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STATEMENT OF

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BEFORE THE  
SENATE COMMITTEE ON THE BUDGET

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ON

[ ACROSS-THE-BOARD PAY RAISES AND OTHER  
MILITARY MANPOWER ISSUES ]

Mr. Chairman:

I am pleased to appear before you today to discuss several important and interrelated issues concerning military compensation and manpower policies. Foremost among these is the appropriateness of the President's proposed across-the-board pay raises to take effect this year.

This issue is very much interrelated with two other compensation and manpower management issues that we, and others, have addressed over the past several years: (1) the wisdom of instituting a military salary system to replace the antiquated pay and allowances system and (2) whether the retirement system should be revised so that it would work for, rather than against, military manpower objectives.

Had these latter two issues been faced squarely and dealt with appropriately at the time they were first raised, the

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military may have precluded the problems which it hopes to correct with the proposed across-the-board pay increases. I believe that our testimony this afternoon will clear up any misconceptions that may exist regarding these issues and possibly provide some impetus to face them squarely and soon. I believe that to do so will result in more effective Armed Forces, as well as long-term cost savings.

#### Across-the-Board Pay Increases

On March 10, 1981, the President submitted to the Congress the Administration's revised fiscal year 1982 budget. The Administration proposed a 5.3 percent pay raise for military personnel in July 1981 in addition to the proposed 9.1 percent October 1981 pay raise included in the prior Administration's 1982 budget. These pay increases are on top of an 11.7 percent across-the-board increase which became effective in October 1980. The 5.3 percent pay raise will add \$400 million to the fiscal year 1981 budget and \$1.9 billion to the 1982 budget. The proposed October 1981 raise of 9.1 percent is greater than the 4.8 percent increase proposed for other Federal workers. The cost of this extra 4.3 percent would add another \$1.6 billion to the 1982 Defense budget. In total, then, the Administration has proposed spending an extra \$3.9 billion for military pay increases during fiscal years 1981 and 1982.

The President's revised budget stated that these across-the-board pay raises are needed to "reduce the outflow of experienced personnel from the Armed Services."

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As you begin to break apart the components of the career force and look at those with 5 to 12 years of service and those with 13 to 30 years of service, you begin to get a somewhat different picture. Between 1967 and 1979, the number of people with 13 to 30 years of service declined quite sharply from about 480,000 to slightly over 270,000. However, the number of people with 5 to 12 years of service has gone up rather sharply since the early 1970's from about 340,000 in 1971 to about 470,000 in 1979.

This change in the career force profile points up an interesting situation which appears on the surface to be a mass exodus of experienced noncommissioned officers. However, since the group with 5 to 12 years of service feeds the group with 13 to 30 years of service, what we are seeing in terms of the decline in 13 to 30 years service numbers is at least partially the result of a shortage in the 5 to 12 year group in the early 1970's, attributable to Vietnam and its aftermath. People in this group-- more than 90 percent of whom will complete 20 years of service-- will soon reach retirement age, and the proposed pay raises would have very little impact on retaining these individuals until retirement. Conversely, over the past several years, the group that feeds the senior career force (those with 5 to 12 years of service) has been building, and we can expect in the future to see a turnaround in the numbers in the 13 to 30 years of service group, regardless of whether added pay increases are authorized.

Therefore, on an aggregate basis, across-the-board pay raises would have very little impact on the 13 to 30 years of service group--the group receiving the most public attention. We could also expect that pay raises would indeed influence some people in the 5 to 12 year group to remain in the service longer than they otherwise would have, thus increasing the overall size of the career force. However, as this group already is larger than desired in terms of the total force profile, further increases in its size may not be in the best interests of the Armed Forces.

#### Impact of Pay Raises on Skill Shortages

As we have seen, the active duty career force has remained quite stable since 1973, and, on an aggregate basis, is fully manned. However, it is true that there are severe shortages of certain skills in each of the Services.

