

BY THE COMPTROLLER GENERAL

# Report To The Congress

OF THE UNITED STATES



LM106571

## Need To Better Inform Military Personnel Of Compensation Changes

Recent legislated changes to military compensation do not generally represent erosions of benefits or reductions in total military compensation. Changes to the military compensation system generally represent management actions to eliminate inefficient practices, institute management efficiencies, and provide for more effective use of resources.

Military personnel believe their compensation is being unjustifiably reduced, but they consistently underestimate their regular and total military compensation. The Department of Defense needs to develop better methods of communicating Regular Military Compensation, total military compensation, and compensation changes and proposed changes to military personnel to keep them informed of how they are affected.



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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

This report discusses the need to better inform military personnel of their Regular Military Compensation, total military compensation, and how compensation changes affect them. We initiated this review because of our concern over the adverse effects that could occur because military personnel do not understand the value of their military compensation.

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

Copies of this report are being sent to the Director, Office of Management and Budget; and to the Secretaries of Defense, Commerce, Transportation, and Health, Education, and Welfare.

A handwritten signature in cursive script, reading "Luther B. Atwell".

Comptroller General  
of the United States

COMPTROLLER GENERAL'S  
REPORT TO THE CONGRESS

NEED TO BETTER INFORM MILITARY  
PERSONNEL OF COMPENSATION  
CHANGES

D I G E S T

Although some 60 changes to military compensation have been made since the advent of the All-Volunteer Force, the contention that military compensation has been reduced, or that the average service member is worse off because of changes to the military compensation system, is generally not substantiated.

A recently released study by the Congressional Research Service showed that the military member was slightly better off in 1976 than in 1972, with total military compensation rising above the effects of inflation. This compares favorably to a Bureau of Labor Statistics release of March 28, 1978, showing that private non-farm average earnings remained at the same level for the period 1969 through February 1978. (See pp. 13 to 15.)

The changes to military compensation GAO examined represented actions on the part of management and/or the administration to (1) remedy inequities, (2) prevent abuses, (3) comply with legislative intent, (4) reapportion scarce dollars into areas of greater return, or (5) generate cost savings in programs no longer fully justified. These changes do not generally represent erosions to the average member's total military compensation. (See pp. 5 to 7.)

Regardless of the numerical data showing that service members were, on the average, slightly ahead in total military compensation in 1976 than in 1972, 86 percent of the enlisted members responding to a 1976 Department of Defense (DOD) personnel survey believed their compensation had been reduced.

The survey also showed that both enlisted and officer personnel consistently underestimated the value of regular military compensation (i.e., basic pay, the cash value of quarters and subsistence allowances, and the tax advantage applicable thereto). With such inaccurate knowledge, the argument that service members' compensation is being eroded can be partially attributed to inadequate knowledge of the military compensation system and misperception of the changes thereto. (See p. 11 and pp. 20 to 24.)

#### ATTITUDES TOWARD COMPENSATION CHANGES

Attitudes toward changes to the military compensation system vary greatly among the military services, DOD, and military members. Officials within DOD expressed the view that the erosion of benefits is symptomatic of a major military problem broader than the compensation issue--a lack of confidence in top leadership to resist changes in pay and benefits. Military service officials, however, tend to view the net effect of all changes to the compensation system as erository. (See pp. 9 to 12.)

#### COMMUNICATION OF CHANGES AND THE NEWS MEDIA

Although DOD provides information to service members on benefit issues and changes to compensation elements, service members apparently do not rely as heavily on this information as on compensation items appearing in the news media. (See pp. 19 and 20.)

A consistent, uniform approach by DOD and the services to provide information to service personnel on (1) changes to the military compensation system and (2) changes' effect on pay would do much to enhance members' attitudes, understanding, and acceptance. DOD should periodically provide members with a realistic estimate

of their pay and benefits, and changes that affect their total military compensation. GAO recognizes it is not possible to determine the exact economic impact on each service member, but additional effort must be made to keep members informed of changes to their compensation package. (See pp. 19, 26, and 27.)

The Secretary of Defense should

- direct that service leaders assume a more active role in correcting service members' misperceptions of compensation changes and
- develop more effective methods of communicating compensation changes by (1) providing members with a periodic overview of their compensation package and (2) demonstrating how pay legislation, inflation, and other change factors affect pay. (See p. 29.)

GAO also recommends that the Congress initiate action to create a more visible and equitable military compensation system by requiring the executive branch to draft and submit proposals to convert the base pay and allowances system to a salary system. (See p. 38.)

DOD believes that the report does not reflect that, in fact, the typical military member is worse off in constant-dollar disposable income than in 1972. DOD also believes that GAO's analysis does not clearly support the conclusion that military personnel widely misperceive the effect of changes in the compensation system or that a basis is thus formed for adopting the recommended salary system. (See pp. 26 to 29 for DOD's comments and GAO's evaluation.)

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ABBREVIATIONS

|         |   |
|---------|---|
| AVF     | All-Volunteer Force   |
| BAQ     | basic allowance for quarters                                  |
| BAS     | basic allowance for subsistence                               |
| BLS     | Bureau of Labor Statistics                                    |
| CHAMPUS | Civilian Health and Medical Program of the Uniformed Services |
| COLA    | cost-of-living allowance                                      |
| CPI     | Consumer Price Index  |
| CRS     | Congressional Research Service                                |
| DOD     | Department of Defense   |
| GAO     | General Accounting Office                                     |
| OMB     | Office of Management and Budget                               |
| OSD     | Office of the Secretary of Defense                            |
| RMC     | Regular Military Compensation                                 |
| VA      | Veterans Administration                                       |
| USHBP   | Uniformed Services Health Benefits Program                    |

CHAPTER 1

INTRODUCTION

Military compensation includes three components:

- Regular Military Compensation (RMC).
- Bonuses and special pays.
- Supplemental benefits.

RMC includes a basic pay based on the military member's grade and length of service, housing and meals or cash allowances in lieu thereof when these items are not provided by the Government, and the tax advantage related to the nontaxable allowances. Bonuses and special pays are employed to supplement base pay and allowances where needed to attract, retain, and motivate military personnel to specific duties and occupations. Supplemental benefits include retirement, medical care, social security, and death gratuity.

In addition to the more than 50 different pay elements that make up total military compensation, personnel costs include noncompensation expenses such as travel and transportation, clothing and uniforms, and costs associated with overseas duty stations and with changing duty stations. These costs generally represent actual and necessary expenses that members incur (1) to carry out Government business and (2) for which they do not receive compensation through regular pay and allowances.

The estimated Department of Defense (DOD) military compensation costs for fiscal year 1978 are: 1/

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1/Report of the President's Commission on Military Compensation, April 1978, p. 9.

| <u>Pay element</u>             | <u>Total</u><br>(millions) |
|--------------------------------|----------------------------|
| Basic pay                      | \$17,390                   |
| Quarters, cash, and in kind    | 4,970                      |
| Subsistence, cash, and in kind | 1,930                      |
| Special pays                   | 520                        |
| Other allowances               | 550                        |
| Incentive pay                  | 290                        |
| Separation payments            | 320                        |
| Supplemental benefits          | <u>13,490</u>              |
| Total                          | a/ <u>\$39,450</u>         |

a/Does not include tax advantage estimated at about \$1,500 million because basic allowance for quarters (BAQ) and basic allowance for subsistence (BAS) are not subject to Federal income tax.

Military pay elements were generally designed to achieve certain objectives, and when those objectives were attained or were no longer necessary, the pay elements were either changed or eliminated to better meet the needs of the services.

Since the advent of the All-Volunteer Force (AVF), numerous changes in military compensation have occurred. According to a recent study by the Congressional Research Service (CRS), 1/ about 60 changes occurred in the compensation system for the years 1972 through 1976. For example:

--Public Law 93-274 (May 6, 1974) authorized bonuses of up to \$13,500 for medical officers and reduced the years of service from 10 to 2 to get maximum special pay.

--Public Law 93-277 (May 10, 1974) eliminated regular reenlistment bonuses and extended enlistment bonus obligation from 3 to 4 years.

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1/"What's Happened to Military Pay and Benefits Through the Past Decade?" Richard L. Eisenman, Congressional Research Service, Foreign Affairs and National Defense Division, Dec. 30, 1977.

Additional changes have occurred to estate planning, RMC special pays, medical care, and others.

In many instances, these changes were considered necessary by the administration, DOD, and/or the Congress to improve the efficiency of the compensation system. Of the 60 changes, 43 have been identified as favorable and 17 have been considered unfavorable to members' compensation.

A new term has evolved that expresses the concern of service officials and service members about the continual change and proposed changes to military compensation-- "erosion of benefits." The term is used to describe any change in total military compensation and reimbursable elements that may adversely affect the financial status of military members, either immediately or in the future. Obviously, when a compensation or reimbursement element is reduced or eliminated, the effect on members will be unfavorable because it takes something away that they previously received, regardless of whether the change was a management improvement or an economy move.

When members believe that DOD is changing its compensation and reimbursement policies or is providing less compensation than it should, they feel that the Government is violating its commitment.

Evaluating whether or not military compensation is being reduced is very controversial when one views the entire compensation system; members are treated differently based on

- marital status,
- quarters and subsistence provided in kind or in cash,
- occupational skill, and
- location.

Also RMC (generally considered the equivalent of salary) or total military compensation is not set or adjusted by an established pay standard to determine what military compensation should be. This factor reinforces and perpetuates the

erosion of benefits issue, because DOD, service officials, and members cannot say what military compensation should be.

#### SCOPE OF REVIEW

Our review was performed within the Department of Defense and was directed toward evaluating the erosion of benefits issue from (1) selected congressional enacted compensation changes, (2) data provided to members on military compensation, and (3) constant RMC (cash elements) and total compensation dollars. We reviewed data provided by CRS relating to the erosion of benefits issue, reviewed survey data from the Defense Manpower Data Center to determine members' perceptions of their RMCs (see p. 20 and app. IV), and interviewed compensation officials of DOD and military services to determine their attitudes toward selected changes.

We examined pertinent legislation (see app. III), and analyzed selected compensation changes considered unfavorable to military members to determine whether these changes could be considered detrimental to military compensation. We did not examine the economic impact on service members who are stationed overseas and affected by changes in the value relationship of the U.S. dollar to foreign currencies.

## CHAPTER 2

### MILITARY COMPENSATION HAS NOT

#### BEEN UNJUSTIFIABLY ERODED

Compensation changes do not represent unjustified reductions in total military compensation. For the most part, legislative changes represent action to

- remedy inequities,
- prevent abuses,
- comply with legislative intent,
- reapportion scarce dollars into areas of greater return, or
- eliminate programs no longer justified.

A recent study on military pay and benefits by CRS found stability within the military compensation system and protection of purchasing power against inflation for most service members over the past decade.

Attitudes toward changes to the military compensation system vary greatly among service officials, DOD, and service members. DOD officials tend to be noncommittal on the erosion of benefits issue, while service officials and members tend to believe that the changes erode military compensation.

DOD and service officials have not made a comprehensive evaluation to determine how recent changes have affected the total military compensation package. Without such an evaluation and a military pay standard, conflicting opinions and piecemeal changes produce attitudes of uncertainty and apprehension among service personnel concerning changes to military compensation. DOD has done little to keep service members informed of what their total military compensation is and the impact of changes upon it. DOD and service officials should be consistent in providing information to service members on actual and proposed changes to military compensation.

