

Is the Current Military Compensation System Reasonable, Appropriate, Affordable, and Sustainable?

The Honorable David M. Walker
Comptroller General of the United States

Defense Advisory Committee on Military Compensation
July 19, 2005

The Nation Faces Increasing Fiscal Imbalance

- We face large and growing structural deficits largely due to known demographic trends, rising health care costs, and relatively low federal revenues as a percentage of the economy.
- Faster economic growth can help but will not come close to solving the problem.
- GAO's simulations show that balancing the budget in 2040 could require actions such as cutting total federal spending by about 60 percent or by raising taxes by about 2.5 times today's level.
- We believe the current fiscal policy is not sustainable and the way forward includes reexamining the base of federal programs, policies, functions, and activities.¹
- The budget crunch is coming to all of government, including DOD.

¹GAO, 21st Century Challenges: Reexamining the Base of the Federal Government, GAO-05-325SP (Washington, D.C.: February 2005).

Active Duty Compensation Costs Are Growing

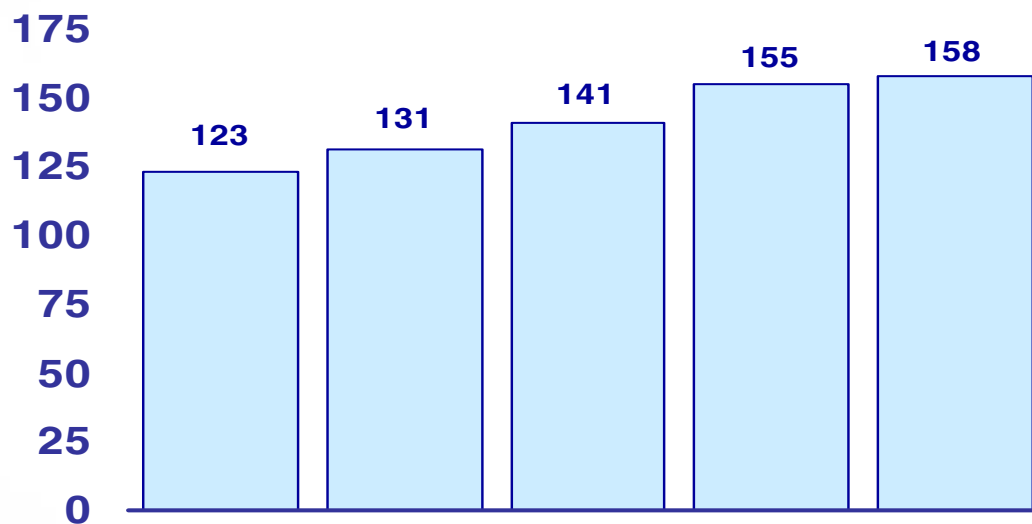
- We undertook this effort under my authority because of our growing concern about the nation's fiscal imbalance.
- In our view, the significant—approximately \$158 billion in fiscal year 2004—and growing costs of pay and benefits, especially health care, within DOD's budget should be reexamined and revised to ensure that the compensation system is reasonable, appropriate, affordable, and sustainable.
- This briefing summarizes information from our report on the costs of active duty military compensation.¹

¹*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).

Active Duty Compensation Costs to the Government Have Significantly Increased

Total Compensation Costs for Fiscal Years 2000-2004

200 2004 constant dollars



	2000	2001	2002	2003	2004
Per Capita Costs	89,636	95,096	100,894	109,245	111,783

Source: GAO analysis.

¹Our calculations include supplemental funding for the Global War on Terrorism. Since fiscal year 2002 over 100,000 mobilized reservists were paid out of the cash compensation. If you considered these personnel, the average costs to provide compensation would be about \$5,000 per capita lower.

Components That Have Increased Active Duty Compensation

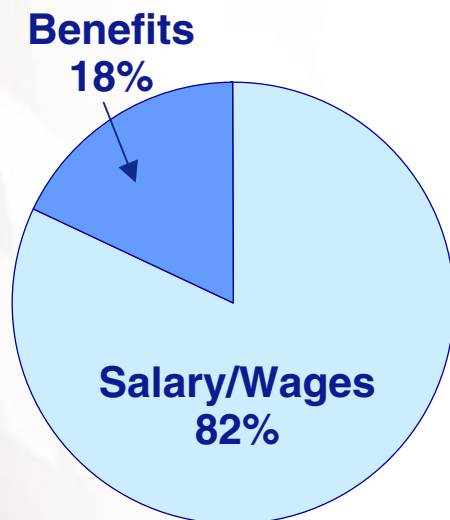
- **Cash Pay**

- **Basic pay** increased from \$38.4 billion to \$47.4 billion from fiscal years 2000 to 2004—an increase of about 23 percent.
- **Special and Incentive pays** increased from \$3.3 billion to \$4.3 billion from fiscal years 2000 to 2004, but only comprised 3 percent of total compensation and 6 percent of cash compensation in fiscal year 2004.
- **Allowances for housing** increased by about 66 percent from \$7.3 billion to \$12 billion between fiscal years 2000 to 2004.

- **Benefits**

- **Health care costs** for active duty service members and their dependents as well as accrual costs for retirees and their dependents.
 - Increased from about \$13.8 billion to \$23.3 billion between fiscal years 2000 and 2004, an increase of about 69 percent.