For example, the Air Force currently has 48 skills where they have experienced chronic critical skill shortages. According to the Air Force, they are currently short over 3,000 E-5's through E-7's in these 48 skills. Continuation rates have been up in the Army, but two specific areas still require attention: combat arms skills and space imbalance skills--skills requiring frequent overseas tours, field duty, and family separations. The Navy has experienced shortages by skill, skill level, rank, and location. According to the Navy, its most severe problem is a shortage of over 20,000 petty officers. Specific skills with shortage problems include: nuclear technicians and specialists, boiler

technicians, machinists mates, radar and sonar specialists, and others. According to the Marine Corps, 38 percent of all occupational specialties have critical shortages. Many of these are in the same fields in which the other Services are experiencing severe shortage problems. However, since on an aggregate basis, the Marine Corps and the other military Services are fully manned, there have to be many skills which are in excess supply.

While it is possible that a 5.3 percent pay raise in July and another 9.1 percent raise in October could increase to some extent retention rates in some critical skills, the raises would also likely increase the retention of those people the Services no longer need. This, of course, would only serve to make the skill imbalance situation worse.

The Department has stated that the 11.7 percent increase effective last October improved retention rates, and, in the aggregate, it appears that the pay raise may have had some impact. However, the Department has been unable to provide specific data to show how much of the improved retention can be attributed to the across-the-board increases versus increases in other pay elements. Furthermore, the Department has not demonstrated that the increased retention rates occurred in the critical shortage skill areas. We believe questions such as these need to be answered before deciding that across-the-board pay raises are the best solution for keeping people with critical skills in the Armed Forces.

### Civilian/Military Pay Comparability

Secretary Weinberger has stated that the Administration is committed to restoring pay comparability between military personnel and their civilian counterparts. Comparability is an extremely complex matter, and I will not take the time here to get into all the intricacies of how comparability is computed. However, let me describe briefly what the current situation is in this regard.

The professional, administrative, technical, and clerical index--commonly referred to as the PATC index--of the Bureau of Labor Statistics is used to adjust Federal civilian pay raises, and pay raises for the military have been linked by law to the pay raises of Federal civilians, except for the October 1980 pay raise. At the beginning of the All-Volunteer Force, regular military compensation (RMC)--the military equivalent to a civilian salary--and the PATC index started at approximately the same point, somewhat above the Consumer Price Index. RMC and Federal civilian pay soon began to drop in relation to the PATC index and continued to drop throughout the 1974 through 1980 time period. The reason for this was a series of pay caps which prevented either Federal civilian or military pay from increasing as much as the PATC index. By 1979, RMC had fallen 8 percent below the level of PATC. However, the October 1980 pay raise of 12.7 percent (including the increase in subsistence allowance) reduced the difference between RMC and the PATC index to about 4 percent.



Comparing RMC to the PATC index as the sole measure of comparability, however, neglects to consider several other pay items which have also increased during the past several years. For example, not included in RMC are things such as the variable housing allowance which can make a substantial difference in take-home pay. There are also substantial amounts of bonus money, increases in the amount of flight pay, submarine pay, and so forth. According to Defense's own estimate, of the 4 percent difference that existed after the October 1980 pay raise, perhaps as much as 3 percent has been made up, in the aggregate, by these other pays. Thus, it appears that the present real difference between the PATC index and military pay is very small.

Another way of looking at comparability is to compare RMC for specific military specialties with comparable civilian occupations. Such a comparison at grades E-5 through E-7 for 34 occupations recently conducted by GAO showed that most varied considerably from their civilian counterpart--either higher or lower. We noted that in 27 percent of the cases military personnel received significantly less than comparable civilian occupations, but 29 percent of the skills sampled received over 20 percent more compensation than their civilian counterparts.

In summary, we agree that the military services are facing serious manpower problems that need to be dealt with. Some of these problems, however, originated 8 to 10 years ago when reenlistments were at an extremely low level because of Vietnam and the attitude that prevailed at that time. In our view, it is highly unlikely that across-the-board pay raises

would have much impact on the current problems resulting from that period. Further, we do not believe that an across-the-board approach is the best or most efficient way to solve the other manpower problems facing the military services. Not only would such an approach have little positive impact on the problems, there is a high risk that it would only serve to make the problems worse in future years. We believe that a better way to correct the current problems is to address each problem individually through the use of selective bonuses or other incentives, and, in our view, this could be accomplished at far less cost than the \$3.9 billion requested for the two raises.

