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REPORT TO THE CONGRESS



BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

Alternatives In Controlling Department Of Defense Manpower Costs

Because of its current concern for budget restraint, the Congress will be faced with difficult choices in allocating funds between manpower and weapons systems.

This report discusses factors that determine defense manpower costs--size of forces, rates of compensation, and degrees of efficiency--and issues involved in cost reduction.



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

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

The Congress has expressed interest and concern about the increasing cost of manpower in the Department of Defense, which during the last few years has been more than half the defense budget.

This report, which was reviewed by the Department of Defense and incorporates their comments where appropriate, describes some of the problems and provides general background in the manpower area.

Our review was made 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 Service Secretaries.

James B. Stacks

Comptroller General
of the United States

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APPENDIX

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- I Letter dated June 21, 1976. from the Acting
Assistant Secretary of Defense, Manpower
and Reserve Affairs

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ABBREVIATIONS

| | |
|------------|--|
| CRS | Congressional Research Service |
| DMC | Defense Manpower Commission |
| DOD | Department of Defense |
| OASD(M&RA) | Office of the Assistant Secretary of De- fense for Manpower and Reserve Affairs |
| RMA | Uniformed Services Retirement Modernization Act |
| RMC | regular military compensation |
| TOA | total obligation authority |

D I G E S T

This report discusses the principal factors affecting defense manpower costs and the issues involved in cost reduction. Manpower costs consume over half of the Department of Defense's budget, exceeding \$55 billion in the fiscal year 1976 budget estimates. Even though Defense is not projecting any major increases in manpower levels for the next few years, manpower costs will continue to increase because of cost-of-living pay raises and increases in retirement and survivor benefits. If the budget is to be restrained, the Congress will be confronted with hard choices in allocating funds between manpower and weapons systems.

In recent years, Defense's definition of manpower costs has varied. GAO recommended and the Secretary of Defense agreed to establish a more consistent and inclusive definition of manpower costs to improve understanding of their magnitude and clarify comparisons. (See p. 9.)

The share of Defense's budget taken by manpower costs has increased in recent years because of the following events, each of which GAO believes could be examined more closely.

--Switching to an all-volunteer force.

--Adopting the pay raise comparability principle.

--Rapid rises in military retirement costs.

--Changes in the composition of Defense manpower.

--Changes in grade distribution.

Savings in manpower costs can be achieved only by (1) reducing the number of personnel; (2)

reducing pay levels (both requiring fundamental policy changes), or (3) using personnel more efficiently.

Reductions in personnel

Department of Defense manpower requirements depend upon perceived threats to national security. Chapter 3 (1) describes how Defense translates national security objectives into detailed statements of manpower requirements and (2) provides an example of the effect of a policy change upon manpower costs. (See p. 19.)

Reductions in pay levels

Reducing pay to achieve savings would require a judgment that present levels of compensation and recruitment policies could be adjusted to attract the manpower required at a lower net cost. Even if reductions were feasible, the complexity of the current system makes it extremely difficult to determine a military person's total annual compensation. Since no standard exists for determining military compensation, ascertaining whether the levels of military compensation are appropriate depends on several interrelated and complicated factors. An appropriate system and standard for determining military compensation is needed. (See p. 29.)

Retirement benefits are a valuable part of a military person's overall compensation, particularly because retirement is possible after only 20 years of service. (See p. 33.) The Department of Defense has proposed changes to the Congress intended to improve Defense's personnel management, remove elements of questionable equity, and, in the long run, save money. GAO believes any change in the retirement system should be consistent with the pay system and standard adopted for the military.

GAO points out a longstanding question concerning retirement costs which must be answered before adopting any salary system for the military:

--Have military pay levels been implicitly reduced to include an imputed retirement contribution? (See p. 33.)

Another major issue in the retirement area has recently been resolved with eliminating the 1-percent add-on to retirees' cost-of-living increases. (See p. 39.)

Using personnel more efficiently

GAO believes more efficiency is important and should always be sought. There are, however, limits to manpower cost reductions that can be achieved by this means. Larger reductions can only be achieved by policy changes affecting strength or pay levels.

Potential efficiency improvements have been identified in five areas, in which some changes already have been made.

1. Reducing the size of headquarters and support functions. (See p. 41.)
2. Relying on more Reserve forces. (See p. 42.)
3. Converting from military to civilian positions. (See p. 43.)
4. Reducing military turnover. (See p. 46.)
5. Making training more efficient. (See p. 47.)

CHAPTER 1

INTRODUCTION

Personnel costs, which have taken an increasing share of Department of Defense (DOD) resources since 1964, consume well over half of DOD's budget. Meanwhile, costs of weapons have rapidly risen, causing serious concern that the country may not be able to afford enough of the weapons needed for its defense. This is particularly crucial, since the weapons being developed today will be in the inventory in the next century. Because of this squeeze, concern about the share of DOD's budget devoted to paying and supporting manpower has increased. The squeeze has been further intensified by high inflation rates and, in fact, there has been a real decline in resources allocated to DOD in the past few years. Moreover, if Federal spending is cut, the squeeze on DOD's budget could become acute, since competition for budget dollars will intensify and DOD may receive less.

In recent testimony before the Congress, DOD officials have emphasized that a real decline in the DOD budget, without fundamental changes in national policies, will result in a growing imbalance between commitments and capability. They argue that it is unrealistic to expect DOD to offset such declines year after year by more efficient operations, while still meeting all present requirements. Obviously at some point, military effectiveness will be unacceptably impaired. The point at which this will occur is debatable, but the logic of the argument is sound.

Since manpower costs consume more than half of DOD's budget, we did a review to identify some major issues affecting current and future manpower costs. There are three major ways to achieve considerable savings in manpower costs: (1) reduce the number of personnel by making fundamental policy changes (e.g., by reducing overseas commitments), (2) reduce pay levels, or (3) use personnel more efficiently. Attempting to reduce costs by any of these methods would be difficult. Changing national military policies or lowering pay levels would be controversial and should not be undertaken without careful study.

We are not necessarily advocating these measures, but wish to stress that once it is decided, for example, not to reduce overseas military commitments or lower pay levels, then those avenues for obtaining lower DOD spending are foreclosed. Even the third alternative--achieving savings

through more efficient operations--usually requires considerable effort.

Ultimately, the Congress will determine the appropriate level of DOD spending. In view of budget constraints, striking an appropriate balance between resources for personnel and for weapons will be difficult.

This report, which provides background on the manpower area, is not intended to cover all aspects of DOD manpower, but rather to highlight some major issues. We hope it will lead to further analysis. It was based largely on published DOD materials, congressional hearings and reports, Congressional Research Service (CRS) studies, many of our reports, the Defense Manpower Commission (DMC) report, and studies by other organizations.

CHAPTER 2

OVERVIEW OF DEFENSE MANPOWER TRENDS

DEFINITION OF MANPOWER COSTS

The Department of Defense has no consistent definition of manpower costs; it has presented such costs in several different ways. Although definitions of DOD manpower costs all include such items as military and civil service pay, retired pay, and family housing, the definitions differ in their treatment of personnel support costs. A consistent, comprehensive definition of DOD manpower costs is needed, since those costs consume a major share of DOD's budget. Such a definition (1) would give a more complete picture of the magnitude of those costs, (2) would allow more useful comparisons of those costs over time, and (3) should improve management of those costs.

Manpower costs, as defined by the Office of the Assistant Secretary of Defense (Comptroller) and presented in the fiscal year 1976 DOD Manpower Requirements Report, did not include personnel support costs, except nonpay family housing costs. The Office of the Assistant Secretary of Defense for Manpower and Reserve Affairs (OASD(M&RA)) has recognized other categories of manpower costs than those presented by the Comptroller, but has had trouble determining the additional amounts. Some additional personnel support costs were shown in the fiscal year 1975 DOD Manpower Requirements Report, but OASD(M&RA) realizes that not all costs that could be defined as manpower costs were included.

The Comptroller's definition includes the military payroll, 1/ military special pay and allowances, all direct-hire civilian compensation, 2/ military retired pay, Reserve and

1/Military pay base includes basic pay, reenlistment bonuses, separation pay, Federal Insurance Contribution Act payments (Social Security), death gratuities, enlisted nuclear pay, continuation pay, subsistence cadets, basic allowance for quarters, basic allowance for subsistence of officers, subsistence cash when not available, and subsistence cash other.

2/Civilian compensation includes salaries, premium pay, hazardous duty pay, personnel benefits (such as health insurance and retirement), and numerous minor categories (such as suggestion awards and cost-of-living allowances).

National Guard personnel appropriations, and the nonpay costs of military family housing. The personnel support costs added by OASD(M&RA) were nonpay costs for individual training (as distinguished from crew and unit training, which are considered a cost of accomplishing a mission), the major portion of medical support (including compensation for dependent and retired care in nonmilitary medical facilities under the Civilian Health and Medical Program of the Uniformed Services), recruiting and examining, overseas dependents education program, 50 percent of base operating support, and a small miscellaneous category.

Base operating support includes a wide range of diverse services similar to those provided by local government, utilities, and the "service industry" segment of the civilian economy. Some base operating support costs are manpower costs because there are people to be supported on bases. OASD(M&RA) admits that attributing 50 percent of these costs to manpower is a rough approximation.

DOD officials have pointed out other costs that could be included in a definition of manpower costs. These arise because DOD pays for the services of people in categories other than military (whether active, Reserve, Guard, or retired) and civilian government employees. These include (1) indirect hire of foreign nationals, (2) personnel paid from nonappropriated funds, and (3) support services obtained by contract.

Indirect hires are foreign nationals who work for U.S. forces stationed abroad, but are hired and paid by foreign governments with DOD funds. The cost of this labor is clearly a DOD manpower cost, but before fiscal year 1977 it had not been included because it was not defined as a manpower cost in the DOD reporting system.

The cost of nonappropriated fund personnel is borne by the nonappropriated fund, though there would be a small indirect cost for managing the nonappropriated fund employee personnel program paid from appropriated funds. Therefore, whether a complete accounting of DOD manpower costs should include the nonappropriated fund employees depends on what question is asked. If the question is what portion of the resources allocated to DOD is spent to support its labor force, the cost of nonappropriated fund employees need not be included. But those costs should be included in determining the portion of the Nation's labor force devoted to supporting DOD activities. However, if this is the question asked, a much larger area should be included, such as

the labor costs of contractors manufacturing weapon systems and of companies supplying raw materials to the contractors. This is why DOD testimony before the Congress has indicated that, at an extreme, most items in the DOD budget can be directly or indirectly related to manpower.

Support services obtained by contract should also be included in a complete accounting of DOD manpower costs. But both problems described above are encountered: (1) DOD's accounting systems do not readily disclose these costs and (2) there is a problem identifying which contracts should have all or part of the labor cost counted as manpower cost and how much labor cost should be included. For example, that a contract for janitorial services would be a manpower cost is clear, but whether a contract for research should be included is not.

In discussing manpower cost trends, we have not included several of these categories of costs that might be included in DOD manpower costs. Our presentation of manpower costs is limited either because costs other than those presented are not available or because the portion to be included is debatable. The following table shows the manpower costs identified in this report.