#### NATURE AND EFFECT OF COMPENSATION CHANGES

We selected eight legislative changes to military compensation, which have occurred since the advent of AVF, to

examine and analyze for and against the erosion of benefit issue. The basis of our selection was (1) those primarily having a high-dollar impact and (2) the distribution of the items throughout the compensation spectrum. The changes are:

- Adjustments to senior officers' flight pay.
- Allocation of the 1974 pay raise to the elements of RMC.
- Discretionary reallocation of the 1976 pay raise to quarters and subsistence allowances.
- The 40-mile rule on the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS).
- Sixty-day limit for accrued leave sell back.
- Elimination of the 1-percent add-on to retired pay.
- Termination of GI bill education eligibility.
- The 5-percent cap on military and Federal civilian 1975 pay increases.

These changes were initiated by DOD, the Office of Management and Budget (OMB), and the Congress to attain certain objectives such as (1) remedying inequities, (2) preventing abuses, (3) complying with legislative intent, (4) reappropriating scarce dollars into areas of greater return, or (5) eliminating programs no longer justified. The changes range from actions to (1) achieve more equitable distribution in the area of special pays and pay raises, (2) better utilize available service hospital facilities, and (3) align more closely the military retired pay adjustments with increases in the Consumer Price Index (CPI).

The attitudes of DOD's and the military services' compensation officials as to whether the changes represent erosion of current pay and benefits vary considerably for the eight items. For the most part, DOD officials accepted the changes as appropriate and essential, and as not representing erosion of pay and benefits. Service officials viewed some of the changes as outright erosions and being detrimental to the morale of service members; and in other instances, they viewed changes as not representing erosions, depending on the way an item related to service members regardless of management reasons.

The attitudes of service personnel toward these changes, where determinable, appear to be that of seeing the changes as being detrimental to their pay and benefits.

Our examination of these changes showed that the changes do not represent unjustifiable or random reductions to the average member's current compensation. It should be remembered that changes affect members differently because of the inequities of the base pay and allowance system and the particular circumstances of each member, e.g., marital status, location, etc. The changes we examined represented management actions to (1) eliminate inefficient practices, (2) institute management efficiencies, and (3) provide for more effective use of resources. For example:

- Forty-mile rule on CHAMPUS: The intent was not to eliminate a benefit, but was to provide for increased use of service hospital facilities.
- Elimination of the 1-percent add-on to retirement pay. The change was necessary to eliminate retired pay increases in excess of increases in the CPI. The action did not reduce current retiree annuities.
- The 1974 pay raise allocation to the allowances for quarters and subsistence. The change was to distribute pay increases among the cash elements of regular military compensation. 1/
- The 1976 pay raise reallocation to the allowance for quarters and subsistence. The change was an attempt to bring the allowances to more closely approximate the average value of military family quarters. 1/

#### OTHER FACTORS AFFECTING COMPENSATION

In many instances, personnel policies and practices that initiate compensation affect service members differently, and may result in members viewing changes in compensation as erosions of benefits. However, these are not compensation actions specifically enacted by the Congress. For example, the

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1/This change reduces the amount of the pay raise that would otherwise go into basic pay, which determines how retirement pay and reserve drill pay is computed. It did not reduce compensation levels.

erosion of benefits issue presents a different perspective to military personnel stationed in overseas areas. The value of service members' compensation there fluctuates because of changes in the relationship of the dollar to foreign currencies. This change affects the worth of the members' compensation on the local economy.

Military personnel who appear to be the most affected by changes in the value of the dollar to foreign currencies are the lower ranking married enlisted personnel in grades E-1 to E-4 (with less than 2 years' service), who are not command sponsored. Members in these enlisted grades have been eligible for overseas cash quarters allowances at without-dependent rates. However, the Deputy Secretary of Defense recently approved a proposal, effective March 1, 1978, increasing the cash quarters allowances for this group to the with-dependent rate.

The recent dollar slide on foreign exchanges had created a lower exchange rate for U.S. currency, affecting the value of service members' compensation on local economy and station allowances--primarily housing and cost of living. The allowances are designed to equalize purchasing power of service pay rates overseas, with buying power being the same as service people would have at home in the United States.

All married service members drawing cash allowances are authorized housing and cost-of-living allowances (COLAs) in overseas and some stateside locations. Housing allowances overseas are based on a formula comparing the average actual cost of local economy housing experienced by personnel in each overseas area with the average BAQ received by these personnel. COLA is developed annually by a DOD activity called the Per Diem, Travel, and Transportation Allowance Committee, based on a formula for comparing price and weight factors at specific overseas areas with those of the United States. COLA rates overseas are adjusted whenever the COLA index increases or decreases within a given range. For example, at a full support station in West Germany, COLA increased five times between March 1977 and February 1978. Undoubtedly, some dollar loss occurs between periods of pay adjustments; however, a similar delay occurs when living costs decline and allowances are adjusted downward.

Single members stationed overseas are not entitled to allowances when living in Government quarters and eating in Government dining facilities; however, the purchasing power of their pay on the local economy will change as the values of the currencies fluctuate.

The economic impact of currency fluctuations on service members varies widely, but we did not evaluate this issue in depth since it does not result from legislative action.

#### DIFFERING ATTITUDE ON CHANGES TO COMPENSATION

##### DOD

DOD officials and military service personnel often have different attitudes about the effects of changes to compensation. In the past, the Directorate of Compensation, DOD, judged the erosion issue as one of misperception by military personnel. That office viewed the solution as one of better and more coherent explanations of changes in pays and benefits. DOD attempted to show the service member that the actual reductions and curtailments of some items had been counterbalanced, and in some cases more than counterbalanced, by increases in basic pay and allowances. (Certain pay items such as retirement, reserve drill pay, and bonuses need to be considered in the counterbalancing effect, because they are computed as a multiple or fraction of an element of RMC and thus change automatically whenever the RMC element changes.) More recently, DOD has come to view the erosion of benefits issue as symptomatic of a major military problem broader than the compensation issue--a lack of confidence in top leadership to resist changes in pay and benefits. DOD believes that a long-range military compensation policy as advocated by the Third Quadrennial Review of Military Compensation and a stabilized pay and allowance system could begin to reverse this situation.

In 1975 the Secretary of Defense attempted to place the erosion of benefits issue in perspective by directing attention to the national character of inflation in the economy, and by demonstrating the gains made in military compensation since 1967:

"I believe the major source of difficulty with pays and benefits, is the inflation in our economy that has eroded the purchasing power of the dollar of every American consumer, including the military member. None of us have planned for this, and there is little the Department of Defense can do about it unilaterally. Certainly, the military member is as unhappy with this situation as is every American; however, this is a burden that is not uniquely military. The solutions to these problems are national in nature and may

require sacrifices of some benefits by military personnel, just as they will by other citizens.

"I believe that we must make a greater effort at all levels of the Department of Defense to explain our compensation policies clearly. We should acknowledge unfavorable action and explain our reasoning in a credible and candid manner to our military personnel \* \* \* while I hear and read about lost benefits, nowhere does it seem to be recognized that military equivalent salary (Regular Military Compensation--the sum of base pay, quarters and subsistence allowances and tax advantage) has increased 87 percent since 1967 while General Schedule salaries increased 65 percent and the CPI increased 55 percent in the same period."

Again, in 1977, the Secretary of Defense stated:

"Public discussion of a 'perceived erosion' of benefits serves to feed the very problems of morale it is concerned with. On balance, the military man today is considerably better off than he was ten years ago before his base pay was comparable with civilian pay."

These statements do not appear to accept the idea of an erosion of benefits as such, but rather express a concern for the negative effects the idea can have on the morale of service members. However, DOD has done little to keep service members informed of what their total military compensation is worth and how it has changed. Without this information, it will be difficult, if not impossible, for DOD to convince service members that their compensation has not been eroded.

#### Military services

Compensation officials of the military services tend to view the net effect of all changes to pay and benefits as erosive. According to one military service spokesman, there has been a 6-percent loss in purchasing power of military service personnel since 1972. That loss is the total experience of 65 percent of current active duty military personnel who have entered the services since January 1972. In addition, these personnel have not experienced any of the quantum increases in compensation which occurred in the mid-to-late 1960s.

"Most enlisted members in skill fields receiving special or incentive pays have also seen the relative value of these pays dwindle over the years since they were established at the current dollar rates. In addition they have seen a wide range of their benefits reduced under the guise that adjustments were necessary to compensate for the pre-1972 raises provided to move military personnel out of poverty income levels and transition to the all volunteer force."

Commenting on the aspect of net gains to losses in benefit changes, a spokesman stated that the losses have been real while many of the gains are, at best, partial offsets for larger losses. In the worst cases, the gains are merely reductions in member out-of-pocket costs relating to carrying out military orders and restoring benefit levels which had been reduced due to inflation.

Data provided by another compensation official showed that service members have lost 7 percent in purchasing power since January 1972 when comparing the increases in CPI to the average index of pay increases from January 1972 to December 1976. These statements, however, do not provide a total picture of what has happened to military members' compensation. Many compensation-related changes such as changes in members' personnel status, promotions, and longevity increases; changes in special pay and bonuses; and increases and decreases in other benefits have not been taken into consideration in these analyses. Also since military pay raises are not tied to CPI, is it realistic to compare pay to CPI?

#### Service members

Military personnel believe that the administration and the Congress have been chipping away at their compensation package since the inception of AVF. In this regard, the member has a tendency to view any reduction or elimination of benefits or entitlements, no matter the size or the segment affected, or the intended result, as an erosion of pay. Some members focus on these actions, perceiving them as unjust and inequitable, and believe their entitlements should remain unchanged regardless of the reason.

Addressing what he believed to be service members' attitudes concerning the present state of military compensation, a Navy compensation official stated:

"\* \* \* personnel have had no need to be briefed on the full range of pay and benefits initiatives working in the budget process to realize their financial security is being altered. Beginning in 1972, they have been receiving continual warnings of the urgent need to alter retirement programs in order to curb rapidly escalating costs. In 1974, and again in 1976, they have seen the method of applying annual comparability raises altered with a readily visible impact on current basic pay and future retirement incomes. In 1975, and again in 1976, they have heard explained the necessity to restrain earned comparability raises in order to set an example of fiscal responsibility for the Nation. The net result of these actions over the past five years has been a growing conviction among military personnel that they are making financial sacrifices beyond those demanded or expected of other employed American citizens."

If this does, in fact represent service members' attitudes, then the whole picture of compensation changes and reasons, therefore, have not been thoroughly explained to them.

According to a former Director of Compensation, DOD, service members' perceptions of erosions are often the result of actions and proposals by executive branch agencies and the Congress to change various elements of military compensation. Likewise, the military services view the uncoordinated changes continually being considered by Government agencies, e.g., the Veterans Administration (VA), Office of the Secretary of Defense (OSD), and individuals or committees of the Congress, as causing members (active, reserve, and retired) to be continuously apprehensive, to be under constant threat, and to wonder, "What's next and from where?"

The results of a 1976 DOD Personnel Survey, conducted to analyze and improve military personnel policies, disclosed that a high percentage of active duty enlisted members believed that their military benefits had been reduced. Eighty-six percent of the enlisted personnel responded affirmatively to the question of whether there has been a reduction in military benefits over the past 4 years. (See app. II for a breakdown of responses by pay grade and military service.)

Changes to pay and benefits affect service members differently, depending on their marital status, whether they draw cash quarters or live in Government-furnished quarters, etc. The impact of changes to such elements as COLA, Station Housing Allowances, etc., will probably be considered as erosions of benefits by those affected. However, as discussed on pages 7 to 9, such changes normally do not result from actions by the Congress, but rather are automatic adjustments occurring as a result of changes in international currency fluctuations or cost-of-living increases in various parts of the country.