I have attached as an appendix for the record a discussion of the need for improved enlisted career force management. This appendix provides details on problems which the Department would like to, but cannot correct with across-the-board pay raises.

#### Need for a Salary System

Because of the misconception among Service personnel concerning their total compensation and other reasons, the adoption of a salary system could counter many of the problems identified by the Services--and at far less cost.

If a salary system was adopted, all Service personnel would be paid in cash, as taxable income, and distributions based on dependents, marital status, or whether the Government provided in-kind benefits would disappear.

Today, the military compensation package consists of a wide assortment of pay, allowances, and benefits. By convention, these elements are grouped into three categories: basic

pay, quarter and subsistence allowances, and tax advantages --collectively called Regular Military Compensation (RMC).

The centerpiece of the RMC compensation system is basic pay. It is the only cash element of the RMC to which every Service member is entitled, and it is considered to be "payment for work performed."

In addition to receiving basic pay, members of the Armed Force have traditionally been billeted and fed. Today, about one-half of all military personnel live in government quarters and somewhat fewer--mostly unmarried junior enlisted personnel--receive subsistence in kind. The remainder receive cash allowances intended to defray the expense of obtaining the goods and services on the private economy. To offset food expense, military personnel are provided "subsistence allowances" which in October 1980 amounted to about \$83 a month for officers and about \$120 a month for enlisted men. To offset the costs of housing, quarters allowances--based on rank and dependency status--are paid. In high-cost areas, supplementary variable housing allowances also are paid. Preliminary indications are that about 98 percent of Service members living off base receive this allowance. To a much greater degree than most public and private-sector institutions, the military relies on such allowances and in-kind compensation, and they account for about 30 percent of total military personnel costs.

Since subsistence, quarters, and housing allowances are not subject to Federal income, State income, or social security taxes,

military personnel enjoy a tax advantage. The magnitude of this saving varies between personnel and is dependent upon the size of the allowances, total taxable income, and dependency status.

In our view, as expressed in several GAO reports, a salary system is a better way to pay Service personnel. Our reasons for this position are:

- Under the current system, members, managers, and the Congress have difficulty in accurately quantifying and evaluating military pay. Much of this difficulty stems from the "invisible" nature of compensation elements, such as Government-provided quarters and subsistence and particularly the tax advantage. 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.
- A salary system would eliminate inequities in pay between married and single members of the same grade and length of service.
- A salary system would more fully reflect the cost of military manpower rather than partially concealing it, through tax advantage, in reduced revenues to the Treasury.

Concerning the first or "visibility" reason, various studies have estimated the extent of the misperceptions surrounding the RMC received by Service personnel. For example, the President's Commission on Military Compensation noted in their 1978 report that junior enlisted personnel underestimated the value of the RMC by about 20 percent.

At a time when the Services are unable to recruit enough higher quality recruits, there can be little doubt that an

improvement in the perceived rewards of Armed Forces' enlistments would have a major impact on these recruiting problems.

The second reason--"inequities"--refers to the fact that married and single members do not receive equal compensation. Two factors account for this difference: the quarters allowance for married members is greater than that for unmarried personnel and preferential treatment is afforded to married personnel in the assignment of less expensive on-base housing.

The provision of greater rewards to married personnel fosters stability in the career force, but also has a negative impact on readiness and mobilization, in that married personnel have joint loyalties in times of crisis to both their military duties and to their families. There also are increasing problems in the AVF which are associated with junior enlisted personnel with families. Since the end of the draft, there has been a marked increase in the proportion of new enlistees with families and the Services have not been able to provide them with the levels of support provided to more senior personnel. As a result, there are severe problems in meeting peacetime training and operations demands, with ever-more-serious problems predicted for deployment scenarios. At least for the young, first-term enlistees, there can be little doubt that the Services would benefit from having a larger unmarried force, and the provision of a salary which made no distinctions between married and single personnel would support the achievement of this goal.

