employees. The precise ECI increase used for pay purposes is computed by comparing the ECI for the third quarter of the calendar year preceding that in which the pay increase is budgeted with the ECI for the third quarter of the year preceding the latter year. For example, assume the GS civilian pay raise for fiscal and calendar year 2005, under current law to be first paid on January 1, 2005, is being computed. The FY2005 federal budget that includes this pay raise will be debated and enacted in calendar year 2004, beginning with the transmittal of the Administration's FY2005 budget to Congress in early 2004. This latter budget, however, was prepared beginning in the middle of 2003. The pay raise in this budget can only be based on the extent to which the ECI for the third quarter of 2003 had increased over that for the third quarter of 2002. There is thus a lag of approximately 6 months between the end of the ECI increase measuring period and the transmittal of the proposed pay raise based on it to Congress and a lag of 15 months between the end of the ECI measuring period and the actual percentage increase in civil service pay, and hence active duty military pay, on which it is based.

The actual percentage increase in GS pay is not the percentage increase in the ECI over the time frame described. The applicable statute [5 USC 5303(a)]provides that the overall increase in federal GS pay will be 0.5% *less* than the percentage increase in the ECI. The money thus saved is frequently cited as being available to provide larger pay raises to federal civilians in high-cost-of-living metropolitan areas within the United States, although there

is no statutory requirement than the "saved" money be used for this purpose. For example, if there is a 5% increase in the ECI from the previous year, and the cost of raising all federal GS pay by 5% would be $5 billion yearly, federal GS civil servants would actually be guaranteed only a pay raise of 4.5%, costing a total of $4.5 billion. The $500 million thus saved could, if the executive branch and/or Congress so desired, be applied to pay for raises higher than 4.5% in high-cost-of-living areas. In this example, military personnel could thus get a 4.5% pay raise. This formula led to the actual pay raises received in 1993 (FY1994), 1994 (FY1995), 1995 (FY1996), 1997 (FY1998), and 1999 (FY2000). [The statute does allow the overall percentage increase to be allocated among the different pay grade and years-of-service categories, subject to various limitations, rather than giving all personnel identical percentage increases. This was in fact done in 2000. See 37 USC 1009(d).]

Congress Usually Passes a Military Pay Raise Anyway, Despite the Permanent Formula. Despite the existence of this statutory formula, which would operate each year without any further statutory intervention, Congress has legislated a particular percentage increase in military pay every year since 1980, with the exception of 1982, and is in the process of doing so in 2003. The percentage increase in military pay was usually identical to that granted GS civilians during the period 1982-1999 (the exceptions were in 1985 and 1994, when Congress provided larger increases in military pay). However, beginning in 2000, Congress has provided larger increases in military pay each year and may well do so in 2003. Even when the percentage increase has been identical for both military and civilian pay, in most cases Congress has explicitly reiterated the increase in law rather than simply allowing the permanent statutory linkage to operate. Therefore, although Congress may legislate the pay raise percentage, until recently it was a *pro forma* matter, and the operation of the permanent formula remains important in determining what the percentage will actually be.

Annual Increases in Basic Allowances for Housing (BAH) and Subsistence (BAS). Housing (37 USC 403) and subsistence (37 USC 402) allowances are paid to all personnel not living in military housing or eating in military facilities or using field rations. Monthly BAH varies by rank, by whether the person has dependents, and, most importantly, by location. Monthly BAS is uniform for all officers regardless of rank or dependents, but BAS for enlisted personnel is computed daily and varies by locations and the kind of eating facilities, military and civilian, deemed available. Annual increases in BAH and BAS are both based on surveys of local housing and national food costs respectively, and thus are not affected by the annual percentage increase in the ECI. (For many years BAH and its predecessors and BAS were subject to the annual percentage increase; this was not changed until the late 1990s.) There have been occasional proposals to survey the housing costs on which BAH is based more frequently than once a year, due to rapidly rising housing costs in many areas of the United States. Particular emphasis is placed by supporters of more frequent surveys on fast-rising electricity costs, notably for heating and cooling, being faced by military personnel. In addition, the fact that BAS is a fairly small amount and has long since ceased to bear any real relationship to food and dining costs for individual servicemembers has led to some calls to merge BAS with basic pay and reduce the complexity of military compensation and the need for BAS computations each year.