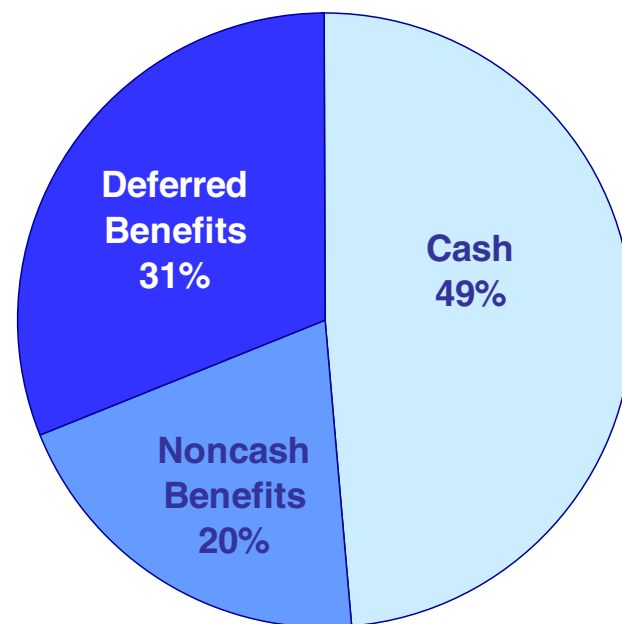
Allocation of Compensation Costs in 2003



Private Industry
Average Costs of
Compensation
\$50,509



Civilian Federal Government
Average Costs of
Compensation
\$92,330

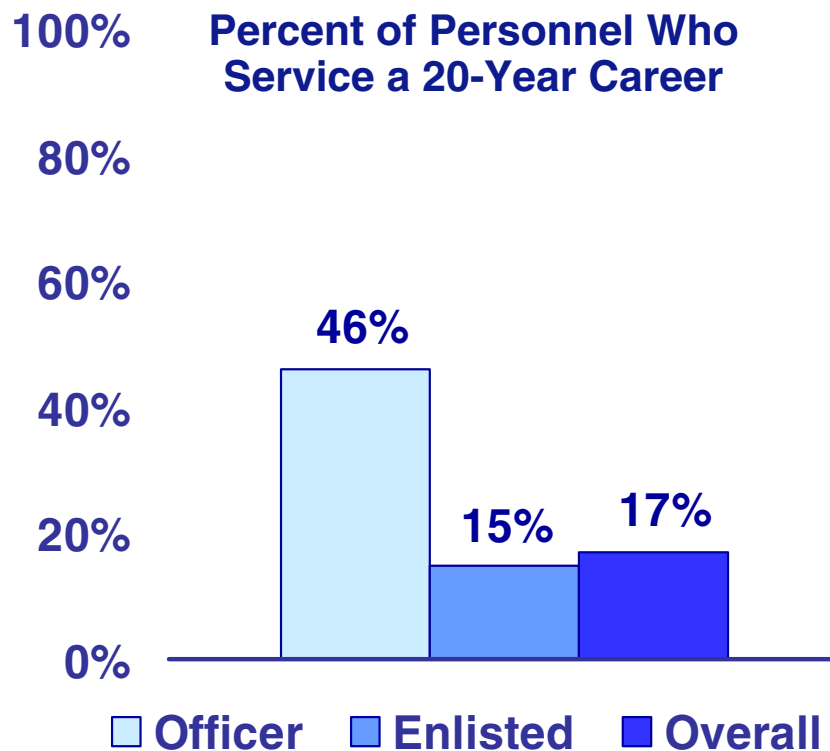


Active Duty Service Member
Average Costs of
Compensation
\$109,245

Private Industry and Civilian Federal Government Employee Source: Department of Commerce, Bureau of Economic Analysis.
Active Duty Service Member Source: GAO analysis

Current Mix Is Inefficient for Recruiting and Retention

- Cash pay today is generally accepted as a more efficient tool than future cash or benefits for recruiting and retention.
- Not only do people heavily discount the value of future benefits, but less than one in five service members will receive the most lucrative and costly benefits offered by the military, specifically active duty retirement pay and health care benefits.



Source: DOD.

Service Members' Perceptions of Their Compensation

- Our focus group findings and DOD survey results on compensation suggest that a culture of dissatisfaction and misunderstanding about compensation exists among service members. For example, our results showed that
 - Almost 80 percent of service members in our focus group survey believed they are paid less than their civilian counterparts; in contrast, a recent DOD review found that, on average, military pay was at the 70th percentile or higher of civilian wages.¹
 - About 44 percent of the service members in our focus group survey reported they were still dissatisfied with basic pay, despite an average increase of about 23 percent from fiscal years 2000 to 2004.
- Service members were more satisfied (47 percent satisfied; 28 percent dissatisfied) with their cash compensation as a whole than they were with specific aspects like basic pay, housing allowance, or subsistence allowance.
- Service members' appear to prefer cash compensation: in almost all 40 focus group sessions, service members were willing to decrease their noncash benefits to increase their cash compensation.

¹Office of the Under Secretary of Defense for Personnel and Readiness, *The Report from the Ninth Quadrennial Review of Military Compensation* (Washington, D.C.: May 2002).

What DOD Needs to Do

- DOD's compensation strategies and principles (including benefits programs) need to be reexamined and revised to ensure DOD is using its resources in a cost-effective manner, including:
 - Compiling the total costs to provide military compensation and communicating these costs to decision makers within DOD and Congress;
 - Assessing the affordability and sustainability of the compensation system as well as the reasonableness and appropriateness of the allocation to cash and benefits and whether changes in the allocation are needed to more efficiently achieve recruiting and retention goals in the 21st century;
 - Communicating to service members the value of pay and benefits and the competitiveness of the total compensation package when compared to civilian counterparts.
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What the Congress Needs to Do

- Congress must also do its part by considering the long term affordability and sustainability of any additional changes to pay and benefits for military personnel and veterans, including the long term implications for the overall federal deficit and military readiness.
 - Furthermore, the Congress should also consider how best to proceed with any significant potential restructuring of existing military compensation policies and practices, including whether a formal commission may be necessary.
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Questions

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