Manpower Costs--Selected Years (note a)

| | <u>FY</u> <u>64</u> | <u>FY</u> <u>68</u> | <u>FY</u> <u>74</u> | <u>FY</u> <u>75</u> | <u>FY</u> <u>76</u> (note b) | <u>FY</u> <u>77</u> (note c) |
|---|---------------------------------------|------------------------|------------------------|------------------------|------------------------------------|------------------------------------|
| | <u>(outlays in billions) (note d)</u> | | | | | |
| Civilian payroll | \$ 7.3 | \$ 10.3 | \$ 13.4 | \$ 14.6 | \$ 15.5 | \$ 16.0 |
| Military paybase | 10.6 | 15.3 | 21.0 | 21.6 | 22.0 | 22.6 |
| Other personnel | 2.4 | 4.6 | 2.7 | 3.4 | 3.6 | 3.7 |
| Military retired pay | 1.2 | 2.1 | 5.1 | 6.2 | 7.3 | 8.4 |
| Defense family housing-nonpay costs | .5 | .4 | .7 | .9 | 1.1 | 1.1 |
| Total costs--basic definition | \$ 22.0 | \$ 32.6 | \$ 43.0 | \$ 46.7 | \$ 49.4 | \$ 51.8 |
| Personnel support | 1.9 | 3.2 | 3.9 | 4.3 | 4.7 | 4.6 |
| Indirect hire | .4 | .5 | .8 | .7 | 1.1 | 1.1 |
| Total costs--expanded definition | \$ 24.4 | \$ 36.3 | \$ 47.7 | \$ 51.7 | \$ 55.2 | \$ 57.5 |
| DOD budget (note e) | \$ 49.6 | \$ 77.4 | \$ 77.6 | \$ 85.0 | \$ 89.8 | \$ 99.6 |
| Federal budget (note f) | \$118.6 | \$178.8 | \$268.4 | \$324.6 | \$373.5 | \$394.3 |

a/May not add due to rounding.

b/Estimate.

c/President's proposed budget.

d/The data for calculating total costs--expanded definition was obtained from the Comptroller and OASD(NSRA) during January 1976.

e/Defined as DOD-military subfunction of the national defense budget function. DOD in all major reports and in congressional testimony included military assistance which has been omitted in all computations for this report.

f/Defined as unified Federal budget.

The above discussion has included the costs of DOD manpower to DOD only. But a much broader look could include costs incurred by the U.S. Treasury, because people are or were part of DOD's labor force. These costs are outside the scope of this report, but might well include all or part of the budgeted amounts for such activities as (1) Veterans Administration (\$17.7 billion in fiscal year 1977), (2) Selective Service System (\$7 million), and (3) Civil Service retirement costs above the 7-percent agency contribution (roughly \$1.8 billion could be termed the DOD share for fiscal year 1976 based simply on current percentages of total civilian work force and payroll). Also, a tax expenditure of about \$1 billion per year results for Federal tax advantages of military personnel. (See p. 25.)

TRENDS IN MANPOWER COSTS

For describing trends, it makes little difference whether manpower costs are expressed in terms of total obligational authority (TOA), budget authority, or outlays. ^{1/} Most manpower obligations incurred become outlays in the same fiscal year they are incurred and very little is carried over from year to year. However, for comparing manpower costs and the total DOD budget, the procurement accounts can be considerably different whether expressed as TOA and budget authority or outlays, because considerable lags can exist between when obligations are incurred and when funds are actually expended.

In general, if TOA or budget authority is rising, the percentage of DOD resources devoted to manpower will appear smaller if expressed in these terms than if expressed in terms of outlays. For example, the fiscal year 1975 DOD Manpower Requirements Report, expressed in TOA, would have shown the 1974 manpower cost proportion of the DOD budget as 50.9 percent, if it had not included the additional personnel support costs. The fiscal year 1976 report, however, expressed in outlays, showed the fiscal year 1974 proportion as 54.8 percent. Because most manpower obligations become outlays the same year, we have chosen to display manpower costs in relation to outlays throughout this discussion.

^{1/}Total obligational authority is the sum of budget authority granted or requested from the Congress in a given year, plus unused budget authority from prior years. Budget authority is authority provided by the Congress allowing Federal agencies to incur obligations to spend or lend money. Outlays are payments made, net of refunds and reimbursements.

The following table shows manpower costs as defined by the DOD Comptroller as a percentage of the DOD budget and the Federal budget in terms of outlays for selected years.

Trend in Manpower Costs--Basic Definition

| | <u>FY</u> <u>64</u> | <u>FY</u> <u>68</u> | <u>FY</u> <u>74</u> | <u>FY</u> <u>75</u> | <u>FY 76</u> <u>(note a)</u> | <u>FY 77</u> <u>(note b)</u> |
|------------------------|------------------------|------------------------|------------------------|------------------------|---------------------------------|---------------------------------|
| | ----- (percent) ----- | | | | | |
| DOD budget (note c) | 44.4 | 42.2 | 55.4 | 54.9 | 55.0 | 52.0 |
| Federal budget | 18.6 | 18.3 | 16.0 | 14.4 | 13.2 | 13.1 |

a/Estimated.

b/Proposed in President's budget.

c/Defined as DOD-military subfunction of national defense budget function.

The percentage of the DOD budget allotted to manpower costs has leveled off in recent years after climbing considerably higher than it was before the switch to the all-volunteer army and the adoption of the pay comparability principle. The percentage of the Federal budget devoted to DOD manpower has steadily declined.

As shown in the following table, when the additional costs are included (personnel support and indirect hires), the percentages become higher than when the basic definition is used, but the trends do not change.

Trend in Manpower Costs--Expanded Definition

| | <u>FY</u> <u>64</u> | <u>FY</u> <u>68</u> | <u>FY</u> <u>74</u> | <u>FY</u> <u>75</u> | <u>FY 76</u> <u>(note a)</u> | <u>FY 77</u> <u>(note b)</u> |
|----------------------------|----------------------------------|------------------------|------------------------|------------------------|---------------------------------|---------------------------------|
| | ----- (percent of outlays) ----- | | | | | |
| Defense budget (note c) | 49.0 | 47.0 | 61.5 | 60.8 | 61.5 | 57.7 |
| Federal budget | 20.5 | 20.3 | 17.8 | 15.9 | 14.8 | 14.6 |

a/Estimated.

b/Proposed in President's budget.

c/Defined as DOD-military subfunction of national defense budget function.

The expanded definition does not include all that we believe should be included as manpower costs. For example, some contract services are a substitute for DOD manpower and should be included, but cannot be identified without a struggle to (1) define which contracts are manpower substitutes and (2) identify the manpower cost component of the contract price. Also, contracting out may be used to circumvent controls over authorized DOD-manpower levels. 1/

RECOMMENDATION

To provide the Congress with (1) a more complete picture of the magnitude of manpower costs, (2) more useful comparisons of manpower costs overtime, and (3) improved management of these costs, we recommend that the Secretary of Defense establish a consistent, comprehensive definition of defense manpower costs.

AGENCY COMMENTS

DOD agreed with this recommendation and stated that they were reviewing the definition of manpower costs and would establish a consistent, comprehensive definition that will (1) be in future annual DOD reports, manpower requirements reports, and budget news releases and (2) meet the needs of DOD management and the Congress. (See app. I.)

DOD's intentions in this area are praiseworthy, in view of the potentially confusing use of different definitions of manpower costs in each of the last 3 years. The definition should, at a minimum, be as inclusive as the expanded definition presented on page 6.

CHANGE IN COMPOSITION OF DOD MANPOWER COSTS

The following table shows the components of manpower costs expressed as a percentage of total costs in each year. If the percentage is decreasing (as is military pay base from fiscal year 1974 to fiscal year 1977), that component's cost is increasing more slowly than overall manpower costs; if the percentage is increasing, the reverse is true.

1/See our report B-165959, Apr. 30, 1971.

Changes In Composition Of Manpower
Costs--Expanded Definition

| | <u>FY 64</u> | <u>FY 68</u> | <u>FY 74</u> | <u>FY 75</u> | <u>FY 76 (note a)</u> | <u>FY 77 (note b)</u> |
|---------------------------------------|---------------------------------------|------------------|------------------|------------------|---------------------------|---------------------------|
| | ————(percent of outlays) (note c)———— | | | | | |
| Civilian payroll | 30.1 | 28.3 | 28.2 | 28.2 | 28.0 | 27.8 |
| Military paybase | 43.7 | 42.0 | 44.0 | 41.7 | 39.8 | 39.2 |
| Other military personnel | 9.8 | 12.6 | 5.7 | 6.6 | 6.4 | 6.4 |
| Military retired pay | 5.0 | 5.8 | 10.7 | 12.1 | 13.3 | 14.7 |
| Defense family housing-non- pay | 2.1 | 1.1 | 1.5 | 1.8 | 1.9 | 2.0 |
| Personnel support | 7.8 | 8.8 | 8.2 | 8.3 | 8.5 | 8.0 |
| Indirect hires | 1.6 | 1.4 | 1.7 | 1.4 | 2.0 | 1.9 |

a/Estimated.

b/Proposed in President's budget.

c/Figures may not total 100 percent due to rounding.

The only category showing a consistent trend different from overall manpower costs has been military retired pay, which has increased much faster. From 1964 to 1977 the increase has been about 16 percent compounded annually since 1964 in current dollars, and about 8.5 percent in constant dollars. The increase has been caused by a combination of inflation, real increases in the base pay on which retirement pay is based, and greater numbers of people receiving benefits. It should be noted that the provision for retired pay in the budget is for current disbursements and, thus, represents the cost of past service rather than the future liability accruing from current service.

The fiscal year 1976 jump in the personnel support category results primarily from increases in base operating support and medical support. Base operating support increased after being virtually level for several years, but the increase in medical support is a return to a trend of rapid increase since 1964.

PERSONNEL TRENDS

DOD manpower is composed of four major groups--active military, selected Reserve, direct-hire civilians, and indirect-hire civilians. Selected reservists (1) are required to be trained periodically, (2) usually belong to organized units, and (3) constitute the bulk of the Reserves in paid status. Since 1973 total DOD manpower has slowly declined at an average rate of about 2 percent per year. DOD manpower for selected years and projections based on the fiscal year 1976 budget proposals for the next 2 years are shown in the table on the following page.

This presentation does not include the individual Ready Reserve. Individual ready reservists normally are not in organized Reserve units, do not train, and are not paid. They make up a pool of previously trained personnel, liable to individual callup, who are fulfilling their Reserve obligation after active duty service.

The following table shows the change in composition of DOD manpower since 1964. Some shift from active military to civilians and reservists is evident. In the interim, the composition changed greatly due to the Vietnam war, but it has been virtually unchanged since 1973.

Composition of DOD Manpower

| | <u>1964</u> | <u>1977</u> <u>(note a)</u> | <u>Difference in</u> <u>percentages</u> |
|-------------------------------------|-----------------------|--------------------------------|--|
| | ----- (percent) ----- | | |
| Active military | 55.8 | 52.7 | -3.1 |
| Selected Reserve | 19.8 | 21.3 | +1.5 |
| Direct-hire civilians | 21.5 | 23.6 | +2.1 |
| Indirect-hire civilians | <u>2.9</u> | <u>2.4</u> | <u>-.5</u> |
| | <u>100.0</u> | <u>100.0</u> | |
| Total number of personnel (million) | 4.8 | 4.0 | -.8 |

a/Proposed in the President's budget.

The table on page 13 presents the changes in composition of DOD manpower by service. The Army, Marine Corps, and other DOD elements have increased their shares of DOD manpower since 1964, while the Navy and Air Force have decreased their shares.