5. What Have Been the Annual Percentage Increases in Active Duty Military Basic Pay Since 1993 (FY1994)? What Were Each Year's Major Executive and Legislative Branch Proposals and Actions on the Annual Percentage Increase in Military Basic Pay?

The following subsections itemize action on the active duty military basic pay increase going back to 1993 (the FY1994 budget). **Unless otherwise noted, all increases were proposed to be effective on January 1 of the fiscal year indicated. The same is true of discussions of future pay raises.**

2003 (FY2004). *Statutory formula*: 3.7%. *Administration request*: The FY2004 defense budget request, released on February 3, 2003, proposed an FY2004 military pay raise averaging 4.1%. Depending on rank and years of service, military pay would be increased by a minimum of 2.0% and a maximum of 6.5%. Personnel in pay grade E-1 (new recruits) would get the minimum 2.0% raise, and enlisted members in pay grade E-2, and newly-commissioned junior officers in pay grade O-1, would get 3.2%. Most officers would get 3.7%, and the highest percentage raises, up to the 6.25% figure, would be given to career enlisted personnel in pay grades E-5 through E-9. *House action*. The House version of the FY2004 NDAA , passed May 22, is identical to the Administration proposal. *Senate action*. The Senate version, also passed May 22, would provide military personnel with an average 4.15% pay raise but, unlike the House committee version, would guarantee all personnel at least a 3.7% increase. The Senate version would also modify permanent law to require, after FY2006, that the annual military pay raise be equal to the percentage annual increase in the Employment Cost Index (ECI; see above, under #4, for a description of the ECI), repealing existing permanent law that has the effect of mandating a pay raise equal to the ECI minus 0.5%. Existing temporary law, enacted in 1999 in the FY2000 NDAA, that requires an increase equal to the ECI plus 0.5% in FY2001-FY2006 would not be changed (see below under "Suspension of Statutory Formula during FY2001-FY2006).

2002 (FY2003). *Statutory formula*: 4.1%. *Administration request*: Minimum 4.1%; average 4.8%; for some mid-level and senior noncommissioned officers, warrant officers, and mid-level commissioned officers, between 5.0% and 6.5%. *Final increase*: identical to the Administration request, embodied, as usual, in the FY2003 National Defense Authorization Act (P.L. 107-314, December 2, 2002; 116 Stat. 2458). The House and Senate had also approved the Administration request.

2001 (FY2002). *Statutory formula*: 4.6%. *Administration request*: numerous figures for the "Administration request" were mentioned in the pay raise debate, depending on when and which agency produced the figures. In general, however, they all proposed increases of at least 5% and no more than 15% (the latter applying only to a very few individuals), depending on pay grade and years of service. *Final increase*: Eventually, the FY2002 National Defense Authorization Act (Sec. 601, P.L. 107-107, December 28, 2001)endorsed an "Administration request" of between 5 and 10%, depending on pay grade and years of service. These increases are the largest across-the-board percentage raises since that of FY1982, which took effect on October 1, 1981. The latter was a 14.3% across-the-board raise, which followed an 11.7% raise the previous year, FY1981, resulting in a 2-year raise of almost 28%. This was principally in response to the high inflation of the late 1970s.

2000 (FY2001). *Statutory formula*: 3.7% (based on the 1999/FY2000 legislation, above; the original statutory formula would have led to a proposed raise of 2.7%). *Administration request*: 3.7%. *Final increase*: The FY2001 National Defense Authorization Act (Section 601, P.L. 106-398, October 30, 2000; 114 Stat. 1654A-1 at A-143) approved the 3.7% figure. In addition, as was the case in the previous year, additional increases averaging 0.4% (based on the size of the across-the-board raise the amount of money used would have funded; the range of additional percentage raises was between 1.0 and 5.5%) were provided to middle-grade officer and enlisted personnel, to be effective July 1, 2001.

1999 (FY2000). *Statutory formula*: 4.8%. *Administration request*: 4.4% on January 1, 2000, but in addition, on July 1, 2000, a wide range of targeted increases averaging an additional 1.4% (again, based on the size of across-the-board raise the cost of the targeted increases would finance) in mid-level officer and enlisted grades' pay levels. *Final increase*: The FY2000 National Defense Authorization Act (Section 601, P.L. 106-65; October 5, 1999) raised the January 1, 2000 increase to 4.8%, and accepted the July 1, 2000 targeted increases.