The third reason--"full visibility of manpower costs"-- would require additional appropriations for Armed Forces manpower accounts, estimated to be between \$2 and \$3 billion annually. Of this, however, about \$1.5 billion would be returned to the Treasury through income tax payments and another \$300 to \$500 million through increased social security payments. Whether net costs to the Government would result, therefore, would depend upon policy decisions concerning the equalization of pay for married and single personnel and whether the Services would increase pay rates in order to offset the increased liability of Service members for State income taxes.

#### 20-Year Retirement

The reform of the retirement system also would contribute to the resolution of the problems in the Services.

As you know, the uniformed services retirement system covers members of the Army, Navy, Air Force, Marine Corps, and Coast Guard, and the commissioned officers corps of the Public Health Service and the National Oceanic and Atmospheric Administration. In 1980, the system covered about 2.9 million regular and reserve members. Some aspects of the present system are traceable to laws enacted before the Civil War. However, the current system is based primarily on legislation enacted in the late 1940's.

Participants are also covered by social security and are eligible for Veterans Administration (VA) benefits. Members contribute to social security, but not to the retirement system. VA benefits are offset against benefits payable from the retirement system.

The uniformed services retirement system has several features not generally found in retirement systems for Federal civilian employees. These features include:

- Retirement with immediate benefits at any age after 20 years of service.
- Retirement benefit amounts based on terminal pay rates rather than average pay over a certain number of years (only for personnel who entered the Service prior to Oct. 1980).
- No contribution by covered personnel toward the cost of the system.
- No vested rights for members who separate before they are eligible for immediate retirement benefits (20 years).

Concerning the system, DOD officials believe that without the prospect of 20-year retirement, members would not be as willing to accept the potential worklife. Also, they indicated that members would not accept the military way of life for more than 20 years.

As defined by DOD, the three broad objectives of the present military retirement system are to

- assist in attracting and retaining the kinds and numbers of qualified members required,
- provide a socially acceptable method of removing some members who must be separated to insure maintenance of a young and vigorous force, and
- provide, after many years of faithful service, some degree of financial security that is understood, assured, and protected against the inroads of future inflation.

Much of the debate centering on early retirement in the military concerns perceptions about the rigors of military life, time spent overseas, and combat readiness. According to DOD, 20-year retirement is needed to maintain a young and vigorous force

capable of meeting these requirements. Youth and vigor are viewed as a universal requirement for all members regardless of occupational specialty or type of assignment. Retirement eligibility has never been tied to the amount of time spent in hazardous or combat occupational specialties or locations, even though these types of assignments are often used as justification for early retirement. DOD officials speak in terms of the "aggregate force" or the "average member." They assume that 20-year retirement is necessary to let a member out after a reasonable period of time and that all members must be ready to serve in a combat environment.

DOD has no criteria for differentiating between demanding and less demanding duties because it maintains that youth and vigor are needed for all members. Therefore, the privilege of requesting early retirement is granted to all members without regard to the need for youth and vigor in their occupational specialty or location. The youth and vigor concept is used by DOD in administering their "up or out" policy for officers and as part of their rationale for continuing 20-year retirement for all officers and enlisted members.

In our view, however, combat-related jobs require younger personnel than other occupations. In noncombat jobs, the maturity, experience, and judgment gained through longer service are more valuable than physical stamina and agility.

To determine how the Services were using their career personnel, we examined the career experiences of 800 military personnel



who retired in 1975. We found that career personnel spent far more time in support-type activities, such as administration and communication, than in combat-related activities, such as tactical and infantry operations. A full 92 percent of all the enlisted personnel career time and 67 percent of the officers' career months were spent on support-type activities which do not require extraordinary youth and vigor.