**DOD Manpower for Selected Years
As of End of Fiscal Year (note a)**

| | Military | | | Civilian | |
|----------------------------|----------|--------|------------------|-------------|---------------|
| | Total | Active | Selected reserve | Direct hire | Indirect hire |
| 1964 | | | | | |
| (thousands) | | | | | |
| DOD total | 4,778 | 2,688 | 951 | 997 | 140 |
| Army | 2,052 | 973 | 630 | 336 | 93 |
| Navy | 1,137 | 668 | 123 | 332 | 14 |
| Marine Corps | 236 | 190 | 46 | - | - |
| Air Force | 1,314 | 857 | 134 | 290 | 33 |
| Other DOD activities | 39 | - | - | 39 | - |
| 1968 | | | | | |
| DOD total | 5,823 | 3,547 | 922 | 1,234 | 119 |
| Army | 2,713 | 1,570 | 633 | 430 | 80 |
| Navy | 1,319 | 765 | 124 | 416 | 14 |
| Marine Corps | 354 | 307 | 47 | - | - |
| Air Force | 1,362 | 905 | 118 | 313 | 26 |
| Other DOD activities | 75 | - | - | 75 | 0.2 |
| 1973 | | | | | |
| DOD total | 4,270 | 2,252 | 919 | 998 | 101 |
| Army | 1,827 | 801 | 621 | 333 | 72 |
| Navy | 1,023 | 564 | 126 | 321 | 12 |
| Marine Corps | 234 | 196 | 38 | - | - |
| Air Force | 1,112 | 691 | 134 | 270 | 17 |
| Other DOD activities | 73 | - | - | 73 | .4 |
| 1974 | | | | | |
| DOD total | 4,195 | 2,161 | 926 | 1,014 | 94 |
| Army | 1,829 | 783 | 638 | 342 | 66 |
| Navy | 997 | 546 | 115 | 324 | 12 |
| Marine Corps | 222 | 189 | 33 | - | - |
| Air Force | 1,074 | 644 | 140 | 274 | 16 |
| Other DOD activities | 76 | - | - | 75 | .6 |
| 1975 | | | | | |
| DOD total | 4,106 | 2,129 | 897 | 990 | 89 |
| Army | 1,804 | 784 | 620 | 338 | 63 |
| Navy | 962 | 535 | 98 | 315 | 11 |
| Marine Corps | 230 | 196 | 34 | - | - |
| Air Force | 1,037 | 613 | 146 | 264 | 14 |
| Other DOD activities | 74 | - | - | 73 | .6 |
| 1976 (note b and c) | | | | | |
| DOD total | 4,022 | 2,087 | 874 | 965 | 96 |
| Army | 1,769 | 782 | 592 | 327 | 68 |
| Navy | 950 | 525 | 101 | 313 | 11 |
| Marine Corps | 230 | 196 | 34 | - | - |
| Air Force | 997 | 584 | 147 | 250 | 15 |
| Other DOD activities | 77 | - | - | 75 | 2 |
| 1977 (note d) | | | | | |
| DOD total | 3,988 | 2,101 | 849 | 942 | 94 |
| Army | 1,787 | 790 | 619 | 314 | 64 |
| Navy | 916 | 544 | 52 | 309 | 11 |
| Marine Corps | 230 | 196 | 34 | - | - |
| Air Force | 973 | 571 | 145 | 241 | 16 |
| Other DOD activities | 82 | - | - | 80 | 2 |
| 1978 (note d) | | | | | |
| DOD total | 3,988 | 2,098 | 852 | 944 | 94 |
| Army | 1,787 | 790 | 619 | 314 | 65 |
| Navy | 916 | 544 | 52 | 309 | 11 |
| Marine Corps | 230 | 196 | 34 | - | - |
| Air Force | 972 | 568 | 147 | 241 | 16 |
| Other DOD activities | 82 | - | - | 80 | 2 |

a/May not add due to rounding.

b/Estimate.

c/Dependent Education Employees added to end strengths FY 76-78.

d/Proposed President's budget.

Composition Of DOD Manpower
By Type and Service (note a)

| | June 30, 1964 | June 30, 1977 (note b) | Difference in percent- ages |
|------------------------------|-----------------------|------------------------------|-----------------------------------|
| | ----- (percent) ----- | | |
| Army: | | | |
| Active military | 20.2 | 19.8 | -0.4 |
| Direct-hire civilians | 7.5 | 7.9 | +0.4 |
| Selected Reserve | 13.5 | 15.5 | +2.0 |
| Indirect-hire civilians | <u>1.9</u> | <u>1.7</u> | -0.2 |
| Total | <u><u>43.1</u></u> | <u><u>44.9</u></u> | <u><u>+1.8</u></u> |
| Navy: | | | |
| Active military | 13.9 | 13.6 | -0.3 |
| Direct-hire civilians | 6.9 | 7.7 | +0.8 |
| Selected Reserve | 2.6 | 1.3 | -1.3 |
| Indirect-hire civilians | <u>.3</u> | <u>.3</u> | - |
| Total | <u><u>23.7</u></u> | <u><u>22.9</u></u> | <u><u>-0.8</u></u> |
| Marine Corps: | | | |
| Active military | 3.9 | 4.9 | +1.0 |
| Selected Reserve | <u>1.0</u> | <u>.9</u> | -0.1 |
| Total | <u><u>4.9</u></u> | <u><u>5.8</u></u> | <u><u>+0.9</u></u> |
| Air Force: | | | |
| Active military | 17.8 | 14.3 | -3.5 |
| Direct-hire civilians | 6.3 | 6.0 | -0.3 |
| Selected Reserve | 2.8 | 3.6 | +0.8 |
| Indirect-hire civilians | <u>.7</u> | <u>.4</u> | -0.3 |
| Total | <u><u>27.6</u></u> | <u><u>24.3</u></u> | <u><u>-3.3</u></u> |
| DOD other activities: | | | |
| Direct-hire civilian | .8 | 2.0 | 1.2 |
| Indirect-hire civilian | <u>.0</u> | <u>.1</u> | <u>.1</u> |
| Total | <u><u>.8</u></u> | <u><u>2.1</u></u> | <u><u>+1.3</u></u> |

a/May not add due to rounding.

b/Proposed in President's budget.

GRADE ESCALATION

The increased proportion of manpower costs in the DOD budget is partly the result of higher average military and civilian grades. The Congress has long been concerned with grade escalation; that is, the process by which the number of personnel in higher grade levels increases in proportion to those at lower grade levels, resulting in a rise in the average grade. The House Appropriations Committee report on the fiscal year 1976 DOD appropriations bill states:

"In recent years the appropriation bill contained a limitation which established maximum numbers of officers in each grade who could be paid during the last quarter of the fiscal year. As a result of these limitations and other actions, the officer grade structure, except for the medical community, has nearly returned to pre-Vietnam levels. This does not mean that further reductions in the officer grade levels are not warranted, overall the levels are still enhanced over those of the 1950's and there is considerable indication that further reductions in the grade of O-6 (Colonel, Captain in the Navy) are possible."

* * * * *

"Grade creep seems to have continued unabated, on the civilian side of the budget. The number of GS-15 and GS-16 grade civil servants has nearly doubled since 1961. Nor has the number of civilian employees declined at a rate comparable to the military strength reduction. In 1964 the DOD employed about 1,035,000 direct hire civilians and 2,685,000 active duty military personnel. The military strength has declined to just over 2,100,000 but civilian manpower is only slightly under a million--994,000. In testimony, the Assistant Secretary of Defense for Manpower and Reserve Affairs stated 'There is no question that the grade structure (civilian) has been enriched compared to prior years.' He also indicated that the reasons for much of this growth are unknown."

The Congressional Research Service, in a recently released study on General Schedule grade growth for 1967-74, 1/ found that grade growth in DOD's General Schedule employee population cost more than \$500 million. CRS used the following methodology:

"The total number of employees in each department as of March 31, 1974, was determined. The total was broken down according to the percentage distribution on the General Schedule as it was in each department in 1967. This was done so that, using 1974 total employees, it would be possible to determine how many persons would be in each grade if there had been no grade distribution change since 1967. The number of employees was then multiplied by the salary for step four of each grade as of October 14, 1974. The same computation was made for each grade based on how the employees were actually distributed in 1974."

In a recent report on classification of Federal white-collar jobs, we found that weak controls and pressures exerted on job classifications have resulted in overgraded Federal positions, although how many is unknown. We believe that top Federal management must make a commitment to improve the job classifications and to organize the work of Federal departments and agencies economically, since overgraded positions increase costs and adversely affect employee morale and productivity. 2/

We applied the CRS methodology to active military personnel for June 30, 1964, to June 30, 1975. Using an estimate of regular military compensation (RMC) 3/ based on pay rates as of October 1974, we found that the cost of grade growth during this period was roughly \$900 million (i.e., had the 1975 grade distribution been unchanged from that in 1964, RMC would have been \$900 million less in 1975). RMC does not measure all military compensation, but is a useful indicator of the magnitude of grade escalation costs. Nor is it necessarily true that \$900 million in savings is

1/"Cost of grade creep in Federal civil service." CRS, Aug. 13, 1975.

2/See our report B-167266, Dec. 4, 1975.

3/See p. 28 for definition of RMC.

immediately realizable by returning to the 1964 grade distribution. If, for example, the grade reduction were accomplished by retiring colonels and hiring lieutenants, the sum of the lieutenants' pay and the colonels' retired pay might be more than the colonels' active duty pay was.

In hearings on military posture before the House Committee on Armed Services in 1975, DOD described its efforts to control grade escalation.

"Officer strength has come down rather dramatically from our benchmark starting point in 1973, to our projected strength at the end of 1976. There is a reduction of 39,000, or 12 percent, compared to an overall military reduction of 7 percent over that period.

"This has been a deliberate program to redress the officer/enlisted ratio (sic should be enlisted/officer). The ratio has increased from 6.0 in 1973 to 6.5 where it will be at the end of fiscal year 1976. * * *

In 1964 we had a ratio of 7.0. It rose to 7.5 when we increased the force for the Vietnam War. This is the trend one would expect during a conflict--a period of increased force levels.

"When we came back down again, it was much easier to reduce the enlisted force than to reduce the officer force. There are many reasons. Many of them stem from legal constraints. During the reduction, the ratio fell back to the level of 6.0.

"The 39,000 reduction we are planning is one-quarter of the total military reduction. Thus for every three reductions in the enlisted force, we have one reduction in the officer force. * * *

"For the generals and the admirals, we are reducing over the 3-year period a total of 106. That is an 8-percent reduction. We propose in 1976 to have 1,185, which is down another 15 from the rather significant drop that we proposed in 1975 that was approved by the Congress. There is an 8-percent reduction in the level of colonels and Navy captains, for a reduction of 1,300.

"In the lieutenant colonels and commanders, we have a 10-percent reduction.

"These programs should be examined in more detail, however, because of the influence of the medical group on the grade structure. * * *

"The reductions then become more dramatic. The reduction is 10-percent for colonels and Navy captains, and 11-percent for lieutenant colonels and commanders.

"We feel that we are really in control of this. It is a fairly steep decline and in the future we will make other reductions. Office strength should come down by another 10,000."

The following table shows the actual end strength of officers for fiscal years 1964, 1973, and 1975 and the 1964 officer grade distribution applied to the actual 1975 total number of officers. DOD has reduced the number of officers in each grade between 1964 and 1975. However, a comparison of the computed 1975 officer grade distribution based on the 1964 grade structure to the actual 1975 distribution reveals an increase in all but the lower two grades. A comparison for enlisted personnel reveals similar trends.

