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# REPORT TO THE CONGRESS



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## Need To Eliminate Incentive For Accumulating Military Leave

Department of Defense

*BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES*

FPC-75-139

MARCH 20, 1975

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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

B-125037

4 To the President of the Senate and the  
Speaker of the House of Representatives

This is our report on the need to eliminate the incentive for accumulating military leave. Unlike officers, enlisted personnel may redeem unused leave for cash at the end of each enlistment; this encourages leave accumulation. As a result, the Government pays large sums of cash and the enlisted member does not get the benefit of a vacation.

The Assistant Secretary of Defense has agreed that a legislative change is needed. We are recommending the early submission to the Congress of the Department of Defense's legislative proposal and that the proposal limit the payment for unused leave to 60 days during a service member's career. We believe such action would eliminate repetitive payments, equalize treatment of officers and enlisted personnel, and eliminate the incentive to accumulate leave for cash payment.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of Defense; and the Secretaries of the Army, Navy, and Air Force.

*James B. Stacks*  
Comptroller General  
of the United States

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ABBREVIATIONS

DOD	Department of Defense
GAO	General Accounting Office



## NEED TO ELIMINATE INCENTIVE FOR

### ACCUMULATING MILITARY LEAVE

Military personnel, like other Government employees, get vacation, or leave days. The laws intended that military personnel take 30 days' leave each year. The leave could be redeemed for cash only if it was not used because of military requirements and other exigencies. Despite this, many military personnel save a lot of their leave and cash it in. This cost the Government about \$400 million in each of the last 3 fiscal years. About \$150 million of this represented repetitive payments to enlisted personnel, who are allowed to redeem unused leave at the end of each enlistment.

### EVOLUTION OF THE LEAVE SYSTEM

Throughout military history, military personnel have been granted periods of rest from duty to maintain their effectiveness. Before enactment of the Armed Forces Leave Act of 1946, officers were legally entitled to take leave and, upon release from active duty, were entitled to payment for unused leave. Enlisted personnel were not legally entitled to leave but were administratively granted leave as time and circumstances permitted. However, they were not paid for any unused leave upon separation from active duty.

Consequently, the Congress passed the 1946 Leave Act to grant enlisted personnel the same leave benefits as officers. The act, as amended (10 U.S.C. 701 and 704 and 37 U.S.C. 501), provided for

--leave accrued at the rate of 2-1/2 days a month up to a 60-day maximum and

--lump sum payment for up to 60 days of unused leave upon discharge or retirement.

But enlisted personnel were also granted the option, upon reenlistment, of carrying leave balances forward or receiving a lump sum for unused leave. The act also required that leave be used annually as accrued except when this would be inconsistent with "military requirements and other exigencies."

62 Senator Edwin C. Johnson, Chairman of the Senate subcommittee considering the 1946 leave legislation, clearly stated that the leave was intended to be used rather than saved. As shown on page 4 of the Hearings on H.R. 4051 before a subcommittee of the Senate Committee on Military Affairs (79th Cong., 2d sess. (1946)), he said:

"\* \* \* We believe that the military service will benefit by a leave taken during the current year \* \* \* accumulated leave has a commercial aspect of men cashing in on a terminal leave which they should have taken.

"We want them to have the leave as all other employees of the Government have, but we want them to take that leave because, if there is any good result to come from a leave, it must come from the exercise of the leave, not to make it a boost in pay."

On the Senate floor during consideration of the leave bill, Senator Johnson said:

"The sole theory of granting a man a vacation is that he will render better service. For too long a time terminal leave has been used as a vehicle for increasing salaries. It was not intended to work that way \* \* \*." (92 Congressional Record 9709 (1946).)

LARGE LUMP SUM PAYMENTS

The services' leave regulations encourage using 30 days of leave a year, the normal annual accrual. But the services do not make this mandatory. Payments for unused leave were originally intended for those prevented from taking leave, but it appears that members are accumulating leave to augment their income through cash settlement.