#### RECENT COMPENSATION STUDIES AND COMPARISONS

Enumerable studies have been conducted by DOD (Quadrennial Reviews of Military Compensation I, II, and III), Government commissions and agencies (Defense Manpower Commission, the President's Commission on Military Compensation, CRS, and GAO), and private research concerns (the Brookings Institute) all of which were geared to offering improvements to the military compensation system. However, little of significance has occurred in military pay and benefits as a result of these studies.

We recognize there is no absolute measure of what military compensation should be, particularly in the absence of a standard for military compensation. However, recent statistics do not support the belief that changes in total military compensation have resulted in eroded benefits. CRS study looked at military compensation changes in cash benefits and noncash entitlement areas over the last 8- to 10-year period. Assuming the validity of the data used (First and Third Quadrennial Review of Military Compensation), the study measured the real changes in pay and benefits after accounting for the effects of inflation. The study made the following key observations on military compensation for the period.

- The Armed forces' compensation system has been structurally stable and generally protected against inflation.
- There has been dramatic monetary growth in benefits as well as in pay. The military member gained 43 percent above inflation in RMC and benefits from 1968 to 1976, a 30-percent real increase in pay, and

a 90-percent real increase in nonpay benefits-- estate benefits increased 122 percent, health benefits increased 323 percent, special pay decreased 5 percent, and supplemental benefits increased 82 percent.

--An enlisted member who came on duty in 1972 saw his pay rise 30 percent above inflation by 1976 because of promotions and longevity pay raises. (About half of those on active duty in 1976 entered service since 1972.)

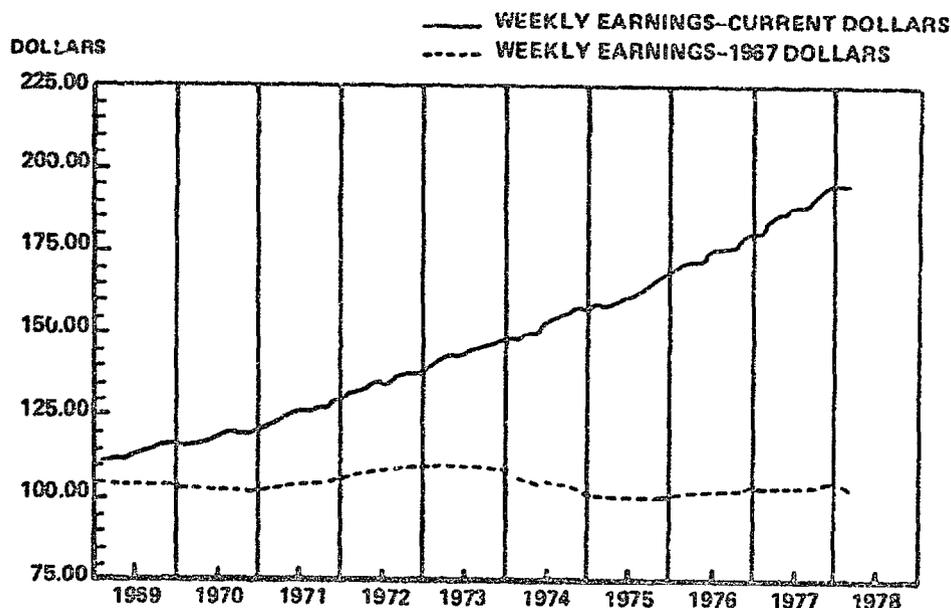
Between 1972 and 1976 (the years covered by the CRS study) some benefits were reduced, some increased, and many remained unchanged; however, a dominant characteristic of military compensation during this period was one of stability, and under certain conditions, real gains were made in both cash pay and benefits. For example, a median 1972 entrant received cash RMC of \$7,556, and total military compensation (RMC and benefits) valued at \$11,394 in 1972. The same member, after receiving promotions to E-3 and E-4 and longevity pay increases but suffering loss of special pay, received cash RMC of \$9,556 and total military compensation valued at \$13,100 in 1976. Careerists for the same period show less percentage growth than the first term member and a marked leveling-off of real compensation. Losses of up to 45 percent are shown for some first term members who were not promoted and who lost certain estate benefits and special pay. Other first term members showed gains in total military compensation, including promotions and longevity pay increases of over 100 percent during this period. On the whole, considering increases in total military compensation, promotions, and longevity pay increases, the average enlisted careerist held his own, and the first term member gained 36 percent above inflation and loss of special pay.

The CRS report also shows that, on a per capita basis, military pay for 1976 maintained purchasing power at about the same level as in 1972, and benefits experienced a 3-percent annual real growth for the same period.

Also, the effects of inflation have been nationwide, and some groups in the private sector have not made gains in compensation often ascribed to them. For example, the Bureau of Labor Statistics (BLS) published data in March 1978 showing that private nonfarm average weekly earnings

have not kept pace with inflation since 1972. 1/ (See the following graph.)

PRIVATE NONFARM AVERAGE EARNINGS  
SEASONALLY ADJUSTED



In the absence of a pay standard for measuring the levels of RMC or total military compensation, it would be difficult to determine the exact relationship of military pay to other pay systems; i.e., has it been reduced or eroded? However, a better picture emerges if military compensation is compared to other groups.

A Rand Corporation study 2/ performed recently for DOD found that enlisted careerists receive a total compensation

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1/"NEWS", Bureau of Labor Statistics, U.S. Department of Labor, Office of Information, Mar. 28, 1978, p. 7.

2/"Military Manpower and the All-Volunteer Force," Richard V. L. Cooper, Rand Corp., Santa Monica, Calif., p. 377.

which falls in the top fourth of income of comparably aged and educated, fully employed, white high school graduates. The compensation of the average career officer throughout a 20-year term (including the assumption that money was put aside to fund retirement) exceeds the compensation paid to more than 90 percent of all comparably aged and educated civilians employed full-time.

A recent news release by BLS showed earnings of full-time wage and salary workers averaged \$212 a week in May 1977, or about \$11,000 per year. That is less than the cash RMC of an E-5 with 6 years of service. A first lieutenant with 2 years of service had earnings that put him in the top 25 percent of all U.S. job-holders.

In addition, many military service members in the E-1 through E-4 grades are in the 18-to-21 age group, and many civilians that age are on an hourly wage scale. BLS statistics show the average rate for hourly workers in May 1977 was \$3.83, or about \$7,966--less than the RMC of an E-2. 1/ These statistics indicate that military compensation compares favorably to compensation in the private sector.

A former Assistant Secretary of Defense for Manpower and Reserve Affairs recently stated his impression of the erosion of benefits issue and linked it to the more important issue of unit leadership:

"While 'erosion of benefits' is an important matter which the senior leadership of the Defense Department would be wise to address in a straightforward manner, its impact on morale can be overemphasized. After all, the benefit package is a very attractive one which is not likely to be changed appreciably. Unit leadership, it seems to me, is a much more significant determinant of morale and sense of mission at least for the active military people."

In discussing the distribution of information about compensation changes, an Army personnel spokesman stated

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1/"Allowances Included--Military Pay Tops Civilians," Army Times, Dec. 5, 1977.

"For well over a year we have had numerous information programs going. We tell the member in a balanced way both the good news and the bad news."

However, our review disclosed no instances where DOD advised members of their total military compensation.

In a continuing effort to modernize military compensation, DOD, study groups, and the Congress review manpower-related costs closely. As a result, numerous changes have been proposed, and several compensation elements have undergone revision and restructuring in an attempt to improve the efficiency of the system. At the same time, service members appear to believe that any change which affects their pay or benefits is an erosion of compensation.

Service leaders believe that to eliminate the erosion issue, a visible, predictable, and stabilized military compensation system is needed. A stable compensation system will reassure the member, through explicit action, that those in leadership positions are concerned about their welfare and the quality of their lives. In this regard, a former director of compensation, DOD, stated that a total compensation approach to setting and adjusting compensation is needed to correct the erosion issue. However, a stable compensation system does not preclude changes to that system, and where changes occur, there may be misperceptions if members are not properly informed of the changes.

We believe the most effective means of dispelling members' misperceptions is an adequate explanation of the change, the need for change, who is affected, and in what way they are affected.

## CHAPTER 3

### MILITARY COMPENSATION IS NOT VISIBLE TO MEMBERS

To effectively motivate members, military compensation should be fully recognized and understood by military personnel. Service members' knowledge of the effect of changes to their compensation package can probably be viewed against their knowledge of the estimated value of their compensation. An analysis of the 1976 DOD Personnel Survey indicated that members still underestimate the cash value of their RMC. Without a good understanding of the cash value of RMC, it is unlikely that members would be able to assess how compensation changes affect their total military compensation.

In February 1978, the military services began advising service members what their pay would be if quarters and subsistence were taxable. DOD does not inform service members on a periodic basis of the approximate value of their total military compensation or how the combined compensation changes affect them.

### VISIBILITY OF MILITARY COMPENSATION

In our report to the Secretary of Defense on the "Need to Improve Military Members' Perceptions of Their Compensation" (FPCD-75-172, Oct. 10, 1975), we reported that

- RMC (the military equivalent of a civilian salary) was underestimated by 40 percent of enlisted personnel and 25 percent of the officers and
- total compensation (base pay, allowances, and fringe benefits) was perceived to be lower than our estimate of total compensation by 65 percent of enlisted personnel and 61 percent of the officers.

On the basis of our analysis, we suggested, as one alternative, that members be educated in how to evaluate military compensation to improve their visibility of military compensation. We stated the problem should be addressed by designing approaches to

- teach military members to compute their compensation or tell them what it is at frequent intervals and
- develop techniques for presenting total compensation so members and potential members can value it accurately.

DOD and the military services recently began reporting the value of the tax advantage on members' leave and earnings statements. This action should provide individual members a better understanding of the value of their RMC, but it does not provide information on total military compensation or reflect how their compensation has changed.

COMMUNICATION OF  
MILITARY COMPENSATION

Service members receive information on benefit issues and changes to compensation items from various external and internal media. Since 1974, internal information on changes to military compensation has been distributed to service members through various DOD publications, e.g., the American Forces Press Service, Defense Information Guidance Series, Commanders Digest, CHAMPUS News Releases, and Red Top News Features. According to DOD Public Affairs officials, the American Forces Information Service distributes these publications directly to service readers and some 3,000 military media outlets. Undoubtedly, the usage of this material at the unit level significantly expands the publication listing.

Our review of these communication sources showed that changes and the reasons for the changes were, for the most part, explained. If service members read the data provided by DOD, they should have an understanding as to why the changes have been instituted, but they will not be able to determine how all the changes affect their total military compensation. Referring to the problem of service members' perceptions of compensation change, a spokesman for the military services stated before the President's Commission on Military Compensation:

"Member concern over this apparent wholesale attack on pay and benefits has been heightened by coverage given (by service newspapers) which, in the interest of keeping their readers informed, publicize every change or threat of change as it occurs. Since members in each of the services are known to view their respective issue \* \* \* as the best source of information on pay and benefits, the resultant escalating concern is not surprising."

Information published on compensation changes can be a positive force and enhance members' understanding of what and why changes occur to their compensation package. On the other hand, it can have an adverse effect by contributing to members' perception that their compensation is being

eroded or is threatened to be eroded. This is evidenced by misperceptions on the part of some service members that proposed changes to compensation have already occurred when, in fact, they have not occurred and may not occur at all.

If military members are to have a reasonable basis for understanding what is happening to military compensation, they must know or have a working knowledge of total military compensation, what it includes, characteristics of the system, and how it affects them.

DOD officials informed us that they have not developed this type of program, and members are provided very little information on their total military compensation.

SERVICE MEMBERS' KNOWLEDGE  
OF THEIR RMC

As in our previous report, 1/ we analyzed certain questions from the 1976 DOD Personnel Survey to determine if members are reasonably accurate in estimating their RMC. If members cannot accurately estimate their RMC, or consistently underestimate it, it is more difficult for them to assess how the recent compensation changes affect their pay and benefits.