Officer Distribution for Selected Years

| | <u>Actual</u> <u>1964</u> | <u>Actual</u> <u>1973</u> | <u>Actual</u> <u>1975</u> | <u>Computed 1975</u> <u>based on</u> <u>1964 officer</u> <u>distribution</u> |
|---------------------------------|------------------------------|------------------------------|------------------------------|---|
| General/flag officers | 1,291 | 1,290 | 1,181 | 1,103 |
| Colonel/captain | 15,323 | 16,231 | 14,798 | 13,095 |
| Lt. colonel/ commander | 36,347 | 36,454 | 33,268 | 31,062 |
| Major/Lt. commander | 55,081 | 59,801 | 54,562 | 47,074 |
| Captain/lieutenant | 105,884 | 102,913 | 94,622 | 90,489 |
| 1st lieutenant/Lt. junior grade | 59,337 | 46,471 | 41,929 | 50,709 |
| 2nd lieutenant/ ensign | 47,864 | 37,097 | 34,077 | 40,905 |
| Total commissioned officers | <u>321,127</u> | <u>300,257</u> | <u>274,437</u> | <u>274,437</u> |

Another way to analyze this trend is to compute the ratio of officers to enlisted personnel for selected years and the percent of total officers of rank colonel/captain and above. This analysis, shown below, reveals conflicting trends. As DOD has said in recent hearings, officer strength is being reduced and the ratio of officers to enlisted men is going down. But, the percentage of officers in the rank of colonel/captain and above is increasing.

Officer Strength Trends (note a)

| | <u>1964</u> | <u>1968</u> | <u>1973</u> | <u>1974</u> | <u>1975</u> |
|---|-------------|-------------|-------------|-------------|-------------|
| Officer/enlisted men ratio | 1 to 6.9 | 1 to 7.5 | 1 to 6.0 | 1 to 6.1 | 1 to 6.2 |
| Percentage of officers colonel/captain and above | 4.9 | 4.6 | 5.4 | 5.6 | 5.8 |

a/Officer candidates excluded from computation; warrant officers included as officers.

In a recent review 1/, we found that the number of upper level officer positions was largely a product of the number of echelons, rather than individual grade determinations for each position. We concluded that sizable reductions, through eliminating and consolidating the number of management headquarters and staffs and associated duplicative functions, may offer the best means of reducing field grade officer positions. DOD is conducting a comprehensive study of headquarters requirements. (See p. 41.)

Some grade escalation may be justified; higher skill levels are probably needed because of technological changes and more complex operations. Other reasons for grade escalation include (1) legislation authorizing continuation of military personnel in selected skills and (2) tenure requirements for the middle grade officers. The proposed DOD Officer Personnel Management Act includes provisions to increase flexibility in tenure requirements. A way to determine whether unjustified grade growth has occurred is to judge individual job content against valid criteria and standards to assure that the proper grade or rank has been assigned the job. The basic need for the job should also be examined. Only such comprehensive studies can precisely determine what portion of grade escalation is truly unjustified.

a/See our report B-125037, Mar. 25, 1975.

CHAPTER 3

DOD MANPOWER REQUIREMENTS

DETERMINATION OF MANPOWER REQUIREMENTS

The Department of Defense defines its personnel requirements in relation to the perceived threats to national security. DOD planning in response to the threat results in a requirement for a certain number of divisions, air wings, naval forces, war reserve stocks, and strategic mobility forces which, in turn, require a certain number of personnel to operate and maintain.

DOD described how force size and structure are determined in the fiscal year 1975 Defense Manpower Requirements Report. DOD first derives a specific set of defense planning criteria from the broad policies and national security objectives set forth by the President. These criteria are presented in the "Defense Policy and Planning Guidance." After this,

- the threat is examined and detailed threat estimates are developed;
- estimates are made of the U.S. and allied forces needed to successfully defend against and, thus, deter an attack by a potential enemy (i.e., prevent him from being confident that he could achieve his objectives at an acceptable cost);
- the present and future forces and capabilities of the United States and its allies are then assessed and compared with the threat; and
- U.S. force planning is adjusted and coordinated with the allies so that the combined capabilities are adequate to achieve mutual objectives against the threat at a prudent level of risk.

This is an iterative process involving incremental changes in current and planned sizing and organizing of U.S. forces.

Determining manpower requirements is a complex process involving weighing such other factors as budgetary constraints, the need to maintain a rotation base, grade management and promotion progression considerations, and organizational alinement.

Thus, the final recommended size and organization of U.S. forces results from a multistep planning process. At several points in this process, assumptions or decisions can be changed and different ultimate manpower requirements can result.

Changes could occur in the following:

- The broad policies and national security objectives. They determine what U.S. military forces must be able to do.
- The estimate of the threat. This estimate, especially in relation to planning, involves considerable judgment and there could be disagreement with DOD's perception of the threat. For example, a key assumption regarding manpower levels relates to the length of possible conflict. If short wars are envisioned, active and in-place troops are essential because limited time may prevent redeploying troops or activating enough Reserves to change the outcome.
- The judgment of U.S. and allied capability. Until tested, the relative capabilities of U.S. and allied forces in combating the threat are also matters of considerable judgment. In addition, planning could call for an increased allied contribution to overall capability, which could reduce U.S. requirements. Or the form of allied contribution could be changed, such as greater reliance on allies for manpower-intensive ground troops with U.S. agreement to provide primarily air and naval support.
- The way in which the threat is met. This might involve decisions to rely on tactical nuclear weapons rather than conventional forces or to increase air power and reduce ground forces.
- Efficiency. Once the "output" in terms of required military capability has been agreed upon and the number of divisions, ships, and airplanes derived, the required manpower still may vary. Efficiencies might improve labor productivity (i.e., reduce the required manpower associated with a given output), such as by increasing the firepower per man. In this regard, the Defense Manpower Commission has recommended that DOD establish a management capability to continue to identify opportunities for reducing costs by substituting capital equipment for manpower.

EXAMPLE: CONSEQUENCE OF
CHANGE IN POLICY

As pointed out on page 1, one of the three major ways to reduce manpower costs is to make a fundamental policy change that would require less manpower, such as reducing overseas commitments.

To illustrate the effect of such a policy decision, we asked DOD to calculate the savings if the United States were to terminate its Asian defense commitments. Selecting this policy decision as an illustrative example of the consequence of such a decision should in no way be interpreted to mean that we are endorsing such a decision or even proposing its consideration. DOD cautioned in its response to our request that it does not believe the United States should end or reduce our Asian commitments. The response further stated that to reduce our Asian commitments

"Would upset the balance of power in the region, limit our ability to effectively apply influence in the area, and in general would be detrimental to United States military, economic, and political interests."

DOD also said:

"There is no simple answer to your question or a single cost which can be said to represent savings if we were to end our Asian commitments. The magnitude of the savings depends upon what forces, if any, may be deactivated."

Under one alternative, DOD selected no forces for deactivation; under a second alternative, it selected one Army division and three Air Force squadrons. The total U.S. force deployed in the Pacific and/or identified as providing force for Pacific area contingencies consists of:

- One Army division in Korea and one in Hawaii.
- One Marine division and one brigade.
- One Marine aircraft wing.
- Nine Air Force fighter/attack squadrons.
- One Air Force bomber and one tanker squadron.

--The 7th Fleet, 1/ usually including 2 carriers and 31 surface combatants.

DOD gave several specific reasons for not including more or all of the above forces among those assumed to be deactivated. In a general comment, DOD said:

"Few, if any, of our forces are justified and deployed solely by our commitments to our Asian allies. As a result, the ending of our Asian commitments would not lead to the deactivation of all of our forces deployed in Asia and the Pacific or the reinforcements scheduled to be employed in that theater."

The following table presents DOD's estimate of the probable savings to the Five Year Defense Program dollars from an Asian commitment policy change. The savings include procurement and operation and maintenance costs, as well as manpower costs. Savings are offset initially by the one-time costs of redeployment or deactivation of forces.

Probable Savings from Asian Policy Change

| | <u>FY</u> <u>1977</u> | <u>FY</u> <u>1978</u> | <u>FY</u> <u>1979</u> | <u>FY</u> <u>1980</u> |
|---|---------------------------------|--------------------------|--------------------------|--------------------------|
| | ----- (billions) (note a) ----- | | | |
| Cost of Asian deployments and reinforcements | 7.0 | 7.3 | 7.4 | 7.7 |
| Savings with no force deactivation | b/- .8 | .4 | .6 | .6 |
| Savings with deactivation of some Asian deployed forces | 0.0 | 1.4 | 1.4 | 1.4 |

a/Generally, Five Year Defense Program dollars are adjusted for inflation in procurement expenditures, but not for inflation in manpower costs. Thus, the numbers in the table are a mix of constant and current dollars.

b/Redeployment costs.

DOD clearly regards most of the Asian forces as having an important role for unilateral U.S. defense interests or

1/Does not include the 3rd Fleet, deployed in the Eastern Pacific.

a high potential for use by the North Atlantic Treaty Organization. More of the approximate \$7 billion cost of Asian deployments and reinforcements could be saved if fewer forces were regarded as having this role or potential use so more forces could be deactivated.

DOD stated that ending U.S. Asian commitments entailed high risk, but if these commitments were terminated, all forces should be retained and any savings from redeployment should also be retained in DOD to improve capabilities "in other areas where they are less than those desired by the JCS [Joint Chiefs of Staff] and the Services." This position apparently results from military requirements being defined not only in response to the threat, but also within fiscal constraints. Thus, if resources are freed by reducing commitments in one area, DOD prefers to apply those resources to reduce the risk areas where fiscal constraints resulted in lower force levels than military judgment would desire.

We reiterate that this is a hypothetical example to illustrate the cost consequences of a fundamental policy change. Selection of this policy decision as the example should not be interpreted to mean that we are endorsing such a decision or even proposing its consideration.

CHAPTER 4

MILITARY COMPENSATION SYSTEM

The military compensation system is a complex patchwork of numerous forms of pay and allowance and a multitude of in-kind fringe benefits. ^{1/} The Senate Appropriations Committee in a report on the fiscal year 1976 Department of Defense appropriation bill said, "the inherent complexity of the present military pay system defies logical analysis or perception of total compensation, let alone its comparability with any other sector."

The following sections describe in general terms some of the major elements of military compensation. It is not intended to be an exhaustive exposition, but merely to provide some background and appreciation of the system's complexity and to highlight some fundamental issues relating to military compensation.

PAY AND ALLOWANCES

All military personnel receive a basic pay intended to compensate them for services rendered. This is the principal element of military compensation. The amount of basic pay is a function of a member's rank and length of service in the Armed Forces. Unlike civil service employees who normally receive a single salary, military personnel are also entitled to various pays and allowances, depending on such factors as rank, length of service, marital status, number of dependents, type of assignment, and location.

Military personnel receive allowances for certain needs that civilians normally meet from their salaries. All military personnel are entitled to subsistence and quarters or a cash allowance if not provided in kind. ^{2/} A subsistence allowance is paid in cash to all officers and to enlisted personnel who are not provided rations in kind. A quarters allowance is paid whenever Government quarters are not furnished. The amount depends on a member's rank and number of dependents.

^{1/}See The Military Pay Muddle by Martin Binkin (The Brookings Inst., 1975) for a discussion of the military compensation system.

^{2/}Items provided in place of money, such as housing or food.

A tax advantage results because quarters and subsistence allowances--whether furnished in kind or in cash--are not subject to Federal income tax. As of October 1974, DOD estimated that the annualized tax advantage (revenues forgone by the Treasury) amounted to over \$1 billion. As a rule, pay items are taxable whereas allowances are not.

In its April 1976 report the Defense Manpower Commission recommended that the items currently comprising the regular military compensation be converted into a fully taxable military salary and differences in present RMC based on marital status be eliminated.

Besides basic pay and allowances for quarters and subsistence, there is a series of special pays and bonuses for special conditions, such as difficult-to-recruit skills and hardship assignments.

--Bonus payments up to \$3,000 are authorized to attract volunteers in designated critical military occupations for which the number of enlistments have not met DOD's needs.