Some skills in the military do require youth and vigor, but the Services need to find definite answers to the following:

1. What skills require youth and vigor?
2. In what age bracket are members no longer able to perform their duties?
3. How much of the Force is actually engaged in work requiring youth and vigor?
4. How much of an individual's career is devoted toward more physically demanding work and at what stage of the member's career?
5. To what degree do career members perform the more physically demanding work?
6. Are the duties of Service members more concerned with judgment, knowledge, and experience?
7. Is the present mix of career and noncareer personnel the best?

We believe 20-year retirement is dictating the wants and desires of Service personnel, rather than meeting the Services' needs and requirements. An economically efficient compensation

system should be designed to attract and retain the necessary quantity and quality of manpower. Twenty-year retirement, lack of vesting, and the competitive promotion system are an economically inefficient combination, because too many highly qualified members leave the Services to begin second careers.

This growing concern about the retirement system has been reflected in a variety of major studies conducted between 1967 and 1980. While each group took a somewhat different view of the issues, their criticisms centered particularly on those aspects of the retirement plan that provide generous annuities to Service members who serve at least 20 years, but none to those who serve less.

All in all, the common thread running through the proposals is that the military retirement system needs to be changed. A consensus exists regarding the need to encourage longer careers, on the one hand, and provide some benefits to those who serve less than 20 years, on the other. There is widespread agreement that to achieve these ends, annuities should be reduced for younger retirees and increased for older ones, and members should be vested after completing 10 years of service.

Beyond the effectiveness issue concerning retirement reform, there is the issue of cost. The military pay-as-you-go system now has an unfunded liability of close to \$500 billion. There also was a fivefold increase in the cost of military retirement during the decade of the 1970's, an increase that far outran the cost increase in other elements of military compensation. In other words, unless changes are made, there is doubt that we will

be able to afford a continuation of the present system without making significant sacrifices in other areas.

While the cost of military retirement represents a substantial proportion of all defense expenditures, cost alone does not provide a case for change. Rather, change is needed because of three inherent deficiencies in the existing retirement plan. As outlined by the President's Commission on Military Compensation, these deficiencies are:

First, the current system is inequitable. Compared to most public and private-sector systems, it provides significantly more generous benefits, including assistance after 20 years in completing a full working career and protecting retirees for a full 30 to 40 years or more from the ravages of inflation.

Second, the current system inhibits effective and flexible force management. Because the current system provides benefits only after 20 years of service, managers are reluctant to separate ineffective people who are approaching retirement eligibility. After a member has served 20 years, the availability of an immediate annuity lessens the incentive to remain on active duty. In sum, the system is constraining manpower managers from adapting personnel policies to a changing technological and strategic environment.

Third, the current system is inefficient. Various studies have shown that the retirement plan has little influence on prospective recruits or on Service members during their first term. At the same time, the current plan provides a strong incentive for

more senior personnel to remain on active duty, particularly those in their 12th through 19th year of service. In our view, desired recruitment and retention of both first-term and senior personnel can be achieved at a much lower cost by allocating a relatively larger proportion of total compensation to current pay.

In summary, then, in our opinion, continuation of 20-year retirement for all military personnel is not justified. Military officers retire at an average age of 46 with 24 years of service, and enlisted personnel retire at an average age of 41 with 21 years of service. The ability to receive retirement benefits at a relatively early age and begin a second career in other employment is, understandably, too powerful an incentive to resist, and there can be little doubt that few will do so unless there are fundamental changes in the system.

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In closing, I would like to say that GAO, like the Congress, is interested in identifying those initiatives which can lead to greater effectiveness and less cost. We believe that such opportunities exist in the areas I have spoken about today.

We hope that you and your committee will give these proposals your serious consideration.

Mr. Chairman, I will be happy to respond to any questions that you may have at this time.

ACROSS-THE-BOARD RAISES AND OTHER  
MILITARY MANPOWER ISSUES

Objective Enlisted Force Composition

Many of the problems which the Department hopes to correct with across-the-board pay raises relate to, and had their genesis in, the military force composition policies. The basic question is whether the years of service and rank/grade distribution in the Services is providing the personnel needed for an effective and cost-efficient force.

This question is especially pertinent to the 1.8 million enlisted personnel who work in hundreds of technically diverse occupational specialties whose pay and allowances alone account for nearly two-thirds of the active military personnel costs.