To evaluate service members' perceptions of their RMC, we requested the Defense Manpower Data Center to analyze one of the questions on the 1976 DOD Personnel Survey. In that survey, officers and enlisted members were asked:

"What is your annual RMC? Base your answer on the total value of your base pay, the cash value of your quarters and subsistence allowance (whether received in cash or in kind) and the Federal tax advantage of the two allowances."

The analysis showed that enlisted members' estimates of RMC varied so widely that a range of estimates falling within the 25th and the 75th percentile of total estimates was used to make a comparison with actual RMC.

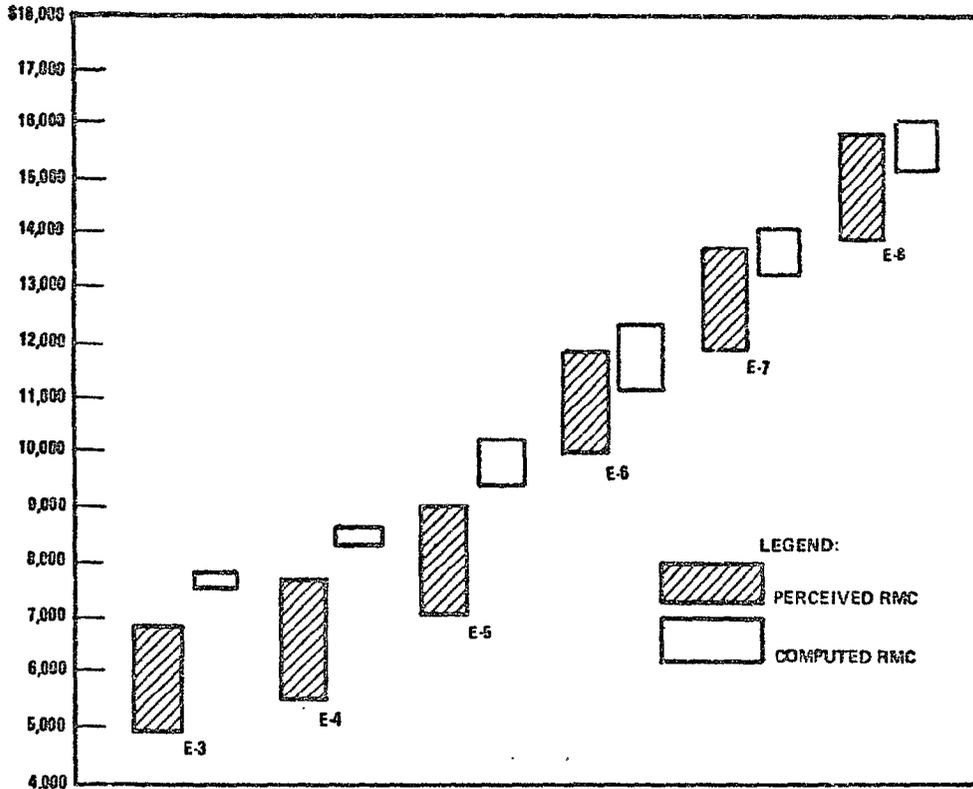
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1/"Need to Improve Military Members' Perceptions of Their Compensation," (FPCD-75-172, Oct. 10, 1975).

As may be seen in the following graph, enlisted members seriously underestimate the value of the RMC applicable to their grade and years of service.

Comparisons of Enlisted Members'

Estimated Cash RMC to Actual RMC (note a)



SOURCE: 1976 DOD PERSONNEL SURVEY

(When asked to estimate their RMCs, the range between the 25th and the 75th percentiles of their estimated values did not even overlap the 25th to 75th percentile range of their actual RMCs.)

a/Comparisons and graph constructed by the Defense Manpower data center, Department of Defense.

The survey analysis strongly indicates that service members in enlisted grades E-3 through E-5 have little idea

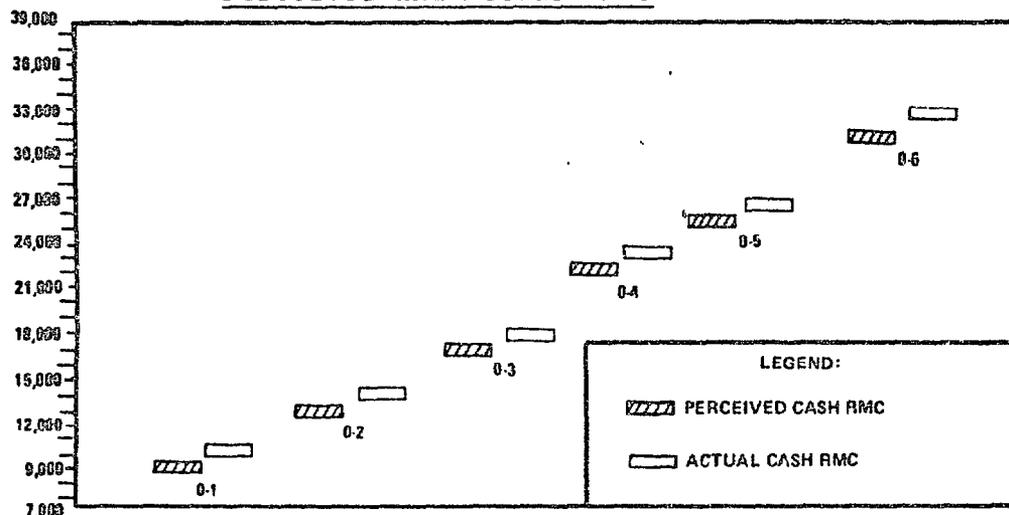
of the value of the RMC applicable to their grade and years of service. Higher grade enlisted personnel--E-6 through E-8--tend to have a better knowledge of this cash compensation item, but still underestimate its real value. 1/

An example of the degree to which enlisted members underestimate the RMC applicable to their grade and year of service is that of a grade E-5 whose average estimate of RMC is approximately \$8,000. The actual average value is about \$9,900.

For married and single officers surveyed receiving cash allowances for quarters and subsistence (4,434 of a total officer survey of 8,532), we determined the differences between their estimated average RMC and their actual RMC as provided by the Office of the Secretary of Defense. The following graph shows the variation between perceived and actual RMC for officers sampled. 2/

Comparison of Officers

Perceived and Actual RMCs



Source: 1976 DOD Personnel Survey

1/Actual cash RMCs were based on the October 1, 1975, pay raise to correspond to the results of the 1976 DOD Personnel Survey.

2/See appendix IV for survey results of officers' estimates of the value of RMC compared to actual RMC.

For married and single officers drawing cash quarters and subsistence allowances, the average estimated RMC was undervalued from actual average RMC by 3 to 9 percent.

Although the officers sampled tend to estimate nearer to their actual RMC than enlisted members, their estimates still fall short of actual RMC. For example, for an O-3 with 4 to 9 years of service, the average estimated RMC is about \$17,698. The actual average RMC for that grade and years of service is \$18,680.

This situation has changed little since 1975, when we reported that (1) 40 percent of the enlisted personnel perceived total military compensation in a category lower than their RMC and (2) about 25 percent of the officers perceived total military compensation in a category lower than their RMC.

Our report revealed that lack of visibility of compensation and unfavorable attitudes toward pay were both negatively associated with career and reenlistment intent. The report also stated that to motivate effectively, military compensation should be fully recognized and understood by individuals being attracted and retained. The President's Commission on Military Compensation stated that a study currently underway at the Rand Corporation indicates that lack of pay visibility has little effect on retention. However, we have not had the opportunity to examine this analysis.

On August 1, 1977, we issued a report entitled "Military Compensation Should be Changed to Salary System" (FPCD-77-20). In that report we recommended converting the military compensation system from base pay and allowances to salary. We continue to believe that salary is a better way to express military pay because:

- A fully taxable salary should (1) increase members' awareness of their pay, (2) improve management practices and the efficiency of attraction and retention programs, and (3) place both the Congress and DOD in a better position to evaluate the military compensation system.
- It would eliminate inequities in RMC, between married and single members of the same grade and length of service.

--It would more fully reflect the cost of military manpower, rather than partially conceal it through tax advantage.

In our opinion, a salary system would help alleviate many of the misperceptions of changes to military compensation. Also, we believe that DOD and service secretaries must institute a program to inform members of their total military compensation and how changes affect their compensation package.

## CHAPTER 4

### CONCLUSIONS, AGENCY COMMENTS AND OUR EVALUATION, AND RECOMMENDATIONS

#### CONCLUSIONS

Our review failed to support the contention that on the average, current military compensation has been unjustifiably reduced or eroded, or that the average member is worse off because of unfavorable changes to the compensation system. On the contrary, a recently released study by CRS showed the military member slightly better off in 1976 than in 1972, with military compensation rising above inflation. When annual RMC increases and CPI changes were considered, the purchasing power of military pay was shown to decline, but when longevity step increases and promotion factors for the 4-year period were considered, RMC retained its purchasing power.

In reviewing changes to the military compensation system since 1972, we found that rather than a wholesale attack on military pay and benefits, changes to the compensation system were to rectify specific management problems by (1) remedying inequities, (2) preventing abuses, (3) complying with legislative intent, (4) reapportioning scarce dollars into areas of greater return, and (5) eliminating programs no longer fully justified.

Regardless of numerical analysis, the attitude among service personnel is that the many changes to the military compensation system have resulted in reduced pay and benefits. However, analysis shows that military personnel consistently underestimate the value of their RMC. The belief that compensation is being eroded may result from misunderstanding of changes to military compensation.

We believe military members most susceptible to believing their compensation is being eroded are not well informed concerning the nature, intent, and reason for changes to compensation. This condition is not improved by differences of opinion and attitudes concerning the erosion of benefits issue held by compensation officials within DOD and military services.

DOD provides the service member information on compensation changes. However, independent publications report on erosion of benefit issues. Compensation information published by these sources can be a positive force and can enhance members' understanding of what and why changes occur to their compensation package. It can also have an adverse effect by contributing to members' misperceptions that proposed changes to compensation have already occurred when, in fact, they have not occurred and may not occur at all.

To keep the erosion of benefits issue in perspective, the service member needs to be better informed on the make up of RMC and what constitutes total military compensation. In addition, the service member needs to know how pay and benefits are affected by changes to the military compensation system.

#### AGENCY COMMENTS AND OUR EVALUATION

DOD neither agreed nor disagreed with the fact that military members perceive their compensation is being eroded or that members consistently underestimate the value of their RMC or total compensation. DOD expressed concern that the analysis does not clearly support the conclusion that military members misperceive the effects of changes in the compensation system or that a basis is formed for adopting a salary system.

In its response of June 27, 1977, to our draft report entitled "Military Compensation Should Be Changed to Salary System" (FPCD-77-20, Aug. 1, 1977) DOD stated that it was currently facing a significant problem in the perception of the erosion of military benefits. Since that time, DOD has taken no apparent action to combat this perception or to explain to members how changes affect their total military compensation.

Assessing any group's perceptions is at best a risky business, but we feel that present indicators (the results of the DOD 1976 Personnel Survey showing 86 percent of enlisted members believe their benefits have been eroded, but at the same time, underestimate the cash value of their RMC; the results of the CRS' efforts to assess the trends in military compensation, both RMC and total military compensation; and the measurements provided by the Rand Study performed for DOD, and the Bureau of Labor Statistics) point in the direction of military compensation retaining purchasing power in the face of inflation. This lends support to the premise

that members' perceptions that their total military compensation is being eroded is not based on a fundamental knowledge of the military compensation system.