--Members with critical skills can receive up to \$15,000 for staying in the service for specified periods.

--A few enlisted personnel receive proficiency pay ranging from \$50 to \$150 a month to supplement the bonuses used to retain personnel in critical skills.

--Certain medical professionals receive a special pay of from \$100 to \$350 a month and continuation pay of 2 to 4 months' basic pay or a variable incentive pay.

--Military personnel may also receive various monthly incentive pays ranging from \$55 to \$245 for special assignments, such as flying, submarine duty, parachute jumping, diving, serving in combat, and carrier flight deck duty.

Other pays and allowances are paid to meet special needs or under prescribed circumstances. For example, (1) enlisted personnel receive a special pay for serving at sea and at some overseas locations, (2) personnel in special assignments, such as recruiting, also receive additional pay, (3) personnel in high-cost areas outside the United States receive overseas station allowances, (4) members separated from their families for over 30 days

receive a family separation allowance, and (5) enlisted members generally receive a clothing maintenance allowance. General officers of the rank of lieutenant general or general and incumbents of certain positions receive a nontaxable personal money allowance ranging from \$500 to \$5,200 a year to defray official expenses.

FRINGE BENEFITS

Military personnel are also entitled to fringe benefits which are undoubtedly of great importance and value to the recipients. However, such benefits are difficult to measure, and those received by various members vary greatly. Supplemental benefits are intended to meet members' needs or to support military personnel policies. These benefits somewhat parallel those received by civilian employees, but some are more comprehensive.

Medical care is a major benefit to active and retired military personnel and their dependents. Active military personnel are normally treated in military medical facilities at no charge. Retirees and dependents may be treated either in military medical facilities (if space is available) or in civilian medical facilities. For inpatient care in civilian facilities, retirees and their dependents pay 25 percent of the cost; for outpatient care, they pay 25 percent of the cost above \$50 (\$100 maximum per family). Dependents of active military personnel pay \$3.90 per day in either military or civilian facilities (minimum of \$25 per admission to a civilian facilities), but pay about 20 percent of the cost of outpatient care in civilian facilities after paying a deductible amount.

Base commissaries and exchanges enable military shoppers to buy at discounted prices. The savings at commissaries is estimated at approximately 20 percent. This is a controversial area, since DOD proposed the phase out of subsidies for commissaries in its fiscal year 1977 budget this time over a 3-year period. The Congress is considering this proposal. Base exchanges generate profits which are turned over to command and expended for certain activities to improve the morale and welfare of military personnel.

The military retirement program is noncontributory and undoubtedly the most valuable of all the fringe benefits. Retirement, other than disability retirement, is mandatory for some and possible for all after 20 years of service. Retirees generally receive a pension ranging

from 50 percent of their terminal basic pay at 20 years of service up to 75 percent at 30 years. With certain minor exceptions, retirement is mandatory after 30 years of service. Offering retirement after 20 years is designed to maintain a youthful, vigorous force. DMC has concluded that the military retirement system is not comparable to civilian retirement systems and is more generous.

Greatly increasing the value of the retirement system benefit is the ability to retire after only 20 years service and immediately receive retired pay, while many retirement systems would allow no benefits until age 65. The present value to a 20-year old entering military service of drawing retired pay between age 40 and 65 would be about \$18,500, if terminal base pay is \$26,000 and his retired pay for those years is discounted at 10 percent. It is interesting to note that the dollar amount received for this 25-year period would exceed the sum paid for active duty.

Military personnel are also covered by social security on a contributory basis. Thus, at the age of 62, a military retiree can receive two annuities for the same period of service--social security and military retired pay. Severance pay is also provided to regular officers not eligible for retirement when separated for nonpromotion, unfitness, or unsatisfactory or poor performance, and readjustment pay is authorized for Reserve personnel involuntarily separated from active duty after at least 5 years of continuous service. Personnel separated from the service under conditions other than dishonorable also become eligible for unemployment compensation, the amount depending on State law.

Dependents and survivors of military personnel are also entitled to the various benefits provided under the social security program, the military survivor's benefit program, and the dependency and indemnity compensation program administered by the Veterans Administration. Survivors of active military personnel who die in the line of duty are also entitled to a nontaxable death gratuity of up to \$3,000.

All military personnel accrue annual leave at the rate of 2-1/2 days a month. There is no limit on the amount of sick leave they may be authorized by competent military medical personnel. Personnel who retire or separate from service can "sell-back" their unused annual leave for a lump-sum payment (maximum of 60 days). Enlisted personnel were able to sell their unused leave at the end of each

enlistment. The practice of selling back leave cost about \$150 million in each of the fiscal years 1972-74. 1/ The Congress has in passing Public Law 94-361 set a limit of 60 on the number of leave days that could be sold back during a serviceman's career to encourage military personnel to use leave as the law intends, rather than be compensated for not using it.

Additionally, the Veterans Administration provides benefits to veterans to help them finance their education and purchase homes at lower interest rates and down payments. The Government also pays a portion of servicemen's life insurance premiums up to a maximum coverage of \$20,000, when such extra charges are required, to cover the additional costs attributable to the added risks of military service.

ANNUAL MILITARY PAY ADJUSTMENT

RMC consists of basic pay, quarters and subsistence allowances, and the tax advantage. RMC is considered to be approximately equivalent to civilian salaries. By law, military pay increases are linked to the General Schedule pay increases. Public Law 90-207, enacted in 1967, provided that RMC be increased comparably whenever General Schedule salaries are increased to maintain the relationship existing then between military and civilian pay. However, once the amount of the percentage increase was determined, that was applied to only one portion of RMC--basic pay. As we reported in March 1974, 2/ this process resulted in numerous inequities. Public Law 93-419, effective September 19, 1974, revised this method of pay adjustment by applying the percentage pay increases uniformly to basic pay and basic quarters and subsistence allowances. This revision will ultimately save about \$3 billion over a 5-year period. Public Law 94-361 authorized the allocation of up to 25 percent of basic pay increases into subsistence or quarters allowances.

In addition to this pay adjustment procedure, Public Law 92-129 authorized significant pay increases totaling about \$1.5 billion in fiscal year 1972 to make military pay more attractive at the entry level in an all-volunteer environment. 3/ Military personnel in the first 2 years of service received basic pay increases averaging 61 percent

1/ See our report B-125037, Mar. 20, 1975.

2/ See our report B-163770, Mar. 14, 1974.

3/ See our report B-177952, May 2, 1973.

for enlisted men and 91 percent for officers with small increases of 3 percent or less for those with more service.

DOD ESTIMATE OF MAJOR COMPENSATION ELEMENTS

The military pay system's complexity makes it extremely difficult to cost the various compensation elements to determine a military member's total annual compensation. Nevertheless, to give an indication of the total annual compensation, DOD has costed some of the pay, allowances, and benefits for selected individuals at various pay grades. The results, as shown in the tables on pages 31 and 32, do not completely measure total military compensation, but do include some major elements. ^{1/}

LACK OF STANDARD FOR DETERMINING APPROPRIATE LEVEL OF MILITARY COMPENSATION

As stated previously, annual military pay raises are tied to raises for General Schedule employees. Although the process of adjusting civil service salaries is based on surveys of comparable jobs in the private sector, no independent external standard exists for setting military pay. Consequently, there is no assurance that military pay levels are appropriate.

Much discussion has focused on the appropriateness of individual pay and fringe benefit items. However, without an explicit standard for determining the proper level of military compensation, discussing individual compensation items is virtually pointless. But with a standard for setting total compensation, the debate could properly center on the appropriate mix of compensation items within the total. Establishing such an independent, external standard would not necessarily save money, but the determination of the level of military compensation would be far more explicit than that which results from the current system.

Establishing any standard would be difficult, since some military compensation is in the form of in-kind fringe

^{1/}See Senate Appropriations Committee report on fiscal year 1976 DOD appropriations bill, pp. 19-22, for updated examples of annual compensation and benefits for military personnel and a comparison of military and civilian compensation and benefits.

benefits. Thus, total military compensation is not readily discernible because not all is paid out in cash. 1/ Also, because of the various pays and allowances, there is probably little uniformity among individual members in the compensation they actually receive.

We have recently suggested that the process for setting Federal employees' salaries be based on a comparison of their "total compensation" (not just salaries), with that of similar private sector jobs. 2/ The principal of total compensation would presumably also be applicable to the military, since fringe benefits are a major element of total military compensation.

DMC has recommended that the dominant principle be competition. That is, it should be adequate to attract and retain the desired quantity and quality of personnel, but not more than necessary for this purpose. Although we have examined many compensation issues in the past, the effects and ramifications of the principal of competition, as envisioned by DMC, have not been examined.

1/See our report B-163770, Oct. 10, 1975, on military members' perceptions of their compensation.

2/See our report B-167266, July 1, 1975.

**Selected Examples of Annual Compensation and Benefits Provided
Various Pay Grades Under Conditions Stated Below (Pay Scales as of Oct. 1, 1974)
Regular Military Compensation**

| Pay grade | Army title | Years of service for pay dependent | Number of dependents | Basic pay | Basic allowance quarters | Basic allowance subsistence | Basic allowance quarters and basic allowance subsistence | Subtotal | Federal tax (note b) | FICA (note c) | Take home pay (note d) |
|-----------|----------------------------|------------------------------------|----------------------|-----------|--------------------------|-----------------------------|--|----------|----------------------|---------------|------------------------|
| O-10 | General | 26 | 1 | \$16,000 | \$3,447 | \$06 | \$40,253 | \$43,281 | \$9,870 | \$772 | \$30,611 |
| O-9 | Lieutenant general | 26 | 2 | 16,000 | 3,447 | 06 | 40,253 | 43,281 | 9,870 | 772 | 30,611 |
| O-8 | Major general | 26 | 2 | 16,000 | 3,447 | 06 | 40,253 | 43,487 | 9,563 | 772 | 30,918 |
| O-7 | Brigadier general | 26 | 2 | 11,565 | 3,447 | 06 | 35,818 | 38,512 | 6,583 | 772 | 28,453 |
| O-6 | Colonel | 26 | 3 | 27,727 | 3,272 | 06 | 31,605 | 33,743 | 5,253 | 772 | 25,581 |
| O-5 | Lieutenant colonel | 20 | 3 | 21,856 | 3,024 | 06 | 25,486 | 27,009 | 3,500 | 772 | 21,214 |
| O-4 | Major | 16 | 3 | 17,640 | 2,729 | 06 | 20,975 | 22,132 | 2,420 | 772 | 17,783 |
| O-3 | Captain | 8 | 2 | 13,932 | 2,377 | 06 | 17,015 | 1,903 | 1,385 | 772 | 14,658 |
| O-2 | 1st lieutenant | 2 | 2 | 9,260 | 2,225 | 06 | 12,411 | 573 | 980 | 560 | 10,871 |
| O-1 | 2d lieutenant | 0 | 1 | 7,611 | 1,793 | 06 | 10,010 | 498 | 774 | 445 | 8,790 |
| M-4 | Chief warrant officer, M-4 | 26 | 3 | 17,496 | 2,832 | 06 | 20,734 | 1,113 | 2,384 | 772 | 17,378 |
| M-3 | Chief warrant officer, M-3 | 20 | 3 | 13,810 | 2,426 | 06 | 16,842 | 883 | 1,558 | 772 | 14,512 |
| M-2 | Chief warrant officer, M-2 | 16 | 3 | 11,635 | 2,200 | 06 | 14,441 | 677 | 1,169 | 681 | 12,591 |
| M-1 | Warrant officer, M-1 | 10 | 3 | 9,500 | 2,018 | 06 | 12,234 | 509 | 837 | 560 | 10,827 |
| E-9 | Sergeant major | 22 | 3 | 13,666 | 2,333 | 880 | 16,879 | 937 | 1,326 | 772 | 14,580 |
| E-8 | Master sergeant | 20 | 3 | 11,380 | 2,182 | 880 | 14,442 | 730 | 1,128 | 666 | 12,647 |
| E-7 | Sergeant 1st class | 18 | 3 | 9,907 | 2,045 | 880 | 12,832 | 581 | 1,412 | 580 | 11,361 |
| E-6 | Staff sergeant | 14 | 3 | 8,428 | 1,901 | 880 | 11,209 | 544 | 1,175 | 493 | 10,071 |
| E-5 | Sergeant | 4 | 2 | 6,156 | 1,757 | 880 | 8,793 | 555 | 9,348 | 387 | 8,046 |
| E-4 | Staff sergeant | 2 | 1 | 5,249 | 1,537 | 880 | 7,666 | 522 | 8,187 | 362 | 6,998 |
| E-3 | Corporal | 0 | 0 | 4,781 | 914 | 880 | 6,575 | 485 | 7,020 | 280 | 5,846 |
| E-2 | Private 1st class | 0 | 0 | 4,601 | 810 | 880 | 6,291 | 412 | 6,703 | 269 | 5,607 |
| E-1 | Private | 0 | 0 | 4,129 | 760 | 880 | 5,769 | 387 | 6,156 | 242 | 5,202 |