Payments for unused leave fluctuate each year depending on the number of service members who separate, reenlist, and retire. Department of Defense (DOD) data shows that total payments have decreased over the last 3 fiscal years, but the average number of leave days cashed in per member has increased.

<u>FY</u>	<u>Total payments</u>	<u>Average</u>	
		<u>Days</u>	<u>Amount</u>
(000,000 omitted)			
1972	\$432	25.8	\$492
1973	428	28.4	607
<u>a/1974</u>	416	28.9	672

a/ Estimated.

Accumulated leave balances tend to increase with grade and length of service. A profile of the estimated average number of days cashed in by officers and enlisted personnel for fiscal year 1973 follows.

<u>Officers</u>		<u>Enlisted</u>	
<u>Group</u>	<u>Average days</u>	<u>Group</u>	<u>Average days</u>
0-1 to 0-2	32	E-1 to E-3	15
0-3 to 0-4	44	E-4 to E-5	27
0-5 to 0-10	56	E-6 to E-9	43

Officers "sell" larger leave balances than enlisted members, but officers may sell their unused leave only once during their careers--at separation or retirement. Enlisted members, on the other hand, may sell leave at the end of each enlistment, which could occur up to five times during a normal career. DOD estimated that enlisted members' repetitive sales amounted to about \$150 million during fiscal year 1974.

Repetitive payments create not only an inequity but also a cash incentive to accumulate leave. This incentive discourages enlisted members from taking their full leave but induces officers to use most of their leave or lose it. For instance, if an enlisted member wants to receive the maximum lump sum leave settlement of 60 days at the end of each 4-year enlistment, he must save half his leave each year--15 days. Conversely, an officer who intends to serve 20 or 30 years will need to save only 3 or 2 days each year to get the maximum 60 days when he retires.

The cash incentive may also be motivating some members to evade leave accounting controls. GAO and military service audits of pay have continually shown many leave errors. Many audits disclosed that leave was frequently taken but not charged to members' leave accounts. In some cases the cash incentive may actually promote fraud. During the 1973 Air Force Leave Accounting Conference, the Air Force cited several cases in which members were paying leave clerks not to record their leave.

#### ENCOURAGING THE USE OF LEAVE

Although military manpower is declining, the cost of lump sum leave payments remains high. This is due in part to the increases in military pay as well as the tendency to sell back more leave days. Continuing substantial payments have been of concern within both the executive and legislative branches.

From time to time the services have issued policies and directives to encourage the use of leave. In 1962 the Secretary of the Navy reemphasized the need for personnel to take leave as it accrued to reduce the annual increases in unused leave payments. In 1972 the Chief of Naval Operations told commanding officers that the magnitude of lump sum leave

payments strongly indicated that leave policies were not being effectively implemented. He instructed them to encourage personnel to use their entire 30 days' leave each year, including at least one period of 14 to 21 consecutive days.

During the 1974 House of Representatives budget hearings, the Army Deputy Chief of Staff for Personnel said "\* \* \* We encourage officers and enlisted men to take their leave and not to believe that they are so invaluable that the place will fall apart while they are gone."

While our review was underway, DOD issued a directive effective July 1, 1974, on leave, liberty, and administrative absences. It tried to make the leave programs of the services as uniform as possible; maximize the use of leave; and reduce, to the extent practical, accrued leave payments.

93 Anticipating that the new directive might affect lump sum leave payments, the Senate Appropriations Committee cut about \$40 million from the fiscal year 1975 budget. DOD considered these cuts to be too drastic, so the Conference Committee of the Senate and House of Representatives agreed to restore these funds later if DOD could show that the new directive could not be effectively implemented. 0.75/100

#### INCENTIVE SHOULD BE ELIMINATED

Despite DOD's new leave policy, we were concerned that the incentive to save leave still existed. Service directives have always encouraged the use of leave, but lump sum leave payments have continued to be substantial--indicating that these directives have not been effective. Although policies need to be continually monitored and aggressively enforced--at considerable cost and administrative effort by each individual service--a change in law is largely self-regulating.