In the absence of a pay standard, there is nothing for the members to measure or assess the value of their pay against. Under these circumstances, changes will undoubtedly be perceived as erosions of benefits if the make-up of RMC and of total military compensation are not generally understood.

The basis for our recommendation for a military salary system is set out in our report entitled "Military Compensation Should Be Changed to Salary System" (FPCD-77-20, Aug. 1, 1977). In that report we state that a salary is a better way to express military pay because:

- A fully taxable salary should (1) increase members' awareness of their pay, (2) improve management practices and the efficiency of attraction and retention programs, and (3) place both the Congress and DOD in a better position to evaluate the military compensation system.
- It would eliminate inequities in RMC, between married and single members of the same grade and length of service.
- It would more fully reflect the cost of military manpower, rather than partially conceal it through tax advantage.

DOD stated that we incorrectly correlated members' perceptions of erosion of benefits with perceptions of cash RMC, and that such correlation confuses the members' knowledge of 4 compensation items with this estimate of the effect of changes of over 60 items of compensation and reimbursement.

We believe our premise that total military compensation has not generally been eroded or unjustifiably reduced is fundamentally sound. In comparing members' estimates of the value of RMC with members' estimate of their total military compensation, we believe that such an estimate of RMC should provide a reasonable indication of the members' comprehension of total military compensation. If members consistently underestimate the value of RMC (and the results of two DOD Personnel Surveys show that they do) then there is little perception of the real value of total military

compensation. Where there is an absence of perception of the value of total military compensation, there cannot be accurate judgment of the effect of compensation changes.

DOD stated that it believed we subject to question its position that junior grade enlisted members (who do not receive their housing and subsistence in cash) should have a reasonable idea of the cash value of RMC.

Members participating in the 1976 DOD Personnel Survey were asked to provide an estimate of their annual RMC based on (1) the total value of base pay, (2) the cash value of quarters and subsistence allowances (whether received in cash or in kind), and (3) the Federal tax advantage related to the two allowances. Junior grade enlisted members seriously underestimated the value of RMC; however, members in the mid to upper enlisted grades, as well as married and single officers, also underestimated the value of RMC, although not in the same range of underestimation. The significance here lies in the consistency with which RMC is underestimated not only by the group which might not normally be expected to know cash value of quarters, subsistence allowances, and the tax advantage related to them, but by these who draw cash allowances and should be expected to know their value.

In its comments, DOD stated that members not involved in compensation analysis should not normally be expected to know what their RMCs are, or even to be familiar with them; but because of the publicity on RMC by both the media and DOD, many of them are. We believe this statement further supports our position that the base pay and allowance system be changed to a salary system. It would appear that DOD is not concerned with the confusion and misperception about members' RMC. We believe, for the system to operate effectively, members must recognize their salary (RMC).

DOD stated that our position does not reflect that the typical military member is worse off in constant dollars disposable income than in 1972.

We do not disagree with DOD that under static conditions, the example E-5 with 4 years of service and two dependents was worse off in January 1978 than in October 1972, or that there was a reduction in disposable income according to change in CPI. In March 1978, BLS published data showing that private nonfarm average weekly earnings have not kept pace with inflation since 1972. These statistics indicate that (1) the effects of inflation have been nationwide, and

private sector compensation has not made the gains for the period often ascribed to it and (2) military compensation compares very favorably to compensation in the private sector.

Data published by CRS showed the typical member is not worse off in 1976 than in 1972. Considering increases in total military compensation, promotions, and longevity pay increases, median enlisted careerists held their own, and the first termers gained 36 percent annual real growth for the same period.

#### RECOMMENDATIONS

We recommend that the Department of Defense take steps to better inform service members concerning the nature of compensation changes. To do this the Secretary of Defense should:

- Direct that service leaders assume a more active role in correcting service members' misperceptions of compensation changes.
- Develop more effective methods of communicating compensation changes by providing members with a periodic overview of their compensation package demonstrating how pay legislation, inflation, and other change factors affect compensation.

We recommend that the Congress take steps to create more visibility and equity in the military compensation system. To do this, the Congress should require the executive branch to draft and submit conversion proposals for converting the base pay and allowance system to a salary system.

LIST OF MILITARY COMPENSATION  
AND NONCOMPENSATION ITEMS

Regular Military Compensation:

- Basic Pay
- Basic Allowance for Subsistence
- Basic Allowance for Quarters
- Federal Income Tax Advantage

Special and Incentive Pay:

- Aviation Career Incentive Pay
- Flight Pay, Crew Member
- Flight Pay, Noncrew Member
- Submarine Duty Pay
- Self-Propelled Submersible Duty Pay
- Carrier Flight Deck Duty Pay
- Glider Duty Pay
- Demolition Duty Pay
- Experimental Stress Duty Pay
- Leprosarium Duty Pay
- Diving Duty Pay
- Parachute Duty Pay
- Special Continuation Pay for Nuclear Qualified Officers
- Hostile Fire Pay
- Special Pay for Sea Duty
- Special Pay While on Duty at Certain Places
- Special Pay for Physicians, Optometrists, Dentists, and Veterinarians
- Special Continuation Pay for Physicians and Dentists
- Variable Incentive Pay for Medical Officers
- Special Pay for Officers Holding Positions of Unusual Responsibility
- Proficiency Pay
- Selective Reenlistment Bonus
- Enlistment Bonus

Military Benefits:

- Commissary Stores
- Military Exchanges
- Mortgage Insurance Premiums
- Annual Leave/Accrued Leave Payments/Leave Lost
- Medical Care, Members and Dependents
- Medical Care, Retired Members
- Government Contribution to Social Security
- Unemployment Compensation
- Nondisability Retired Pay
- Disability Retired Pay
- Death Gratuity

APPENDIX I

APPENDIX I

Military Benefits: (continued)

- Dependency and Indemnity Compensation
- Nondisability Severance Pay/Readjustment Pay
- Disability Severance Pay
- Survivor Benefit Plan
- Servicemen's Group Life Insurance

Reimbursements:

- Clothing Issues and Maintenance Allowance
- Personal Money Allowance/Special Position Allowance
- Family Separation Allowance
- Overseas Station Allowances
- Travel and Transportation Allowances
- Separation Travel and Transportation Allowances
- Reimbursement for Recruiting Expenses
- Dislocation Allowance

ENLISTED MEMBERS' PERCEPTION  
OF EROSION OF BENEFITS

The 1976 Department of Defense Personnel Survey was part of the Office of the Assistant Secretary of Defense (Manpower and Reserve Affairs) research program. Usable responses were received from about 24,000 enlisted personnel from a stratified random sample of the four military services. One of the questions of the survey related to members' perception of whether their military benefits had been reduced over the past 4 years. The percentage of respondents that answered "yes" to this question follows:

Percentage response to survey item

| <u>Respondents</u>                  | <u>Army</u>             |                             | <u>Navy</u>              |                           | <u>Marine Corps</u>     |                             | <u>Air Force</u>     |
|-------------------------------------|-------------------------|-----------------------------|--------------------------|---------------------------|-------------------------|-----------------------------|----------------------|
|                                     | <u>Combat specialty</u> | <u>Non-combat specialty</u> | <u>Stationed on ship</u> | <u>Stationed on shore</u> | <u>Combat specialty</u> | <u>Non-combat specialty</u> | <u>All personnel</u> |
| First-term personnel                | 79                      | 84                          | 83                       | 84                        | 71                      | 70                          | 85                   |
| Career personnel, grades E-4 to E-6 | 82                      | 86                          | 88                       | 91                        | 82                      | 84                          | 90                   |
| Career personnel, grades E-7 to E-9 | 90                      | 90                          | 91                       | 92                        | 89                      | 92                          | 95                   |

The above responses show that high percentages of enlisted members believe that military benefits have been reduced over the past 4 years.

DISCUSSION OF CHANGES

TO MILITARY COMPENSATION

The following changes to military compensation were legislated between June 1974 and December 1976. They represent actions by the Congress that affect the various elements of military compensation such as special pay, RMC, medical service, estate benefits, and others.

Some represent procedural changes as in the 40-mile rule on CHAMPUS. Others result in savings to the Government, such as that relating to 60-day maximum accrued leave pay. All were listed by CRS' report on military pay and benefits, December 30, 1977, as "unfavorable" changes to military pay.

ADJUSTMENTS TO SENIOR  
OFFICERS FLIGHT PAY

Prior to the enactment of the Aviation Career Incentive Act of 1974, the military flight pay system provided pay increases over a service member's career based on rank and years of service without regard for the frequency of flight activity. The greatest portion of flight pay--55 percent--was received after the 16th year of service and after the greater portion of the flying career had been completed. Under this system, officers' flight pay ranged from \$100 each month for an O-1 with less than 2 years of total service to \$245 each month beginning with an O-5 with over 18 years of total service. Flight status enlisted members' flight pay ranged from \$50 each month for an E-1 with less than 2 years of service to \$105 each month for an E-7 with over 12 years of total service.

Under the Aviation Career Incentive Act, Public Law 93-294, May 31, 1974, flight pay is based on aviation service rather than total military service, but for commissioned officers the step-down and termination of pay is based on officer service. Pay through the officers' 6th year is unchanged but is increased to \$245 at the 7th through the 18th year. Pay after 18 years decreases to \$225, then is reduced by \$20 increments every 2 years to \$165, and terminates after the 25th year. Warrant officers' flight pay remains at current rates up through their 6th year of service and then is increased to \$200 each month for a career (up from previous maximum of \$165 each month). Enlisted members' flight pay is not affected by this legislation, since they receive flight pay only when flying.

Also, under this act flight pay is for 25 years of officer service provided commissioned aviators meet performance standards. Entitlement for warrant officers is for full careers provided they meet performance standards.

The new system was instituted to restructure the flight-pay system of the uniformed services so as to achieve a more equitable distribution of flight pay and increase the ability of the uniformed services to attract and retain officer aviator crewmembers. The new system provides that in the future, officers will receive over two-thirds of their flight pay in the first 18 years of their career, corresponding to the period when they do most of their flying.

DOD initiated this legislation to revise senior officers' flight pay. As to whether the change is perceived as an erosion of a benefit, according to a DOD compensation official, depends on the person's point of view. This apparently is to say that the change may be viewed as an erosion to one person, and it may not to another.

We believe the Aviation Career Incentive Act is not an erosion of a benefit because its objective is to achieve a more equitable distribution of flight pay and to enhance the ability of the services to attract and retain officer aviator crewmembers.

ALLOCATION OF THE 1974 PAY RAISE TO  
THE ELEMENTS OF RMC

In 1967, prior to the advent of AVF, the Congress enacted Public Law 90-207 (Rivers Amendment) as temporary legislation to provide the military the same average percentage increase in RMC as granted to General Schedule employees. This occurred at a time when military pay was acknowledged to be below that of private industry. One effect of this law was that it placed the full amount of each pay increase solely into the basic pay element of RMC, while leaving the quarters and subsistence portions of RMC unchanged.

On September 19, 1974, the Congress enacted Public Law 93-419 to revise the method of allocating pay increases for active duty members so that increases would be distributed among basic pay, quarters allowances, and subsistence allowance. OMB initiated the allocation method for managerial and budgetary reasons.

Public Law 93-419 retained the principle set forth in Public Law 90-207 that military pay raises were to be indexed to Federal civilian pay increases but changed the method of allocating pay raises.

Estimated savings to the Government for fiscal year 1975, as a result of allocation of the pay raise to the cash elements of RMC, was \$157.8 million.

Whether the change is perceived as an erosion of a benefit, according to a DOD compensation official, depends on a person's point of view. Inasmuch as the equal percentage method of allocating pay raises to the elements of RMC does not represent a reduction in members' pay, we do not believe the change represents an erosion of a benefit, but it did affect future compensation.