d/MHC is defined in law as basic pay, quarters and subsistence allowances (either cash or in kind), and the tax advantage on those allowances. Cash rates were used for these examples although it must be recognized that many members, particularly in the lower pay grades, are required to live in government quarters and subsist in government dining facilities (e.g., barracks and ships) and do not receive cash allowances.

e/Calculated on basic pay using standard deduction or low income allowance and the 1974 tax rates.

f/Unlike the Federal classified employee who contributes 7 percent of his salary to retirement, the military member is required to contribute 5.85 percent of the last \$13,200 of basic pay to social security.

g/Take home pay equals BMC minus Federal income tax, the Federal Insurance Contributions Act, and tax advantage.

Source: House Appropriations Committee Hearings on fiscal year 1976 DOD appropriations bill, part 3, p. 378.

**Selected Examples of Annual Compensation and Benefits Provided Various Pay Grades
Under Conditions Stated Below (Pay Scales as of Oct. 1, 1974)**

| Pay Grade | Army title | Years of service for pay | Number of dependents | Retirement | | | | Total Benefits (col. 10) | Total of benefits (col. 11) | | | |
|--------------|-------------------------------|--------------------------------|-------------------------|------------------------------------|---|--|---------------------|--------------------------------|-----------------------------------|---|------------------|--------|
| | | | | Actuarial valuation (note a) | Imputed reduction in compensation (note b) | Percent retire- ment (note c) | Medical (note d) | | | Comma- ndary and exchange (note f) | VICA (note g) | |
| | | | | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
| O-10 | General | 26 | 1 | 66,532 | 83,278 | 93,256 | 98.6 | 6,650 | 8139 | 8772 | 84,823 | 84,823 |
| O-9 | Lieutenant General | 26 | 2 | 6,523 | 3,273 | 3,250 | 98.7 | 888 | 139 | 772 | 5,054 | 43,487 |
| O-8 | Major General | 26 | 2 | 6,523 | 3,273 | 3,250 | 98.7 | 888 | 139 | 772 | 5,054 | 43,487 |
| O-7 | Brigadier General | 26 | 2 | 5,781 | 2,901 | 2,880 | 98.6 | 888 | 139 | 772 | 4,679 | 38,542 |
| O-6 | Colonel | 26 | 2 | 4,081 | 2,540 | 2,521 | 98.1 | 1,119 | 139 | 772 | 4,551 | 33,743 |
| O-5 | Lieutenant Colonel | 20 | 3 | 4,051 | 2,033 | 2,016 | 96.6 | 1,119 | 139 | 772 | 4,048 | 27,009 |
| O-4 | Major | 14 | 3 | 3,330 | 1,648 | 1,636 | 92.1 | 1,119 | 139 | 772 | 3,684 | 22,132 |
| O-3 | Captain | 6 | 3 | 2,683 | 1,349 | 1,336 | 92.1 | 1,119 | 139 | 772 | 3,369 | 17,820 |
| O-2 | 1st Lieutenant | 2 | 2 | 1,948 | 772 | 765 | 92.1 | 888 | 139 | 500 | 2,558 | 12,984 |
| O-1 | 2d Lieutenant | 0 | 1 | 1,576 | 791 | 785 | 92.1 | 658 | 139 | 445 | 2,031 | 10,507 |
| O-6 | Chief warrant officer, W-6 | 26 | 3 | 3,277 | 1,644 | 1,633 | 98.0 | 1,119 | 139 | 772 | 3,663 | 21,847 |
| O-5 | Chief warrant officer, W-5 | 20 | 3 | 2,659 | 1,336 | 1,325 | 96.9 | 1,119 | 139 | 772 | 3,355 | 17,725 |
| O-4 | Chief warrant officer, W-4 | 16 | 3 | 2,268 | 1,138 | 1,130 | 85.9 | 1,119 | 139 | 681 | 3,069 | 15,118 |
| O-3 | Warrant officer, W-3 | 12 | 3 | 1,910 | 958 | 952 | 65.8 | 1,119 | 139 | 560 | 2,770 | 12,733 |
| O-2 | Sergeant major | 10 | 3 | 1,437 | 1,141 | 1,131 | 98.1 | 1,119 | 139 | 772 | 3,161 | 17,815 |
| O-1 | Master sergeant | 10 | 3 | 2,276 | 1,142 | 1,134 | 98.0 | 1,119 | 139 | 666 | 3,058 | 15,171 |
| O-6 | Staff sergeant | 18 | 3 | 2,012 | 1,010 | 1,002 | 98.6 | 1,119 | 139 | 500 | 2,840 | 13,412 |
| O-5 | Sergeant | 4 | 2 | 1,763 | 885 | 876 | 88.8 | 1,119 | 139 | 433 | 2,829 | 11,752 |
| O-4 | Corporal | 2 | 1 | 1,402 | 704 | 698 | 59.8 | 888 | 139 | 360 | 2,095 | 9,348 |
| O-3 | Private 1st | 2 | 1 | 1,228 | 616 | 612 | 22.9 | 658 | 139 | 307 | 1,716 | 8,187 |
| O-2 | Private | 0 | 6 | 1,053 | 528 | 525 | 14.7 | 427 | 33 | 280 | 1,355 | 7,020 |
| O-1 | Private | 0 | 0 | 1,005 | 590 | 590 | 12.2 | 427 | 33 | 289 | 1,318 | 6,703 |
| | | | | 923 | 463 | 460 | 12.1 | 427 | 33 | 242 | 1,152 | 6,088 |

a/This valuation is based on the "current service cost" or "normal cost" actuarial concept and represents the annual amount which would have to be invested at a 3.5 percent interest rate to yield the necessary funding of retirement costs.

b/Pay has been decreased by 7 percent to account for the noncontributory aspects of the military retirement system.

c/Actuarial valuation (col. 1) less imputed reduction in compensation (col. 2). The retirement benefits as shown are overstated since they imply that everyone receives these benefits. In fact, less than 12 percent of those who enter the Armed Forces will qualify for retirement. See the next column for projected retirements by pay grade.

d/Percent in each pay grade at the present time who will actually retire by actuarial valuation.

e/Based on actual per capita costs (fiscal year 1973) of \$426.99 per service member and \$230.57 per each dependent.

f/Based on per capita costs of appropriated funds for commissary and exchange operations. It is assumed that single E-1's, E-2's, and E-3's do not use the commissary to any appreciable extent.

g/Government's contribution to social security.

Note: It should be noted that the Senate Armed Services Committee does not agree that there has been an imputed reduction in compensation, in which case the total compensation would be increased accordingly. (See p. 15.)

SOURCE: House Appropriations Committee Hearings on fiscal year 1976 DOD appropriations bill, part 3, p. 378.

CHAPTER 5

THE MILITARY RETIREMENT SYSTEM

A major factor to be considered in analyzing rising Department of Defense manpower costs is the present military retirement system. We are treating military retirement costs at length because (1) they are rapidly increasing and (2) recent proposals have been made to reform the system. Civilian retirement costs are not discussed here because that system concerns more than just DOD manpower and, thus, the issues are beyond the scope of this report. ^{1/} In this chapter, we discuss major DOD and Defense Manpower Commission proposals for reforming the military retirement system.

CURRENT AND PROJECTED NUMBERS OF RETIREES AND RETIRED PAY COSTS

The number of military retirees increased from 137,785 in 1952 to 983,788 in 1974 and is projected to reach 1,271,000 by 1980. ^{2/} Between 1952 and 1974, total retirement payments increased from about \$330 million to approximately \$5.1 billion and are projected to total almost \$8 billion by 1980. This represents an expected increase of about 800 percent in the number of retirees from 1952 to 1980. The average payment per retiree has increased from about \$2,400 in 1952 to about \$6,200 in the 1976 budget.

As shown in chapter 2, retired pay has increased from 5 percent of manpower costs in 1964 to 14.7 percent proposed for 1977. Retired pay as a percentage of military basic pay has increased from 5.5 percent in 1953 to 42.3 percent in 1976. The year-by-year changes in this percentage are shown in the table on the following page.

NONCONTRIBUTORY SYSTEM THEORETICALLY REFLECTED IN PAY LEVELS

The military retirement system is noncontributory, that is, the Government and military personnel do not contribute to a retirement fund to pay for future benefits. Pensions are paid by annual appropriations.

^{1/}See our report B-179810, July 30, 1974, on all Federal retirement systems.

^{2/}See House Committee on Armed Services Report 94-5, "Pay and Allowances of the Uniformed Services," p. 121.

In 1965 the House Armed Services Committee reported that there is a reduction implicit in pay levels which reflects an imputed contribution to the retirement system.

Trends in Retired Pay as a Percentage of Basic Pay for Active Duty Personnel

| <u>Fiscal year</u> | <u>Basic pay</u> (note a) | <u>Retired pay</u> (note b) | <u>Retired pay</u> as a percent <u>of basic pay</u> |
|--------------------|------------------------------|--------------------------------|---|
| | (thousands) | | |
| 1953 | \$ 6,240,000 | \$ 343,200 | c/ 5.5 |
| 1956 | 6,052,457 | 459,987 | c/ 7.6 |
| 1959 | 6,296,573 | 604,471 | c/ 9.6 |
| 1961 | 6,274,104 | 746,618 | c/11.9 |
| 1965 | 7,625,705 | 1,324,465 | 17.4 |
| 1966 | 8,579,228 | 1,522,562 | 17.7 |
| 1967 | 9,475,633 | 1,752,773 | 18.5 |
| 1968 | 11,077,328 | 2,004,296 | 18.1 |
| 1969 | 11,508,215 | 2,339,450 | 20.3 |
| 1970 | 12,306,027 | 2,733,076 | d/22.2 |
| 1971 | 12,545,320 | 3,055,714 | d/24.4 |
| 1972 | 13,144,943 | 3,766,191 | d/28.7 |
| 1973 | 14,704,669 | 4,182,183 | d/28.4 |
| 1974 | 14,954,446 | 4,485,192 | d/30.0 |
| 1975 | 15,185,732 | 5,446,645 | d/35.9 |
| 1976 | 15,488,769 | 6,558,750 | d/42.3 |

a/Budget figures for all years.

b/Estimates for fiscal years 1953-61; actual costs fiscal years 1955-70; budget costs fiscal years 1971-76. Excludes retired pay under title III and survivor benefits.

c/Estimated.

d/Based on budget requests for active duty basic pay and military retired pay (excluding retired pay under title III).