Suspension of Statutory Formula during FY2001-FY2006. The FY2000 defense authorization contained a 6-year suspension of the existing statutory formula, which became effective in FY2001. In enacting this suspension, the House version would have required that the full ECI increase (not the ECI less 0.5%) be used in calculating the annual pay raise starting in FY2001 and thereafter. The Senate version would have required that the annual raise be the full ECI **plus** 0.5% (i.e., a full percentage point above what permanent law then read) during FY2001-FY2006. The Senate version prevailed in conference.

1998 (FY1999). *Statutory formula*: 3.1%. *Administration request*: 3.6%. The House approved 3.6%, or whatever percentage increase was approved for federal GS civilians, whichever was higher. The Senate approved 3.6%. *Final increase*: The FY1999 Strom Thurmond National Defense Authorization Act (Section 601, P.L. 105-261; October 17, 1998; 112 Stat. 1920 at 2036) approved the House alternative, which resulted in a 3.6% military increase, as GS civilians also received 3.6%.

1997 (FY1998). *Statutory formula*: 2.8%. *Administration request*: 2.8%. *Final increase*: FY1998 National Defense Authorization Act (Section 601, P.L. 105-85, November 18, 1997; 111 Stat. 1629 at 1771): 2.8%.

1996 (FY1997). *Statutory formula*: 2.3%. *Administration request*: 3.0%. *Final increase*: The House and Senate both approved the higher Administration request of 3.0%, and it was therefore included in the FY1997 National Defense Authorization Act (Section 601, P.L. 104-201, September 23, 1996; 110 Stat. 2422 at 2539).

1995 (FY1996). *Statutory formula*: 2.4%. *Administration request*: 2.4%. *Final increase*: Congress also approved 2.4% in the FY1996 National Defense Authorization Act (Section 601, P.L. 104-106, February 10, 1996; 110 Stat. 186 at 356).

1994 (FY1995). *Statutory formula*: 2.6%. *Administration request*: 1.6%; one percent less than the statutory formula. *Final increase*: The FY1995 National Defense Authorization Act (Section 601, P.L. 103-337, October 5, 1994; 108 Stat. 2663 at 2779) authorized the statutory formula figure of 2.6%.

1993 (FY1994). *Statutory formula*: 2.2%. *Administration request*: No increase; military (and civil service) pay would have been frozen in FY1994. The Administration also proposed limiting future civil service — and hence active duty military — pay raises to one percentage point less than that provided by the existing statutory formula. None of these proposals was adopted. *Final increase*: The FY1994 National Defense Authorization Act (Section 601, P.L. 103-160, November 30, 1993, 107 Stat. 1547 at 1677) authorized 2.2%.

6. Is There a "Pay Gap" Between Military and Civilian Pay, So That Generally Military Pay Is Less than That of Comparable Civilians? If So, What Is the Extent of the "Gap"?

The allegations of a military-civilian "pay gap" beg several questions:

- How can the existence of a gap be determined and the gap be measured?
- Is there a gap, with civilians or the military being paid more? If so, how much of a gap?
- If there is a gap, does that in itself require action?
- What are the effects of such a gap?

A wide range of studies over the past several decades have compared military and civilian (both federal civil service and private sector) compensation. In general, the markedly different ways in which civilian public and private sector compensation and benefit systems are structured, compared to that of the armed forces, makes it difficult to validate any across-the-board generalizations about whether there is a "gap" between military and civilian pay. Some advocates for federal civil servants suggest that federal civilian pay lags behind private sector pay, which in turn leads some people, given the linkage between civil service and military pay percentage increases, to infer that military pay lags behind private sector pay. However, because the current statistic used to measure private sector pay, the ECI, measures annual percentage increases and not dollar amounts, no such inference is really possible.