DISCRETIONARY REALLOCATION OF  
THE 1976 PAY RAISE TO QUARTERS  
AND SUBSISTENCE ALLOWANCES

The reallocation of military pay raises of up to 25 percent of the increase of basic pay to the allowance revised the equal pay split that was enacted as part of Public Law 93-419.

On July 14, 1976, the Department of Defense Appropriation Authorization Act of 1977 (Public Law 94-361), was enacted to reallocate a portion of military basic pay increases to the allowances. Prior to the reallocation, the levels of military allowances bore little relationship to the cost of services they were intended to procure: the procedure failed to recognize the value of military housing, food provided in military messes, or shelter provided to those at sea and in the field. Under the reallocation method of pay increases to military members, the President is given authority to allocate the overall percentage of any increase among the cash elements of RMC on a percentage basis other than an equal percentage basis, with the restriction that not less than 75 percent of the amount allocated to basic pay be retained within the basic pay element.

For the compensation period beginning October 1, 1976, the President opted for a 4.83-percent military pay increase, with 25 percent of the increase to basic pay reallocated to basic allowance for quarters. Members without dependents (those not entitled to receive quarters allowance) were paid a partial monthly cash allowance or "rebate" derived from the additional amount reallocated by grade to the

basic allowance for quarters. Married members drawing cash allowances also received the cash quarters reallocation. Married members living on military posts received no additional cash quarters allowance but had to forgo a larger cash BAQ for living on post.

This change was initiated jointly by the Office of the Secretary of Defense and OMB.

The stated purpose of reallocating pay raises was an effort to (1) maintain allowances at a more reasonable relation to the expenses they were designed to defray and (2) improve the relationship of the quarters allowance to the cost of off-post housing and Government quarters on post. The reallocation also gave a rebate to single personnel living in Government quarters. The action also caused a reduction in prospective retired pay for future retirees, and reduced by up to 25 percent the pay increase for reserve drill pay relative to active duty members. It also reduced the cash value of basic pay to those married members living on post.

The DOD compensation official stated that the reallocation does not reduce the members' current compensation. However, the member living on post perceives the reallocation as an erosion of compensation benefit. We are currently reviewing the procedures used to adjust military pay (RMC).

The principal complaints on the reallocation are from married members living on post who forfeit higher basic allowance for quarters, effectively pay more rent, and experience a lower take home pay than those on cash allowances.

The reallocation could be perceived by near-term retirees as a restricting factor on their long-term monthly retirement pay prospects because the base amount upon which their monthly retirement annuity will be computed is limited by the reallocation of the basic pay increase of up to 25 percent. Also, the reallocation could be perceived as an inequity for the reservists' because their drill pay is not computed on all cash elements of RMC, but solely on basic pay.

#### THE 40-MILE RULE ON CHAMPUS

Members of the uniformed services (active duty, retirees, dependents, and survivors) are covered under the Uniformed Services Health Benefits Program (USHBP). USHBP consists of two health delivery systems: (1) Uniformed Services medical facilities and (2) CHAMPUS. CHAMPUS was

authorized by the Dependents' Medical Care Act of 1956 (Public Law 84-569), which provided benefits only to dependents of active duty members. The Military Medical Benefit Amendments of 1966 (Public Law 89-614) expanded program benefits and added new classes of beneficiaries.

Under the statutory authority authorizing USHBP and CHAMPUS health services, the law is specific as to when care is provided to other than active duty personnel in uniformed services facilities. Limitation is based on space, facilities, and capabilities of the professional staff of a given uniformed services facility.

The CHAMPUS portion of USHBP was established in 1966 to ensure authorized health services would be available if they cannot be obtained from a uniformed services facility. The purpose of CHAMPUS is to authorize for active duty dependents, military retirees and their dependents, and dependents of deceased members, the same types of medical care (both hospitalization and outpatient) that are presently authorized for Federal civilian employees under the Blue Cross/Blue Shield high-option program. CHAMPUS beneficiaries who reside within 40 miles of a uniformed services medical facility must obtain nonemergency inpatient hospital care at such facility if it is available.

Before enactment of Public Law 94-212, it was the policy of the military services to allow dependents of active duty military personnel residing more than 30 miles from a military facility to use CHAMPUS for inpatient care without obtaining a certificate of nonavailability. The certificate states that hospital care is not available at the military medical facility. Those residing within 30 miles had to obtain a certificate before they could use CHAMPUS for inpatient care. No mileage restriction exists on the use of CHAMPUS for outpatient care or for the purchase of drugs and other services allowable under CHAMPUS.

On February 9, 1976, the Congress enacted Public Law 94-212 (with an effective date of January 1, 1976,) increasing the mileage restriction for a certificate of nonavailability from 30 miles to 40 miles. Unlike the 30-mile rule which applied only to dependents of active duty members, the 40-mile rule also applies to retirees and their dependents, and dependents of deceased members. Before the enactment of the 40-mile rule, beneficiaries other than dependents of active duty personnel were able to use CHAMPUS at will.

The 40-mile rule for CHAMPUS initiated by the Congress, was enacted because military hospitals were operating at less than half of their normal bed capacities, and military services were projecting increases in usages of CHAMPUS by retirees and their dependents. The Congress believed the 40-mile rule would provide more utilization of military hospitals facilities.

The change had no effect on the members' total compensation. However, the 40-mile rule does cause inconveniences relating to travel and waiting time.

CHAMPUS officials believe the 40-mile rule is not an erosion of a benefit because the change is achieving its objective of management effectiveness. However, the change is perceived by members as an erosion because of the additional cost and inconveniences due to extra travel.

Even though the intent of the 40-mile rule is to increase the usage of military hospitals, members view the rule as a reduction in medical care at service hospitals, and as causing inconveniences in travel and increased waiting time. We believe that if the 40-mile rule is achieving its objective of utilizing excess hospital beds, it cannot be considered an erosion of a benefit. Considering all factors, the 40-mile rule is a matter of inconvenience rather than an erosion of a benefit.

#### 60-DAY MAXIMUM ACCRUED LEAVE PAY

Prior to September 1, 1976, enlisted military personnel were paid for not more than 60 days of unused leave at the end of each enlistment. Officers were paid once for unused leave during their career; however, enlisted members could be paid for unused leave at the end of each enlistment term. Basic pay and the quarters and subsistence allowances were part of the terminal leave payment for all enlisted personnel except those in grades E-1 to E-4. The purpose of authorizing payment for unused leave at the time of discharge is to compensate members for leave which the member was unable to take because of interests of the Government.

With the enactment of Public Law 94-212, effective February 9, 1976, 60 days was established as the maximum amount of leave military personnel could accrue and be paid for during their service career. Public Law 94-361, dated July 14, 1976, provides that the payment to members for leave sell-back is on the basis of basic pay, and excludes allowances for quarters and subsistence.

Both changes were initiated by the Congress to correct abuses of the leave system. The rationale for the 60-day limitation on leave sell-back is that permitting payment for more than 60 days in a career would be a strong incentive for personnel not to take leave or to substitute various passes and administrative time off for leave. Similarly, including quarters and subsistence allowances as part of the payment for unused leave only increases the incentive for personnel not to use leave.

Savings to the Government by limiting payments to service members for unused leave to 60 days per career is estimated to be \$46 million annually.

A military association publication tends to view the limitation of leave sell-back as a necessary action to encourage the use of leave. In addition, this action extends to all service members a limitation on leave sell-back which had been generally confined to officers.

The limitation on leave sell-back enlistment is not considered to be an erosion of a benefit inasmuch as military leave was never intended to be a method to achieve financial gain over and above RMC, but as a means whereby the member could periodically get away from the military environment for rest and revitalization. When military duties made this impossible, compensation was substituted. The benefit intended by the Congress remains essentially intact. The exclusion from leave sell-back of the cash value of quarters and subsistence would seem to be another reason for the member not to hoard leave.

Legislation to reenstate the basic allowance for quarters and subsistence to payments for accrued leave has been prepared by the Army, and is currently within OSD for action.

#### ELIMINATION OF THE 1-PERCENT ADD-ON TO RETIRED PAY

In 1969 the House Post Office and Civil Service Committee approved an automatic 1-percent increase in retirement annuities. As a result, whenever CPI increased at least 3 percent over the CPI of the previous base month and remained at that higher level for 3 consecutive months, annuitants received cost-of-living adjustments equal to the highest CPI percentage increase during the 3-month period, plus 1 percent.

The commonly held concept of the purpose of the annuity adjustment process is that it was intended to (1) compensate retirees for the 5-month gap that existed between the initial month that CPI rose by 3 percent and the month in which the cost-of-living adjustment to annuities was made effective and (2) protect the purchasing power of retirees' annuities. But the legislative history is not clear.

Apparently, the House Post Office and Civil Service Committee intended to insure maintaining purchasing power by compensating for the time lag between advances in CPI and the actual adjustment of annuities. The Senate Post Office and Civil Service Committee said it wanted the adjustment process to result in an improved standard of living for retirees, thereby indicating that merely to maintain purchasing power was insufficient. To our knowledge, this position has not been a recurring theme in reference to the reason for the 1-percent add-on.

The 1-percent add-on resulted in annuity increases in excess of the amount needed to maintain annuitants' purchasing power at retirement. As an example, between November 1969 and March 1976, retirees received increases in excess of the amount needed to maintain their purchasing power. Under the approved formula for that period, annuities were adjusted upward by 72 percent; however, the CPI on which the adjustments were based had risen by only about 56 percent.

On March 24, 1976, the President sent a message to the Congress urging the repeal of the 1-percent add-on feature in the Federal civilian and military retirement systems.

On October 1, 1976, the Legislative Branch Appropriations Act (Public Law 94-440) was approved, eliminating the 1-percent add-on from succeeding Federal civilian and military annuity adjustments. The act prescribed a new process for semiannual adjustments based on the actual percentage rise in the cost-of-living. The Congressional Budget Office and OMB estimated the change would result in savings of \$3 billion through fiscal year 1981.

The 1-percent add-on was eliminated to reduce future Government retirement costs (projected prior to repeal to increase to \$21.6 billion by 1985). Repeal of the 1-percent add-on provision resulted in eliminating annuity increases that were in excess of the amount needed to maintain annuitants' purchasing power.

The change has no effect on the total compensation of active duty military personnel; however, the change reduces the amount of prospective future retirement pay in excess of normal CPI adjustments. Likewise, the effect of the change on both Federal civilian and military retirees meant that future increases would be tied to actual increases in CPI.

Receiving annuity increases in excess of the amount needed to maintain purchasing power is in no way an explicit or implied guarantee of the Federal civilian or military retirement system. The fact that elimination of the 1-percent add-on applies to Federal civilian as well as military retirees demonstrates that the retirement adjustments were not directed solely at the military retiree. Neither did the elimination reduce current retirees annuities. In our opinion, the current semiannual method of adjusting retirement annuities reflects a more reasoned and realistic approach to computing retirement annuity increases.

TERMINATION OF GI BILL  
EDUCATIONAL ELIGIBILITY

The President's proclamation of May 7, 1975, officially brought to a close the Vietnam War era. The proclamation also brought to an end the eligibility for wartime educational benefits for those who entered military service after December 31, 1976.

This action was approved by the Congress through enactment of Public Law 94-502 (of October 1, 1976) which established December 31, 1976, as the date for terminating the Vietnam-era GI bill educational benefits. That act also extended the then current GI educational benefits from 36 to 45 months and increased monthly payments by 8 percent. The act also established the delimiting period for GI bill educational benefits as 10 years after release from active duty or December 31, 1989, whichever is earlier.