Source: House Armed Services Committee Report Number 94-5, p. 122.

In its Report Number 549 (June 24, 1965), it stated:

"After determination was made of the level of pay * * * considered appropriate for each military grade, account was taken of an imputed

6-1/2 percent contribution to retirement on basic pay * * *."

The Senate Armed Services Committee stated in its Report Number 544 (August 6, 1965) that, "No position is taken at this time on which of the various elements should be included in defining military compensation * * *." That is, should the imputed retirement deduction be considered an element of military compensation?

The two Committees still held differing opinions 6 years later. The House Committee's Report Number 92-82 (March 25, 1971) stated:

"The RMC is based on a military pay standard so constructed that it recognizes that RMC does not include a specific retirement contribution. In other words, the military compensation is depressed by 7 percent to reflect an imputed contribution towards the member's retirement."

The Senate Committee again disagreed, stating in its Report Number 92-93:

"Finally it should be pointed out that since there is no accepted comparability system linking various military and civilian pay grades it cannot therefore be reasonably said that military basic pay is being depressed by any percentage as an imputed contribution toward reducing military retired costs."

These differing opinions are still unreconciled. At the request of the Senate Budget Committee, we have issued a report on the advantages and disadvantages of a contributory retirement system for military personnel. ^{1/} In this report, we made no recommendation on whether to adopt a contributory system. We believe certain issues require more consideration before such a recommendation can be made, such as (1) how should members' contributions be computed? (2) should a military retirement fund be established? and (3) should pay be increased to offset members' contribution? However, DMC has recommended that the retirement system remain noncontributory.

^{1/}See our report B-125037, March 4, 1976.

THE RETIREMENT MODERNIZATION ACT

DOD has submitted new retirement legislation, referred to as the Uniformed Services Retirement Modernization Act (RMA), which addresses some of the problems in the current retirement system and which will ultimately reduce retirement costs if enacted. DOD argues that, with higher active duty compensation levels, reducing retirement benefits is now justified.

A major problem inherent in the current system is that a member must serve at least 20 years to be eligible for nondisability retirement pay. According to DOD, this requirement tends to encourage members to remain in the service, although their skills and experience are not needed. This results in increased personnel costs and contributes to grade structure management problems.

RMA would provide for payments to members who leave the service after less than 20 years. RMA proposes a deferred annuity beginning at age 60 for personnel who voluntarily separate with between 10 and 20 years of service. The annuity would be 2.5 percent for each year times the average pay in the year with the highest earnings. Involuntary separatees with between 5 and 20 years could choose a lump sum or a deferred annuity in addition to a readjustment payment. These proposals are intended to retain people in DOD for less than a full career and to allow more flexible personnel management.

Present retirement pay is based on the pay that the member actually received on the most advantageous constructive date (usually the actual retirement date) for retirement pay calculation. A person can retire on the day after a pay raise or longevity increase has gone into effect and have his retired payment increased accordingly. RMA would base the annuity on the average basic pay received during the year with the highest average basic pay instead of the terminal rate.

The services desire a youthful, vigorous force; however, the current retirement system encourages experienced personnel to retire, and not all military jobs require youth and vigor. DOD agrees that it is unable to retain members that it wants to keep beyond 20 years. Proposed changes would increase the multiplier used in computing retirement pay for those members with more than 24 years of service. In this way, a greater incentive would exist for personnel to remain in the service past 20 years. The

proposal calls for a maximum annuity of 78 percent of basic pay for 30 years of service, based on 3 percent per year of service instead of 2-1/2 percent for the 25th to the 30th year of service.

RMA also would provide for reduced annuities for members with less than 30 years of service. For personnel retiring with between 20 to 30 years of service, the multiplier used in computing retired pay would be reduced by 15 percent. When they reached the point at which they would have had 30 years of service had they stayed in the service, the reduction in retirement pay would be restored.

Another major proposal calls for integrating military and social security retirement annuities at age 65. Retired pay would be reduced by one-half the social security benefit attributable to military service after implementation. However, a DMC staff paper has stated that this proposal would create inequities for retirees.

The new retirement system would apply fully to only those entering service after the date of enactment. It would include a transition formula and save pay provisions for those serving under the old and new systems and would be gradually phased in over a 20-year period. DOD estimates considerable cost savings under this system, as shown in the following table. While relative costs would initially be higher than under the present system, savings of almost \$26 million would be realized by 1983 and cumulative savings would approach \$12.2 billion by the year 2000.

Estimated Cost Implications of the
Retirement Modernization Act by Provision

| Year | Present system retirement costs | 15 percentage point reduction to annuity until 30 years of service point | High 1 year basic pay as retired pay base | Social security integration at age 65 | Increased multipliers for over 24 years of service | Save pay | Payments to | | Total RMA cost | Cost difference RMA minus present |
|--------------------|---------------------------------|--|---|---------------------------------------|--|----------|--|---|----------------|-----------------------------------|
| | | | | | | | involuntary separatees with 5 to 19 years of service | voluntary separatees with 10 to 19 years of service | | |
| 1976 | 193.4 | -1.1 | -3.8 | -0 | +1.4 | +7.4 | +73.1 | 0 | 260.4 | +77.0 |
| 1977 | 585.6 | -4.7 | -11.4 | -0 | +4.3 | +20.2 | +81.6 | 0 | 655.6 | +90.0 |
| 1978 | 968.7 | -11.3 | -19.5 | -0 | +7.7 | +29.5 | +75.9 | 0 | 1,051.0 | +82.3 |
| 1979 | 1,397.7 | -21.5 | -28.3 | -0 | +11.4 | +36.6 | +86.9 | 0 | 1,432.8 | +85.1 |
| 1980 | 1,851.4 | -36.3 | -37.7 | -0 | +15.1 | +42.2 | +82.9 | 0 | 1,917.6 | +66.2 |
| 1981 | 2,345.2 | -56.9 | -47.6 | -0 | +19.1 | +48.7 | +83.2 | 0 | 2,389.7 | +44.5 |
| 1982 | 2,890.1 | -83.9 | -58.7 | -0 | +23.9 | +50.3 | +84.7 | 0 | 2,906.4 | +16.3 |
| 1983 | 3,488.9 | -117.7 | -70.5 | -0 | +28.9 | +53.2 | +80.3 | 0 | 3,441.1 | -25.8 |
| 1984 | 4,075.2 | -157.9 | -82.6 | -1 | +34.3 | +55.5 | +94.4 | 0 | 4,018.8 | -56.4 |
| 1985 | 4,736.5 | -205.3 | -95.6 | -1.3 | +41.1 | +57.5 | +96.7 | 0 | 4,628.8 | -105.7 |
| 1990 | 6,846.1 | -537.2 | -178.3 | -1.3 | +79.2 | +34.8 | +151.3 | 0 | 8,395.1 | -451.0 |
| 1995 | 14,608.0 | -1,097.0 | -295.0 | -9.0 | +128.7 | +33.5 | +230.3 | +1.1 | 13,580.1 | -1,017.9 |
| 2000 | 22,376.1 | -1,756.4 | -442.9 | -48.7 | +195.7 | +41.9 | +308.6 | +33.5 | 20,707.9 | -1,668.2 |
| Cumulative to 2000 | 213,920.0 | -14,454.0 | -4,329.0 | -169.0 | +1,881.0 | +970.0 | +3,834.0 | +82.0 | 201,735.0 | -12,186.0 |

Note: 1. Retirement costs include only nondisability retirement pay for persons who will retire during fiscal year 1976 and later. Retirement pay of persons retiring before fiscal year 1976 and of all disability and title III (Reserve) retirees is not included.

2. Implementation is assumed in July 1975.

3. Minus (-) reflects lower cost. Plus (+) reflects higher cost.

4. Basic pay and Consumer Price Index adjustments to retired pay are assumed to rise at the same rate through fiscal year 1976. After fiscal year 1976, basic pay is assumed to increase 7 percent annually and Consumer Price Index adjustments to retired pay are 4.5 percent annually.

5. Involuntary separation payments are to individuals separated as having reached the tenure point for their grade. All such separatees are assumed to elect the double lump-sum option payable at the time of separation.

6. The 15-percentage point reduction provision is costed with the transition feature included. Without transition, this feature would result in greater cost reduction.

Source: House Armed Services Committee Hearings Number 93-79, p. 127.

We found that the net present value of the savings presented in the above table to be about \$1.8 billion in 1976, if discounted at 10 percent.

DMC agrees that the military retirement system should be restructured but that, rather than adopting RMA, new proposals should be developed which (1) provide DOD with an improved personnel management tool, (2) reduce overall retirement costs, and (3) provide members with fair and equitable compensation. DMC made many recommendations to this end.

COST-OF-LIVING ADJUSTMENTS

The system formerly used to adjust the annuities of retired military personnel had been in effect since 1969. It was the same as that used to determine changes in annuities of Federal civil service retirees. The rate of change of the annuity was based upon the Consumer Price Index. Whenever the index increased at least 3 percent over the index of the previous base month and remained above that level for 3 consecutive months, annuities were increased by the highest percentage change during this 3-month period, plus 1 percent. The month with the highest percentage increase became the new index base month used to calculate the next adjustment.

In July 1976 we recommended that the Congress:

- Repeal the 1-percent add-on feature or, as a minimum, eliminate its overcompensating effect by adjusting the index base by 1 percent each time an adjustment occurs.
- Regularize the adjustment process by repealing the current index triggering mechanism and providing for annual adjustments based on the actual percentage rise in the index during the preceding year.
- Repeal the provisions which permit retiring employees to receive higher starting annuities because of changes in the index before their retirement and provide that new retirees' initial cost-of-living adjustments be prorated to reflect only index increases after their effective dates of retirement. 1/

1/See our report B-130150, July 27, 1976.

On October 1, 1976, Public Law 94-440 changed the method and timing of annuity adjustment and eliminated the 1 percent add-on. The new law directs adjustments to be made twice a year in March and September. These adjustments must be equal to within 1/10 of 1 percent of the rise in the Consumer Price Index during the 6-month period ending 3 months before the adjustment month.

CHAPTER 6

MANAGEMENT IMPROVEMENTS

The Department of Defense has undertaken a number of manpower-related actions to improve management efficiency. Since this is a key area for achieving manpower cost savings, we will mention some of the more prominent areas in which DOD is taking actions.

HEADQUARTERS AND SUPPORT REDUCTIONS

Responding to congressional criticism, DOD initiated a continuing review in October 1973 to reduce the number, size, layering, and duplication of headquarters. As part of this review, DOD has attempted to (1) establish a uniform definition of "headquarters" so manpower savings can be measured against a common base in the future and (2) establish a system for managing and controlling the number and size of headquarters activities.

The Surveys and Investigations Staff of the House Appropriations Committee studied DOD's management of headquarters staffing and found that the Navy was reassigning jobs to field activities and claiming headquarters reductions, even though the people remained in headquarters performing the same functions. The staff investigators also believed that DOD could still achieve considerable improvements in establishing a system for managing headquarters activities. In a recent report to the Senate and House Committees on Appropriations, we suggested that DOD be requested to firmly establish what constitutes a personnel reduction so the committees can more accurately monitor the actual reduction in headquarters personnel. 1/

The Defense Manpower Commission made many recommendations in its April 1976 report regarding management and management headquarters which if carried out could reduce manpower costs.

We have reported that sizable manpower savings were available by eliminating and consolidating headquarters and staffs and associated duplicative functions. 2/ We recently issued a

1/See our report B-172376, Nov. 4, 1975.