Measuring and Confirming a "Gap". It is extremely difficult to find a common index or indicator to compare the dollar values of military and civilian compensation. First, military compensation is much more complicated and composed of many more different elements than is civilian compensation. Military cash pay include numerous separate components; some are received by all military personnel and some, such as a wide range of special pays and bonuses, are paid to select groups. One aspect of military pay, the federal income tax advantage that accrues due to housing and meals allowances not being taxable, has a dollar amount that is entirely dependent on each military member's personal tax situation. Which of these should be included in a military-civilian pay comparison? How can some be included at all? Furthermore, total military compensation includes a wide range of non-monetary benefits: the extensive military health care facility network, military retail stores such as commissaries and exchanges; and military recreational facilities such as theaters, gymnasia, hotels, and lodges. Few civilians work in organizations where analogous benefits are provided. Attempts to facilitate a comparison by assigning a cash value to non-cash benefits almost always founder on the large number of often arbitrary assumptions that must be made to generate such an estimate.

Second, it is also extremely difficult, for obvious reasons, to establish a solid comparison between military ranks and pay grades on the one hand, and civil service and private sector job titles and pay levels on the other. The range of knowledge and skills, degree of supervision, and scope of professional judgment required of military personnel and civilians performing similar duties in a standard peacetime industrial or office milieu may well be similar. When the same military member's likely job in the field, possibly in combat, is concerned, comparisons become difficult.

Third, generally speaking, with some exceptions, the conditions of military service are frequently much more arduous than those of civilian employment, even in peacetime, for families as well as military personnel themselves. This aspect of military service is sometimes cited as a rationale for military compensation being at a higher level than it otherwise might be. These conditions include frequent moves for which moving allowances never completely reimburse the military member; lengthy family separations, which are not confined to overseas deployments but also result from field training or service at sea even while stationed in the United States; and family disruption resulting from constant changes of occupations and schools by dependents. On the other hand, the military services all mention travel and adventure in exotic places as a positive reason for enlistment and/or a military career, so it may be misleading to automatically assume it is only a liability.

Fourth, comparisons between different sets of compensation statistics, and the use of these comparisons to determine what military pay should be, can yield very different results. Comparing *dollar amounts* of pay received by various military pay grades with the dollar amounts received by comparable federal civil service and private-sector positions (as noted above, in itself a difficult comparison to make) may lead to different conclusions than comparing the *annual increases* in pay for each position. The percentage increase in pay over different time periods — in particular, the percentages that result from picking different base years from which increases or decreases are computed — is more often than not very different. Different indexes with different components can be used to determine compensation changes. The yearly increase in the Consumer Price Index (CPI), which measures the cost of a fixed list of various goods and products at any one time, is used to compute the annual cost-of-living-adjustment (COLA) to military retired pay (and several other federal retirement payments to individuals). The annual Employment Cost Index (ECI) determines not pay levels, but percentage pay increases.

Finally, the level of specificity used in a pay comparison can lead to sharply differing results, especially when the comparison is between private sector and federal pay as a whole, both civil service and military. For instance, all Army colonels may, according to some indexes, be paid roughly as much as federal civil service GS-15s, or as much as private sector managers with certain responsibilities. Thus, those occupational specialties that are highly paid in the private sector — health care, information technology, some other scientific and engineering skills, are examples — are frequently paid considerably less in the military or in the civil service. Other common subcategories for comparison, in addition to occupational skill, include age, gender, years in the labor force, and educational levels.

Estimates of a Military-Civilian Pay Gap. Numerous comparisons of military and civilian compensation in recent years have been cited to illustrate a gap that favors civilian pay levels or refutes the existence of such a gap. Many of these reports lack precision in identifying what aspects of military pay were compared with civilian pay; what indexes were

used to make the comparison, or the length of time covered by the comparison. Although it is difficult to generalize, it would appear that most of those estimates which assert that there is a pay gap in favor of higher civilian pay quote a percentage difference of between 7 and 15% in recent years. Most, if not all, of these estimates are across-the-board, comparing all military personnel with all civilian workers in a very broad category.

Some estimates have been made that question the existence of a gap favoring civilians. These tend to compare specific populations of military personnel with equally specific subcategories of civilians, using such criteria as age, occupational skill, and educational level. Analyses of this nature appear to be less common than the across-the-board comparisons, almost certainly because they are much more difficult to do in terms of time, cost, and availability of skilled analysts with the competence to perform them. In 1998, for instance, a Rand Corporation study that broke down military personnel and civilians along these lines asserted that when all of these differing factors were taken into account, there was no pay gap for all enlisted personnel except for senior enlisted members, where the gap was about 3%, and that for officers the gap favoring civilians was about 7%, with some officer subgroups making considerably more money than there civilian counterparts.