The Services are permitted wide latitude in developing enlisted personnel management systems. Within limited constraints imposed by the Office of the Secretary of Defense, each Service has independently pursued and developed enlisted management objectives using its own systems, sets of logic, rules, and policies. The Service objectives form the basis for the submission and justification of enlistment and reenlistment bonuses, grade authorizations, and basic and skill training programs, among other things. The Services specify these objectives in terms of grades and years of service for each occupational specialty (e.g., jet engine mechanic, cook, nuclear powerplant operator) and the aggregated enlisted force structure.

Because of its magnitude, even very small improvements in the way the enlisted force is configured can yield substantial dollar savings. For example, careerists draw higher pay and are generally more expensive to maintain than first-termers, since they make more extensive use of fringe benefits, such as medical care, dependents travel, and morale welfare and recreation privileges and are more likely to draw retirement benefits. While more expensive than first-termers, careerists are presumably more productive as well. First-termers, on the other hand, are both cheaper and less productive than careerists and require initial training before they can be productively employed. Given the relative costs and productivity of first-termers and careerists in each occupational specialty, it is our view that the Services should be asking: Which investment is likely to be more beneficial--

1. more careerists who receive higher pay, reenlistment bonuses, and other fringe benefits or
2. first-termers who, although paid less, are costly to recruit and train?

In our opinion, each of the Services must be more cost conscious in addressing such personnel/manpower management decisions.

While the Services' plans show that they can project the long-term effects of management decision on force configuration, they do not justify their choices on an objective cost/benefit basis. For example, if better retention is the objective, is it equally good or necessary for all occupations? At what point does it become unnecessarily good or too costly?

One of the most important elements missing in the Services' enlisted management systems is a viable measure of benefit which can be used to analyze the expected return from changes in the force configuration. Generally, externally imposed statements of need, usually expressed as personnel requirements and cost in the form of budget dollars, have dictated force configuration. Within these constraints, however, there is considerable discretion for the decisionmakers, especially on decisions affecting grade and years of service of each occupational specialty.

Our examination of these issues shows a need for research on the relative value and cost-benefit analyses of enlisted force configurations. It is difficult to know how much to pay for something without knowing how valuable it is. Whereas considerable effort appears to have gone into developing compatible policies for maintaining a stable number of careerists, the problem of maintaining a given level of effectiveness or estimating the marginal contribution of a person in each occupation, pay grade, and experience level has been neglected. This may be the most glaring deficiency in the Services' analysis of questions concerning force configuration.

The recent across-the-board pay raises for Service personnel is highly illustrative of the need for this capability. The raise was largely predicated on the basis that there are serious shortages of senior enlisted personnel and that large numbers of them--particularly in critical skills--are leaving the service for better paying jobs on the outside. Yet, in spite of widespread perceptions about such problems, the active duty enlisted career force

has been quite stable in size since the beginning of the AVF. Indeed, the Army career size has increased. However, a closer examination of the components of the career force by years of service distribution identifies a somewhat different picture; that is, there is a significant shortage, except for the Air Force, in the 15-30-year service cohorts.

This shortage has been caused by (1) retirements of the abnormally large group of senior Noncommissioned Officers (NCO's) who entered the Services during the build-ups for the Korean war and the Berlin Crisis and (2) low reenlistment rates for today's senior NCO cohorts when they were junior NCO's during the Vietnam War years. To offset this shortage, the Services have a surplus of junior careerists.

In addition, over the next 2 years, reenlistment dollars are programmed to double and bonuses will be paid to personnel with 10-14 years service in hard-to-man occupations. Coupled with across-the-board raises, very large sums of money will be spent in the interest of increasing retention and the size of the career force. In our view, such an aggregate approach to military personnel management only produces inadequate solutions to individual specialty needs, causes serious career force and occupational specialty imbalances, and distorts retirement compensation practices.

In contrast, a more occupational and years-of-service specific plan--if properly developed and supported--could provide the Services with better qualified people in critical areas and at less cost.