2/See our report B-125037, Mar. 25, 1975.

report which suggested improvements in staffing and organization of top management headquarters. 1/

Despite these problems with defining and accounting for headquarters reductions, DOD appears to be depending on headquarters reductions as a source of manpower to improve combat capability without increasing military manpower. In February 1975 DOD planned to reduce the number of headquarters personnel by about 25,000 people between 1974 and the end of fiscal year 1976. With these and other reductions in support elements, DOD plans to add three active Army divisions and three Air Force tactical fighter wings. Allowing the services to retain in the form of combat capability the overhead and support manpower they identify as excessive provides considerable incentive for them to identify excess positions.

The other reductions that DOD plans to convert to combat capability are in support elements. These reductions may represent either (1) identifying excess support capability that little affects war-fighting capability or (2) deemphasizing a long war and emphasizing the capability of repelling an initial attack. According to the fiscal year 1976 Annual Defense Department Report, the shift from support to combat "does involve some sacrifice in our ability to sustain a conventional war in Europe." One of our recent reports shows that considerable savings are possible by consolidating support functions. 2/

A concern for those trying to control costs through manpower ceilings is that savings from authorized reductions may be offset by increases in other manpower sources. For example, in the fiscal year 1976 budget proposals, it appeared that the effect of the congressional requirement to reduce support troops by 18,000 in Europe would be offset when DOD proposed the hiring of 2,000 additional indirect-hire foreign nationals in fiscal year 1977.

GREATER RELIANCE ON RESERVE FORCES

DOD is increasingly relying on Reserve forces to supplement active forces. The increase from 13 to 16 active Army divisions, for example, will be accomplished partly by assigning a Reserve brigade to round out each of the three

1/See our report B-183257, Apr. 20, 1976.

2/See our report B-183619, Aug. 26, 1975.

new active divisions. Reserves are a less expensive alternative for satisfying manpower requirements in peacetime, but it is uncertain whether they could actually be used in an emergency. In a recent report on the readiness of Reserve forces, we pointed out that, although the Reserves have early response missions, the Army and Navy components may not be capable of mobilizing and deploying combat-ready forces in the time required. ^{1/} In its study, DMC arrived at the same conclusion.

DOD has requested that the paid drill strength of the naval Reserve be reduced by 40,000 in the fiscal year 1977 budget request. DOD has taken steps to reduce the risk associated with greater reliance on the Reserves. The portion of the DOD budget--total obligational authority--going to Guard and Reserve forces has increased from 3.4 percent in 1970 to 5.3 percent in the proposed fiscal year 1976 budget. Greater emphasis is being placed on training the Reserves with active units, as evidenced by the Air Force's associate program and the Army's affiliation program. Reserve training is particularly important, since we recently reported that in fiscal year 1974 reservists' training time devoted to other than official jobs or spent idle totaled 15 million man-days and cost about \$1.2 billion. ^{2/} The report made recommendations that would lead to tailoring unit or individual training schedules to mission assignments.

CIVILIANIZATION AND CONTRACTING OUT OF SERVICE

"Civilianization" means employing civilians in jobs formerly held by military personnel. The primary motivation has been lower cost. DOD studies have concluded that civilians generally cost less, the savings varying by technical specialty and pay grade. Other advantages include (1) greater stability and continuity in a job, (2) reduced training costs (assuming that the civilians are not trained by DOD and stay on the job longer than military personnel, and (3) lower overall military manpower requirements, thus reducing the difficulty of sustaining an all-volunteer

^{1/}See our classified report B-146964, Oct. 3, 1975. An unclassified digest of the report is available.

^{2/}See our report B-178205, June 26, 1975.

force. We have reported instances where greater use of civilians could be made and have calculated the benefit of recommended changes. 1/

The Office of Management and Budget's Circular Number A-76 stressed the Government's general policy of relying upon the private sector to supply its needs, except where it is in the national interest for the Government to provide directly the products and services it uses. Contracting for services can reduce costs, save manpower or free manpower for other assignments. We have in previous reports recommended that DOD contract for more services, particularly in the base support area.

The DOD policy is to use civilians in positions which do not

- require military incumbents for reasons of law, training, security, discipline, rotation, or combat readiness;
- require military background for successful performance of the duties involved; and
- entail unusual hours not normally associated or compatible with civilian employment.

DOD said it was converting military positions to civilian jobs when feasible. Between fiscal years 1973 and 1976, civilian direct-hire strength was reduced by 13,000, but the fiscal year 1976 total includes 39,000 civilian jobs resulting from the civilianization of 48,000 military positions. Without the civilianization program, direct-hire strength would have been reduced by 52,000, rather than 13,000.

Arguments against civilianization often cite the need to maintain military positions for career development and a rotation base. Civilianization might affect career development by eliminating certain jobs from the background of officers. And, if civilianization cuts too far into military positions inside the United States, there would not be enough jobs for military personnel when they rotate back from overseas. Other objections to civilianization include

1/See, for example, our report B-146890, June 19, 1974. A report of broader scope is B-146890, Mar. 20, 1972.

(1) the greater difficulty of expanding and contracting civilian labor force, (2) the loss of a pool of qualified manpower to bring combat units to full strength quickly in time of crisis, and (3) concern that, after civilianization, civilian manpower ceilings may be reduced.

DMC noted, in its report, that increased contracting for services at the installation level can reduce manpower costs without reducing military capability. Accordingly, it stated that DOD should award contracts for installation services when they would yield a satisfactory product at less cost to the Government. This must be qualified, however, because the military services are entitled to provide personnel for their own support services to the extent needed to man deployable support units and to provide for the rotation of personnel from overseas tours and sea duty and to assure quick reaction capability. DMC further stated that DOD should improve and standardize its techniques for comparing costs of contractors' work to Federal employees in order to obtain more valid comparisons and estimates of its work, including total costs to the Government; not just the direct costs incurred by the installation awarding a contract, but also indirect costs associated with Federal personnel, such as housing, medical support, administration, retirement, and veterans' benefits.

The last point is a difficult obstacle to civilianization or contracting of services. It exists because DOD activities are controlled through personnel ceilings rather than fiscal controls. We have made a number of studies on the impact of personnel ceilings on DOD's use of manpower, concluding that personnel ceilings or hiring limitations do not provide the most effective management controls over civilian personnel. ^{1/} In 1970 DOD implemented a demonstration project in which a group of DOD laboratories operated solely under financial controls for 2 or 3 years. We reviewed this project, called Project REFLEX, and concluded that even though constraints were not removed entirely, benefits had been realized. ^{2/}

^{1/}See, for example, our reports B-165959, Dec. 30, 1969, and B-165959, Apr. 30, 1971.

^{2/}See our report B-165959, June 21, 1974.

In this regard, DMC recommended that the practice of specifying a fixed end strength for manpower be discontinued.

MILITARY TURNOVER

Military turnover here refers to accession/separation rates and frequency of reassignments. Cost and manpower savings result from reduced military personnel turnover through

- lower training costs, because experienced personnel stay in service longer;
- greater on-the-job efficiency, because of greater stability of personnel in individual assignments;
- less productive time lost by personnel in transient status between assignments; and
- less cost and personal disruption from permanent change-of-station moves.

There is a study underway in the Office of the Assistant Secretary of Defense for Manpower and Reserve Affairs on reducing turnover. The transition to a volunteer force has reduced turnover attributed to the accession/separation rate. During the high draft years (1967-69), each military accession contributed an average of 3.3 productive staff-years. DOD expects that after fiscal year 1975, this figure will increase to 4.5 productive staff-years and estimates that this will result in annual cost reductions of between \$500 and \$600 million for fiscal year 1976 and subsequent years.

Reducing reassignments should reduce both costs, because of fewer permanent change-of-station moves, and reduce manpower requirements, because fewer people will be in transient status rather than productively employed. Both the number of permanent change-of-station moves and the percentage of total personnel in transient status declined slightly between fiscal year 1973 and fiscal year 1975. Even so, in fiscal year 1976 DOD will spend over \$1.5 billion to move its personnel to new stations, not including the salaries of those managing the program or temporary costs. 1/

1/See our report B-146861, May 9, 1975.

TRAINING

In fiscal year 1976, about one in every five military persons will be receiving or giving full-time training at a cost of about \$7 billion. We made a special study and found that DOD's training programs cost approximately \$11 billion in fiscal year 1974 ^{1/} when all costs were included. Clearly, reductions in training requirements could result in considerable savings.

One potential way of reducing training costs would be through consolidating training programs. The main problem to be overcome is the services' resistance to consolidated training. DOD has established an Inter-Service Training Review Organization to identify consolidation opportunities. Our reviews of military training ^{2/} have concluded that savings could be achieved through consolidation, and the House Appropriations Committee has recommended that DOD take action in this area.

Increased training costs have resulted because major imbalances have existed within the military services between requirements for personnel and the number of trained and experienced personnel available. For example, in the full-time officer graduate education program, which was estimated at \$95 million for fiscal year 1976, individuals have been trained in disciplines for which the number of officers holding degrees exceeds requirements, and previously trained personnel have been used in positions not requiring such advanced education. We have reported on this program ^{3/} and on long-term training for civilian DOD employees, ^{4/} and the House Appropriations Committee recently criticized the program in its report on the 1976 DOD appropriations bills.

^{1/}See our report B-175773, Jan 8, 1974.

^{2/}See our reports B-175773, Nov. 27, 1973, and B-157905, Apr. 11, 1975.

^{3/}See our report B-165558, Aug. 28, 1970.

^{4/}See our report B-70896, June 30, 1972.

Training cost reductions might also be achieved by making training more efficient. In a recent report, we stated that training delays and diversions from training in four recruit and eight skill training schools alone were costing about \$48 million a year. ^{1/} Efficiency of training involves such other factors as instructor/student ratios, length of courses, number and types of courses (formal versus on-the-job training), and use of simulators. Also to be considered is the impact on training costs from more sophisticated weapons which require a higher level of training proficiency.

Finally, in recent hearings, DOD has stated that actions to increase enlistment periods should ultimately reduce training costs. However, under current DOD policy, any savings realized through increased enlistment tours may be somewhat offset by the need to train replacements for experienced personnel not allowed to reenlist.

CONCLUSIONS

This chapter has discussed, in general terms, some of the potential improvements in efficiency. Reductions in manpower costs, through improved management, will require continuing analysis of the management system and constant monitoring of the implementation of improved management.

^{1/}See our report B-160096, Sept. 2, 1975.



ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D. C. 20301

MANPOWER AND
RESERVE AFFAIRS

21 JUN 1976

Mr. H. L. Krieger
Director
United States General Accounting Office
441 6th Street NW, Room 4001
Washington, D. C. 20548

Dear Mr. Krieger:

The Department of Defense has reviewed your draft report, dated March 31, 1976, "Alternatives in Controlling Defense Manpower Costs." This reply is on behalf of the Secretary of Defense.

We agree with its recommendation that the DoD should establish a consistent comprehensive definition of defense manpower costs. The Department has made good progress in this direction in the FY 1977 Military Manpower Requirements Report, which defined and displayed Defense payroll costs and personnel support costs.

We are now reviewing the definition to determine whether it meets the needs of the Congress and DoD management. We will establish a consistent comprehensive definition that will be used in future Annual Defense Department reports, Manpower Requirements reports, and Budget News Releases.

I am enclosing a list of recommended corrections to minor errors in your draft report. I hope you will consider them in preparation of your final report.

Sincerely,

Enclosure

John F. Ahearne
Acting Assistant Secretary of Defense
(Manpower and Reserve Affairs)