In April 2002, in testimony before the Manpower and Personnel Subcommittee of the Senate Armed Services Committee, General Accounting Office (GAO) analysts itemized the components of the military benefit package — i.e., military retirement, health care, Servicemember's Group Life Insurance; base recreational facilities, and the like — and compared them with the private sector. It found that the range of benefits available to military personnel was generally comparable to, and in some cases superior to, benefits available in the private sector. The GAO study did not appear to have made dollar-figure comparisons or compared in military non-cash benefits — such as health care, commissaries or exchanges, or annual leave — with similar benefits in the private sector, either by figuring out their dollar worth or by itemizing their exact provisions in great detail.

If There Is a Pay Gap, Does It Necessarily Matter? Some have suggested that the emphasis on the pay gap, whether real or imagined, or if real, how much, is unwarranted and not a good guide to arriving at sound policy. They argue that the key issue is, or should be, not *comparability* of military and civilian compensation, but the *competitiveness* of the former. Absent a draft, the armed forces must compete in the labor market for new enlisted and officer personnel. The career force by definition has always been a "volunteer force," and thus has always had to compete with civilian opportunities, real or perceived. Given these facts of life, it is asked what difference it makes whether military pay is much lower, the same, or higher than that of civilians? If the services are having recruiting difficulties, then pay increases may be required, even if the existing "gap" favors the military. Conversely, if military compensation is lower than equivalent civilian pay, and if the services are doing well in recruiting and retaining sufficient numbers of qualified personnel, then there may be no reason to raise military pay at all.

However, some believe that explicitly basing military compensation on "purely economic" competitiveness with civilian pay could have undesirable consequences: for instance, in a time of economic difficulty, the military might be receiving lower pay than most civilians but still recruiting satisfactorily due to high unemployment. This situation, last existed, to a degree, during the Great Depression of 1929-1941.

For further discussion of the "pay gap" issue, see Congressional Budget Office, *What Does the Military "Pay Gap" Mean?* June 1999; and Association of the U.S. Army, *Closing the Pay Gap,* Arlington, VA, October 2000.

7. Congressional Action in 2003 on Military Pay and Benefits (Other than the Across-the-Board Pay Raise)

FY2004 National Defense Authorization Act (NDAA). On May 22, 2003, the House and Senate approved their versions of the FY2004 National Defense Authorization Act. Both approved various special pays and bonuses and other elements of military compensation and benefits, some of which had been introduced as separate bills earlier; many are related to the Iraq war and its aftermath. These include the following.

House and Senate Versions, FY2004 NDAA.

- A special pay of up to $1,000 monthly for servicemembers making very "long or frequent" deployments.
- Increasing the amount of unused leave servicemembers can carry over from one year to the next from 30 to 120 days.
- A bonus of up to $4,000 to enlisted personnel who agree to serve for at least two years in an occupational specialty critically short of members.

House Version, FY2004 NDAA.

- Authorizing reserve retirees under age 60 (i.e., not yet eligible for reserve retired pay), Selected Reserve personnel, and their dependents to use commissaries on the same unlimited basis as active duty military personnel and their dependents.

Senate Version, FY2004 NDAA.

- Payment of $100 per month to all personnel stationed in South Korea.
- Increasing the death gratuity payable immediately to the survivors of military personnel who die on active duty from $6,000 to $12,000.
- Continuing payment of reserve reenlistment bonuses to reservists who are mobilized.
- Payment of a military Survivor Benefit Plan annuity to the surviving spouse of a reservist not yet eligible for retirement who died during reserve inactive duty training (colloquially often known as "weekend drill).

Family Separation Allowance (FSA) and Hostile Fire/Imminent Danger Pay (HF/IDP).