Thirty days' paid vacation is a major selling point in recruiting for today's All-Volunteer Force. Minimizing the amount paid for unused leave would not appear to be detrimental, therefore, to service members' morale because they enter the services expecting 30 days' leave, not payment for not taking leave.

We believed the incentive to accumulate leave and cash it in needed to be eliminated. Therefore, in an August 1, 1974, letter to the Secretary of Defense, we requested comments on the desirability of changing the law to require that unused leave be carried forward rather than allow enlisted members to be paid for unused leave when they reenlist.

DOD agreed that the incentive to cash in leave should be eliminated. In letters of October 4, 1974, and January 8, 1975, the Assistant Secretary of Defense (Manpower and Reserve



Affairs) gave both preliminary and final assessments of our proposals. (See apps. I and II.)

In the preliminary assessment, DOD expressed a desire to obtain additional leave data and gain some experience with the new DOD leave directive before considering our proposed actions. In the final reply DOD agreed that a legislative change was needed, stating:

"In view of the lack of clear indications that implementation of the new DOD Leave Policy will, in the short range, significantly reduce lump-sum terminal leave payments, we are proceeding with the development of a legislative proposal which will make enlisted entitlement to payment for unused accrued leave approximately equivalent to the entitlements of the officer corps."

DOD estimated that changing the law to require enlisted personnel to carry forward leave balances on reenlistment could reduce lump sum leave payments by much as 40 percent. Applying this percentage, we estimate that about \$150 million could be saved annually. DOD also anticipated that the proposal may include "save pay" provisions and changes in quarters and subsistence allowance computations--aspects which we did not analyze as part of this review.

#### RECOMMENDATIONS

We recommend that the Secretary of Defense submit the proposed legislation to the Congress at the earliest possible time. The proposal should limit the payment for unused leave to 60 days during a service member's career. Such a change would equalize treatment of officers and enlisted personnel and eliminate the incentive to accumulate leave for cash payment.





MANPOWER AND  
RESERVE AFFAIRS

ASSISTANT SECRETARY OF DEFENSE  
WASHINGTON, D. C. 20301

4 OCT 1974

Mr. Forrest R. Browne  
Director, Federal Personnel and  
Compensation Division  
United States General Accounting Office  
Washington, D. C. 20548

Dear Mr. Browne:

The Secretary of Defense has asked me to respond to your letter of August 1, 1974, in which you report the results of a review of the military leave system. You request comments on the desirability of two actions intended to reduce lump-sum payments for unused accrued leave:

- a. Change the law to require enlisted personnel to carry leave forward from enlistment to enlistment.
- b. Require servicemembers to take leave as practical during each year.

As your report recognizes, your review of the military leave system was conducted at a time when the Office of the Secretary of Defense (OSD) was initiating major new policies designed to deal with problems in unused leave and lost leave, as well as lump-sum payments for unused accrued leave. The Services are now implementing the DoD Leave Policy Directive, issued 29 June 1974. The effectiveness of the Directive in dealing with these problems, including lump-sum payments, will depend upon how effectively the Services implement it.

I have sought preliminary estimates from the Services. Much data that would be necessary for a definitive evaluation of your two proposed

## APPENDIX I

actions is not yet available. However, from the information available, I can provide a reasonable assessment:

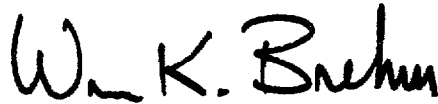
- o The new DoD Leave Policy will have an impact on lump-sum leave payments. A preliminary estimate by the Army indicates this may increase annual leave consumption by as much as 20%, reducing leave payments by approximately that amount.
- o A change in the law to require enlisted personnel to carry forward leave balances when reenlisting could reduce leave payments up to 40%, based on a preliminary estimate available from the Navy. However, this will eliminate payments for leave not taken, through no fault of the individual, due to military requirements, as well as leave intentionally accumulated for purposes of reimbursement. Since the proportion of leave payments attributable to each cause cannot be differentiated, this could work to the detriment of career personnel who are being denied leave by reason of clear-cut military necessity. Since careerists have considerable influence on subordinates not yet career-committed, such a result could work to the detriment of All-Volunteer Force objectives. Effective execution of the new DoD Leave Policy will act to ensure that remaining leave accumulations are attributable to military necessity, not to intentional accumulation. For these reasons, our preliminary assessment is that legislative change should not be considered until we are able to assess actual experience with Service execution of the new DoD Leave Policy.
- o Military personnel could be required to take their leave as earned, consistent with military requirements, by policy change, in keeping with the provisions of 10 USC 704 (b)(3). The rules would, of course, have to meet a test of reasonableness. Such a policy could reduce leave payments by up to 13%, based on a preliminary estimate available from the Marine Corps. If this estimate is reasonably accurate, then the new DoD Leave Policy will be about as effective as a mandatory leave policy. The Leave Policy Directives of the Services have, for many years, included statements to the effect that the taking of leave shall not be mandatory. The new DoD Leave Policy will cause such statements to be eliminated, but the perception of this approach to leave will remain with careerists for some time. Announcing a positive requirement that the taking of leave is mandatory (consistent

with military requirements) would likely create adverse reactions among servicemembers that appear to be unnecessary, at least until we have had an opportunity to assess actual experience with Service execution of the new DoD Leave Policy.

- o The Services additionally advise that adverse impact on morale may result from implementation of either of your suggested alternatives. This assessment would have to be balanced against the expected gains from such actions. There is currently a perception among many servicemembers that the benefits of military service are being eroded away by DoD and the Congress. The adverse impact of this view would also have to be balanced against the expected gains from these actions.

These preliminary estimates suggest that we should gain some actual experience with our new Directive before initiating legislative action or making mandatory the taking of annual leave. We will keep you informed of our progress so that a definite decision can be made at the appropriate time.

Sincerely,



William K. Brehm

APPENDIX II



ASSISTANT SECRETARY OF DEFENSE  
WASHINGTON, D. C. 20301

MANPOWER AND  
RESERVE AFFAIRS

8 JAN 1975

Mr. Forrest R. Browne  
Director, Federal Personnel and  
Compensation Division  
United States General Accounting Office  
Washington, D. C. 20548

Dear Mr. Browne:

My letter of 4 October 1974, provided preliminary comments on the desirability of these two proposed alternatives to reduce lump-sum payments for unused accrued leave:

- a. Change the law to require enlisted personnel to carry leave forward from enlistment to enlistment.
- b. Require servicemembers to take leave as practical during each year.

I now have the remainder of available data from the Services. It does not make a clear case for awaiting results of our new DoD Leave Policy Directive before initiating either alternative. The initial Service assessments, unchanged by the recently received additional data, are that:

- a. The new DoD Leave Policy may increase annual leave consumption by as much as 20%, reducing leave payments by approximately that amount.
- b. Changing the law to require enlisted personnel to carry forward leave balances could reduce leave payments by up to 40%.
- c. Military personnel could be required to take their leave as earned, consistent with military requirements, by policy change in keeping with the provisions of 10 USC 704 (b)(3).



This would likely create unnecessary adverse reaction among servicemembers since we anticipate similar practical effects from the new DoD Leave Policy.

- d. Adverse impact on morale may result from implementation of your suggested alternatives. This possibility would have to be balanced against the expected gains, above those from the DoD Leave Policy approach, from these actions.

In view of the lack of clear indications that implementation of the new DoD Leave Policy will, in the short range, significantly reduce lump-sum terminal leave payments, we are proceeding with the development of a legislative proposal which will make enlisted entitlement to payment for unused accrued leave approximately equivalent to the entitlements of the officer corps. I anticipate that, for reasons of equity, it will seek to change the basis for calculating reimbursement to enlisted personnel for quarters and subsistence to equate to that now used for officers. We may also find it necessary, as the legislative proposal is developed, to include some sort of a "save pay" provision for those enlisted members near the end of their current enlistment.

I would solicit your strong support for early enactment of the balanced program which we expect to submit early in the first session of the 94th Congress.

Sincerely,

  
William K. Brehm





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