The Vietnam-era GI bill was designed to provide vocational readjustment and restore lost educational opportunities to service members whose careers were interrupted or impeded by active duty in the Armed Forces. With the advent of AVF, withdrawal of the armed forces from combat in Vietnam, and the near comparability of military compensation with Federal civilian compensation, the continuation of GI bill educational benefits was deemed by the Congress to be unjustifiable.

In its place was instituted the Post-Vietnam Era Veterans' Educational Assistance Act of 1977. This program is entered into voluntarily by the service member who pays into the fund between \$50 and \$75 per month, with the Government matching this amount on a 2 for 1 basis. A member may contribute up to \$2,700 in 3 years. By this method, the service member is assured of \$8,100 in educational benefits.

The intent or purpose of terminating the GI bill was to end wartime benefits, as had been done in the post World War II, and the post Korean Conflict eras.

Termination of the GI bill had no effect on total military compensation as the GI educational program has never been linked to the military compensation system. For those members who were serving in the armed forces, or had committed themselves to military service at December 31, 1976, there was no diminishment of benefits. On the contrary, benefits were expanded. For those entering the armed services on January 1, 1977, and thereafter, there was no loss of benefit, since that member had not served in a period which would make him/her eligible for GI bill benefits.

However, those members in career status on active duty before December 31, 1976, and whose normal careers would extend beyond the December 31, 1989, deadline for using the GI bill, have a legitimate right to feel that a privilege, established by law, will have been taken away. Those who came into active duty on or after January 1, 1977, may feel a loss of a benefit that accrues to others coming into the service a few months prior to them.

A military association publication deems the loss of GI bill education benefits as a "breach of faith," with service members and contends that the loss of the GI bill will harm retention of career oriented personnel and that the lack of educational benefits is already impacting on recruiting for AVF.

In an AVF environment, the termination of the GI bill is not viewed as an erosion of a benefit, except for those eligible for the right, but whose career tenure is not completed until after the delimiting date.

THE 5-PERCENT CAP ON MILITARY  
AND FEDERAL CIVILIAN 1975 PAY INCREASES

On October 7, 1975, the Congress enacted a 5-percent pay cap on the military and Federal civilians' pay raise

for 1975. This provision was enacted as section 819 of DOD's Appropriation Authorization Act of 1976. The 5-percent restriction was for the period January 1, 1975, through June 30, 1976. Section 819 stated that the 5-percent pay cap restriction would be placed on military pay raises only if a similar 5-percent cap was placed on General Schedule employee's pay raises. The 5-percent cap applied to the 1975 pay raise only; all subsequent raises were not affected by this provision.

An official of the Comptrollers Office, OSD, stated that he knows of no other pay caps being imposed on military pay raises prior to 1975. In that year, OMB initiated action to impose the pay cap. The reason the cap was placed on military and General Schedule employees was because the President wanted the Government to take a positive role in holding down inflation. Another reason the Congress enacted the cap was to insure that the original defense budget outlay target would be met.

Very few letters of complaint were received by compensation officials, DOD, from service members about the pay cap. Apparently, most members recognized the pay cap was Government-wide, and not restricted solely to military pay.

The 5-percent pay cap on the military pay raise for 1975 did not reduce the members' pay. It limited the amount of the pay raise the service members received.

OFFICERS' ESTIMATES OFTHEIR REGULAR MILITARY COMPENSATION'S VALUE

From data provided to us by the Defense Manpower Data Center, to the question:

"What is your annual Regular Military Compensation (RMC)? Base your answer on the total value of your basic pay, the cash value of your quarters and subsistence allowance (whether received in cash or in kind) and the Federal tax advantage of the two allowances."

We analyzed the responses from single and married officers drawing cash allowances for quarters (BAQ) and subsistence (BAS) according to pay grade. For that group of officers, we determined the differences between the average estimated RMC and the average actual RMC as provided by the Secretary of Defense. Actual RMCs were based on the October 1, 1975, pay raise to correspond with estimates on the 1976 DOD Personnel Survey.

Comparison of Officers' Average Estimated Regular  
Military Compensation (RMC) to Average Actual RMC (note a)

| <u>Pay grade</u> | <u>Year(s) of service</u> | <u>Average actual RMC</u> | <u>Average perceived RMC</u> | <u>Difference</u> | <u>Percentage under-valuation</u><br>(percent) |
|------------------|---------------------------|---------------------------|------------------------------|-------------------|--|
| 0-1              | 1                         | \$10,891.03               | \$ 9,899.22                  | \$ 991.81         | 9  |
| 0-2              | 2 to 3                    | 14,574.45                 | 13,425.35                    | 1,149.10          | 8  |
| 0-3              | 4 to 9                    | 18,679.78                 | 17,697.50                    | 982.28            | 5  |
| 0-4              | 12 to 15                  | 22,807.08                 | 22,135.20                    | 671.88            | 3  |
| 0-5              | 17 to 19                  | 27,001.12                 | 26,230.04                    | 771.08            | 3  |
| 0-6              | 22 to 24                  | 33,019.42                 | 31,531.61                    | 1,487.81          | 5  |

a/Comparisons of single and married officers on cash allowances are shown in the aggregate. Separate graphs showing percentage differences between estimated and actual RMC were deemed unrealistic. High standard deviations for both single and married classifications create exaggerated high and low percentages when displayed separately.



MANPOWER,  
RESERVE AFFAIRS  
AND LOGISTICS

ASSISTANT SECRETARY OF DEFENSE  
WASHINGTON D C 20301

17 APR 1978

Mr. H. L. Krieger  
Director, Federal Personnel and  
Compensation Division  
United States General Accounting Office  
Washington, D. C. 20548

Dear Mr. Krieger:

This is in reply to your letter to the Secretary of Defense regarding your report dated February 22, 1978 on "Need to Correct Misperceptions of Changes to Military Compensation." (OSD Case #4823) (GAO Case #FPCD-78-27)

The report states, in brief, that military personnel erroneously perceive changes to military compensation and reimbursements as being generally detrimental to their interests; therefore, the Department of Defense should continue more effectively its attempts to explain the purpose and effect of the proposed changes to armed forces members, direct service leaders to assume a more active role in correcting members' misperceptions, and to replace the existing pay and allowances with a fully-taxable military salary in the interests of improved "visibility" of military compensation.

The Department of Defense has a number of difficulties with both the analysis and the recommendations of the report. Specifically:

- o The analysis is not limited to military compensation only; it includes reimbursable items as well.
- o The terms "compensation", "regular military compensation," "total military compensation," and "erosion of benefits" appear to be confused in the analysis.
- o Specific attributes and characteristics of military compensation items as well as reimbursement items are misstated in the analysis.

o Members' "perceptions" of "erosion of benefits"--taken to encompass a whole range of military compensation and reimbursement items--are incorrectly correlated with "perceptions" of cash Regular Military Compensation (RMC). Such a correlation confuses the member's knowledge of four compensation items with his estimate of the effect of changes of over 60 items of compensation and reimbursement.

o The report points out that underestimation of the value of RMC among enlisted members is greatest among junior enlisted members. Since the "computed RMC" is an all-cash RMC, and since a majority of junior enlisted members do not receive their housing and subsistence in cash, the comparison, and the conclusions based on it, are subject to some question.

o The general proposition in the report that "erosion" is a myth is strongly dependent upon the comparisons questioned above and does not reflect that, in fact, our typical military member is worse off in constant dollar disposable income than he was in 1972, as shown in Enclosure 1.

It would therefore appear that the analysis does not clearly support the conclusion that military members widely misperceive the effect of changes in the compensation system or that a basis is thus formed for adopting the recommended salary system. The Department of Defense suggests that the analysis be reexamined in the light of the comments being offered here and that the resulting conclusions be reconsidered.

More detailed comments are contained in Enclosure 2.

Sincerely,



Principal Secretary

Enclosures

COMPARISON OF REAL SPENDABLE  
EARNINGS-OCTOBER 1972 AND PRESENT  
E-5, 4 YEARS OF SERVICE, 2 DEPENDENTS

|                          | <u>OCTOBER 1972</u> | <u>PRESENT</u>     |
|--------------------------|---------------------|--------------------|
| Basic Pay                | \$5,497.20          | \$7,113.60         |
| BAQ                      | 1,663.20            | 2,228.40           |
| BAS                      | 602.25              | 1,036.60           |
| <u>Total Cash Pay</u>    | <u>\$7,762.65</u>   | <u>\$10,378.60</u> |
| <u>Less:</u>             |                     |                    |
| Social Security Taxes    | 321.59              | 430.37             |
| Federal Income Taxes     | 282.08              | 45.90              |
| <u>Disposable Income</u> | <u>\$7,158.98</u>   | <u>\$ 9,902.33</u> |

|                            |       |                      |
|----------------------------|-------|----------------------|
| Increase in CPI<br>(47.9%) | 126.6 | 187.2<br>(Jan. 1978) |
|----------------------------|-------|----------------------|

Present Disposable Income in Oct. 72 Dollars                    \$6,695.29

Reduction in Real Disposable Income (\$7,158.98-\$6,695.29)=  
    \$463.69 or 6.5%

Conclusion. - Despite a reduction in actual Federal income taxes paid now compared to 1972, the real disposable income of the typical E-5 is still 6.5% less than it was then.

Enclosure 1

SPECIFIC COMMENTS ON GAO DRAFT REPORT DATED FEBRUARY 22, 1978, "NEED TO CORRECT MISPERCEPTIONS OF CHANGES TO MILITARY COMPENSATION" (OSD Case #4823) (FPCD-78-27).

I. GENERAL REMARKS. These are intended to make clear what the precise meaning of certain technical terms we use in the subsequent remarks is, and perhaps to clarify some misperceptions on the part of the authors of the report.

A. Regular Military Compensation (RMC). 37 U.S.C. 101(25) defines RMC as follows: "'regular compensation' or 'regular military compensation (RMC)' means the total of the following elements that a member of a uniformed service accrues or receives, directly or indirectly, in cash or in kind every payday: basic pay, basic allowance for quarters, basic allowance for subsistence, and Federal income tax advantage accruing to the aforementioned allowances because they are not subject to Federal income tax."

The term and the concept originated during the deliberations of the "Gorham Study" of 1961-1962. It was an attempt to develop a military equivalent of the civilian salary for analytical purposes, so that the study group could make reasonable comparisons between civilian salary levels and their military counterparts. It was not intended at that time to be an "operational" part of the military compensation system, in the sense that it would be used to set and adjust military compensation. Indeed, as one of the leaders of that study remarked, it would have been absurd to do so, since an income tax increase would have resulted in an "increase" in RMC, while an income tax decrease would have resulted in a "decrease" in RMC. Thus, the concept was intended for a narrow and specific analytical purpose: to compare some reasonable counterpart of military compensation with civilian salaries.

While there was considerable discussion of the concept by the Congress in the 1965 military pay raise hearings, RMC retained its basically analytical nature until the enactment of Pub. L. 90-207 in 1967. At that time, the so-called "Rivers Amendment" (section 8 of that law) made the concept an operational part of military compensation by requiring military basic pay to be adjusted on an RMC basis. However, that law was repealed in 1974 with the enactment of Pub. L. 93-419, and RMC has reverted to its original status as an analytical concept: military basic pay and BAS and BAQ are adjusted on a basis independent of RMC. However, RMC remains a useful analytical concept.

Enclosure 2

One of the reasons why Pub. L. 90-207 made RMC an operational concept was that the Congress expected to see the legislation incorporating the findings of the First Quadrennial Review of Military Compensation presented to it shortly for consideration. One of the major recommendations of that study was to change the form of compensation for the "career" members of the armed forces to a fully taxable military salary that would have incorporated all of the elements of RMC plus an "imputed retirement contribution", since the study recommended a contributory retirement system. Thus, the Congress expected that RMC would disappear as an operational concept in a relatively short time and be replaced with a salary.