Provisions in the FY2004 NDAA and the FY2003 Emergency Wartime Supplemental Appropriations Act . The latter supplemental appropriation act, P.L. 108-11, increased, for FY2003 only, HF/IDP from $150 monthly to $225 and the FSA from $100 monthly to $250. The House version of the FY2004 NDAA would continue these higher amounts in FY2004 only for those personnel deployed in and around Afghanistan as part of Operation Enduring Freedom and in and around Iraq as part of Iraqi Freedom. The

House version would use the money saved by not making an across-the-board permanent increase in both special pays to fund an increase in active duty military personnel strength of approximately 6,200 troops in FY2004. The Senate version of the FY2004 NDAA would make the increases permanent.

Confusing DOD Positions on FSA and HF/IDP. On August 14, 2003, DOD issued statements regarding FSA and HF/IDP that have contradictory aspects. Earlier, in July 2003, DOD stated that it was opposed to both the House and Senate provisions of the FY2004 NDAA regarding these special pays, apparently because it felt the House version was too restrictive (limiting the increased pays to Iraq and Afghanistan) and the Senate was too liberal (making the increases permanent, rather than applying just to FY2003). On August 14, however, a DOD news release stated that the Department was committed to maintaining these two special pays for personnel serving in Iraq and Afghanistan. Later on the same day, however, the Under Secretary of Defense for Personnel and Readiness announced that the Department was committed to insuring that "total compensation" for personnel serving in Iraq, Afghanistan, and surrounding areas would not drop, suggesting that perhaps it was *not* committed to maintaining the two special pays. As of this writing, this potential ambiguity has not been resolved.

For a discussion of the FSA and HF/IDP issues in more detail, see Lawrence Kapp, *Hostile Fire/Imminent Danger Pay and Family Separation Allowance*, CRS General Distribution Memorandum of August 22, 2003.

Long Distance Telephone Subsidy Bill. S. 718 would authorize up to $40 monthly in long distance telephone fees for military personnel directly supporting military operations in Iraq and Afghanistan.

Military Tax Legislation.

Armed Forces Tax Fairness Act of 2003. Both the House and the Senate have now enacted different versions of the proposed Armed Forces Tax Fairness Act of 2003 in the 108th Congress. Both versions include the following six matters of interest to substantial numbers of military personnel: (1) exemption of the full military death gratuity from income tax, rather than just $3,000 of it; (2) authorization of military personnel to not count periods spent outside the United States in claiming the $250,000 (or $500,000 per couple) capital gains tax exclusion from the sale of real estate; currently, such time spent abroad must be used in determining if the people involved have lived in the residence in question for at least 2 of the preceding 5 years; (3) exclusion from taxation payments made to military home sellers to compensate them for the lowered price of houses in an area where a base has been closed; (4) inclusion of contingency operations in the extended period for which a military member can postpone filing tax returns; currently, the member can postpone the filing only if he or she is in a combat zone; (5) liberalization of the ability of reservists to claim various travel and lodging expenses as unreimbursed business expenses on their tax returns; and (6) clarification of the treatment of certain child care costs for exclusion from taxable income. Both bills also include very specialized tax provisions relating to veterans' organizations, astronauts, and service academy cadets and midshipmen. The Senate bill, however, includes a wide range of other tax provisions that are not related to military personnel that are absent from the House bill. The House version (H.R. 1307) passed March 20, 2003 (422-0; Roll Call No. 76); the Senate (H.R. 1307, as amended), March 27 (97-0, Record Vote No. 110).

Jobs and Growth Tax Relief Reconciliation Act of 2003 ("Tax Cut Bill"). The above provisions of the different versions of the Armed Forces Tax Fairness Act of 2003 were included in the Senate, but not the House, version of the recent tax cut bill. However, the House prevailed in conference, so none of the provisions were included in the version approved by both houses on May 23, 2003.

All-American Tax Relief Act of 2003 (House)/Relief for Working Families Tax Act of 2003 (Senate). This bill, H.R. 1308, is primarily concerned with child income tax credit issues. However, the House version, passed June 12, 2003, includes the text of the proposed Armed Forces Tax Fairness Act of 2003. The Senate version, passed June 5, does not.

FOR ADDITIONAL READING

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Congressional Budget Office. *What Does the Military "Pay Gap" Mean?* June 1999.

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CRS Report RL31334. *Operations Enduring Freedom and Noble Eagle: Questions and Answers about U.S. Military Personnel, Compensation, and Force Structure.*

CRS Report RL30802. *Reserve Component Personnel Issues: Questions and Answers.*