As an analytical concept, RMC is dependent on basic pay by grade and longevity status, by whether housing or food is provided in kind or commuted in cash, by dependency status, and by the existing federal income tax laws. Since there is much disagreement on how to value in kind housing in particular, the DoD normally publishes RMCs based on all-cash assumptions, as these are relatively unambiguous. Even so, the resulting document is three-quarters of an inch thick (were in-kind computations attempted, the volume would be more than twice as thick). However, since 57% of the force receive their housing in-kind, one should not expect cash RMCs to correspond with the actual RMCs of such personnel. For bachelor members in particular, in kind RMCs will usually be lower.

The point of this discussion is that (a) while members not involved in compensation analysis should not normally be expected to know what their RMCs are, or to even be familiar with an analytical concept, because of the publicity on RMC expended by both the media and the DoD many of them are, and (b) that there is a considerable range of RMCs for each grade and longevity step, thus requiring the analyst to be very careful how he uses the concept.

The analyst should also be aware that the allowance elements of compensation are legally not compensation items at all, but are reimbursements, thus accounting for their tax-free nature. This was recently reaffirmed in the Humboldt County case, and fortifies our point that RMC should be treated as an analytical concept only.

Benefits. A benefit is usually defined as a financial advantage to a service member, which is a compensation item and which is provided in addition to the military equivalent of civilian salary or wages and to special and incentive pays. A specific benefit is not necessarily received by or even available to all service members. Thus, benefits constitute a subset of military compensation items. The DoD publication Military Compensation Background Papers cites some 16 military benefits, and we shall use that classification in our discussions of this topic.

Total Military Compensation (TMC). Total military compensation is normally defined as the sum of all compensation items, some 46 in all as defined in the Military Compensation Background Papers. However, for specific purposes, such as symmetry with other Federal systems for the purposes of setting and adjusting compensation, a special definition is used. This happened during the Third QRMC where, to be consistent with the findings of the Rockefeller Panel and the work of the Civil Service Commission, a definition of TMC including only RMC plus the "big six" benefits was used. We suggest the use of the broader definition.

Reimbursements and Related Manpower Costs. This is the sum of various items that have the following characteristics:

- o an advantage to a service member or dependent which, when available, is not an item of compensation, but is provided due to a moral or other obligation (e.g., reimbursement) by the government; or
- o the favorable circumstance resulting from its exercise is either primarily or equally advantageous to the government; or
- o is provided at little or no cost or inconvenience to the government, but directly enhances the morale or well-being of the recipient.

A partial list of such items appear in the Military Compensation Background Papers under the heading "Manpower Related Cost Items."

"Erosion of Benefits". This is a popular expression that in practice refers to changes occurring in any of a sum of items of TMC plus reimbursements and related manpower costs that are considered as financially unfavorable to the military members. The term encompasses much more than compensation items. Thus, the key concept to use in attempting to

measure the effects of possible "erosion of benefits" is the effect on disposable income as a whole, and not just compensation change. Clearly when a previously available reimbursement is decreased or removed, the effect on the member is unfavorable even though the item is not one of compensation proper.

A last general point should be brought out: it is not only actual changes but proposed changes that contribute to service members' perceptions. Such actions by various agencies are reported in the press and contribute to the members' sense of insecurity. For example, a classic case of this was the actual imposition of a 5% pay cap on a pay raise as opposed to an announced intention of making military commissaries self-sustaining and thereby increasing the price of groceries in those stores. These actions occurred at about the same time. There was very little outcry against the pay cap, since it was government-wide, but the announced commissary action roused a storm of protest. In actual fact, the Congress rejected the administration proposal with respect to commissaries, but the impression created that military commissaries were threatened remained. The proposed, but never enacted Retirement Modernization Act (RMA) played a similar role in members perception of their retirement benefit.

## II. SPECIFIC REMARKS.

1. The report uses all-cash RMCs for most comparisons, and thus introduces some distortions in the results deduced.
2. p. 2, para 2. Use of term "erosion of benefits" did not begin with the AVF--it came into general use in 1974.
3. p. 2, para 3.

[See GAO note 1, p. 54.]

The accuracy of the report might better be served by striking out "reasonably capable of providing" and "compensation intent" and replacing these phrases with "perceived to have promised" and "compensation and reimbursement policy."

4. p. 9, para 1.

[See GAO note 2, p. 54.]

Moreover, the survey data show that troops don't claim to be undercompensated, they claim their disposable income is less than what it would have been without the changes, and believe that most such adverse changes were motivated by cost considerations.

5. p. 9, para 1. Insert the word "cash" before the term "RMC" wherever it appears. All such comparisons rely on cash RMCs, which assume that all members receive BAQ and BAS rather than their primary entitlement, which is to housing and food in-kind. Personnel in the lower grades in particular do not receive cash BAQs and BASs.

6. p. 9, para 3. Rand work does not address erosion of benefits or perceptions of changes in military compensation.

7. p. 9, para 3.

[See GAO note 1, p. 54.]

8. p. 9, para 4. The CRS study raises several points which merit further examination. For example: (1) The costing methods for 1968 and 1976 are different; thus the data may not be comparable. (2) The selection of 1968 as a comparison year introduces an external influence since a series of pay raises intended to equalize government employees with workers in the private sector occurred from 1968 through 1970. In addition, the massive increase in first term pay to implement the AVF in 1972 distorts the comparison. (3) The list of "favorable" compensation changes include management actions with only a remote relation to compensation and reimbursements, such as improved court-martial procedures, admission of women into the service academies, and the granting service secretaries the right to manage enlisted savings deposits for MIAs. (4) The "dramatic monetary growth in benefits"

is more a function of unusual inflation in the medical area while the estate benefits have increased as a function of (a) the growing number of military retirees, (b) inflationary changes corrected by CPI adjustments (including the "1% kicker," since abolished) and (c) linkage of recent retired pay to the "competitive" basic pay of 1972.

9. p. 14, para 1.

[See GAO note 2, p. 54.]

10. p. 14, para 2. "Knowledge of RMC" - all RMC figures used by GAO are cash RMC, whereas a significant fraction of the force (57%) reside on post. In the case of bachelors, 87% of whom live on post (or aboard ship or in field duty), the in-kind RMC's will be considerably smaller than cash RMCs. Therefore, the charts on pp 18 and 20, which use only cash RMC figures, incorrectly measure the perceptions of individuals, particularly in the lower grades. Were the in-kind RMCs to be used as measuring standards, it is estimated that the member's perceptions and actual RMC's will overlap.

[See GAO note 4, p. 54.]

11. pp. 14-17. The rationale for selecting the items to be studied is not clear. Other aspects might be more indicative. For example, the big complaints about CHAMPUS are the reductions of reimbursed fees from the 90th to the 75th percentile, delays in payment, reduction of some kinds of coverage, etc. The 40-mile rule is relatively minor when compared with these.

12. p. 17, para 1. It is difficult to follow this logic. The chart on p. 18 displays the perceived RMC of enlisted members in contrast with a cash RMC most of them, especially those in the lower grades, do not receive. It is then assumed that an accurate grasp of this relationship by the member will be related to how well the member will evaluate any compensation change to his "pay." We point out that the TMC package is very different from the RMC package and, in addition, that many of the changes being discussed are reimbursements outside of the compensation package altogether.

13. p. 19, para 2. The population cited here should be weighed by the 45% who do not receive cash allowances and who live in government quarters. The resulting figure should be lower, since 71% of bachelor E-5s, the value of whose quarters is estimated to be below BAQ rates, receive no cash payments.

14. p. 21, para. 1. 11. 1-3.

[See GAO note 3.]

15. p. 21, para 2. As discussed earlier, the member's perception of the value of his compensation may not be as erroneous as indicated here and the conclusion that the view of erosion is invalid is not supported.

16. p. 21, para 3ff. If the confusion exhibited above persists, then what is being proposed is a transition from a pay, allowances, special pays and benefits system to a salary, special pays and benefits system. The vast majority of compensation items remain unaffected by any such transition; moreover, the "inequities" cited are inequities only from the point of view of a salary proponent, who perceives RMC as compensation for work performed. In law today, only basic pay maintains this feature; the allowances are reimbursements awarded when the government is unable to fulfill the member's primary entitlement, which is to in-kind quarters.

17. The material presented in the supporting appendices generally reflect their summaries in the report and the comments here apply equally to them.

GAO note:

1. Deleted remarks relate to matters discussed in the draft report but changed in the final report.
2. Deleted remarks relate to matters discussed in the draft report but omitted from the final report.
3. Deleted remarks relate to matters discussed in the draft report but resolved through discussion with DOD officials.
4. Page number references in the appendix may not correspond to pages in this final report.

PRINCIPAL DOD OFFICIALS RESPONSIBLE FOR  
ACTIVITIES DISCUSSED IN THIS REPORT

|  | <u>Tenure of office</u> |           |
|--|-------------------------|-----------|
|  | <u>From</u>             | <u>To</u> |
| <b>SECRETARY OF DEFENSE:</b>   |                         |           |
| Harold Brown   | Jan. 1977               | Present   |
| Donald H. Rumsfeld   | Nov. 1975               | Jan. 1977 |
| James R. Schlesinger   | July 1973               | Nov. 1975 |
| <b>DEPUTY SECRETARY OF DEFENSE:</b>  |                         |           |
| Charles W. Duncan, Jr.   | Jan. 1977               | Present   |
| William P. Clements  | Jan. 1973               | Jan. 1977 |
| <b>ASSISTANT SECRETARY OF DEFENSE<br/>(MANPOWER, RESERVE AFFAIRS<br/>AND LOGISTICS):</b> |                         |           |
| John White   | May 1977                | Present   |
| <b>ASSISTANT SECRETARY OF DEFENSE<br/>(MANPOWER AND RESERVE AFFAIRS):</b>                |                         |           |
| Carl W. Clewlow (acting)   | Feb. 1977               | May 1977  |
| David P. Taylor  | July 1976               | Feb. 1977 |
| John F. Aherne (acting)  | Mar. 1976               | July 1976 |
| William K. Brehm   | Sept. 1973              | Mar. 1976 |
| <b>SECRETARY OF THE ARMY:</b>  |                         |           |
| Clifford M. Alexander, Jr.   | Feb. 1977               | Present   |
| Martin R. Hoffman  | Aug. 1975               | Feb. 1975 |
| Howard H. Callaway   | May 1973                | Aug. 1975 |
| Robert E. Froehlke   | July 1971               | Apr. 1973 |
| Stanley R. Resor   | July 1965               | June 1971 |
| <b>SECRETARY OF THE NAVY:</b>  |                         |           |
| Graham Claytor, Jr.  | Feb. 1977               | Present   |
| J. William Middendorf  | June 1974               | Feb. 1977 |
| J. William Middendorf<br>(acting)  | Apr. 1974               | June 1974 |
| John W. Warner   | May 1972                | Apr. 1974 |
| John H. Chafee   | Jan. 1969               | May 1972  |
| Paul R. Ignatius   | Sept. 1967              | Jan. 1969 |
| <b>SECRETARY OF THE AIR FORCE:</b>   |                         |           |
| John C. Stetson  | Apr. 1977               | Present   |
| Thomas Reed  | Jan. 1976               | Apr. 1977 |
| John L. McLucas  | May 1973                | Jan. 1976 |
| Robert C. Seamans, Jr.   | Jan. 1969               | Apr. 1973 |
| Harold Brown   | Oct. 1964               | Jan. 1969 |