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U.S. GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C.

FOR RELEASE ON DELIVERY
Expected at 9:30 a.m.
Thursday, April 21, 1983

STATEMENT OF

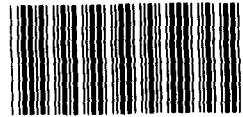
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BEFORE THE

SUBCOMMITTEE ON DEFENSE
HOUSE COMMITTEE ON APPROPRIATIONS

ON

MILITARY PERSONNEL ISSUES



121171

Mr. Chairman and Members of the Subcommittee:

As always, I welcome the opportunity to appear before you to discuss those military personnel issues which are of concern to this committee. Today, I will discuss six subjects: (1) implications of the Administration's proposed freeze on basic pay and allowances; (2) questions raised about how military pay is annually adjusted; (3) the reasonableness of the service requests for fiscal year 1984 bonus monies; (4) whether funds should be authorized for growth in the Army's noncommissioned officer (NCO) ranks; (5) our views on the congressional proposals for a new postservice educational assistance benefits program; and (6) the Administration's proposal to make permanent the 50-percent limitation on retired pay cost-of-living adjustments (COLA) for military retirees under age 62.

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IMPLICATIONS OF THE PROPOSED
FREEZE IN BASIC PAY AND ALLOWANCE

The President has announced that for fiscal year 1984 he intends to ask military members to forego the scheduled across-the-board increase in basic pay, subsistence, and housing allowances; that is, a freeze of those three compensation elements which, along with the Federal income tax advantage on the non-taxable allowances, are known as Basic Military Compensation (BMC). The Department of Defense's (DOD's) initial planning assumption was that an across-the-board 7.6-percent increase in basic pay and allowances would be needed to maintain pay "comparability" with the private sector. The Pentagon estimates that foregoing this across-the-board pay raise will save about \$2.9 billion in fiscal year 1984.

Is such a pay freeze justified? In our opinion, the concept of "competitive" pay, as currently being discussed by DOD officials as an alternative to the more traditional "comparable" pay, helps one focus more clearly on this issue and on whether the mix of pays, allowances, and other incentives being offered are efficiently and cost-effectively addressing specific manpower problems.

In conceptual terms, we see a distinct difference between competitive and comparable military compensation systems. In our view:

--"Comparable" compensation equates all elements of compensation--not just BMC--received by military members to all the elements received by workers in comparable skills and experience levels in the civilian economy.

--"Competitive" compensation carries comparability one step further by adding a possible adjustment in military compensation to account for market conditions of supply and demand and the advantages and/or disadvantages of military service.

In stating that military pay should be "competitive" with private sector pay, DOD officials are now including the total military pay package; that is, BMC plus the long list of other special and incentive pays and allowances service members receive. While, in theory, the pay package in its entirety should have been included in any past discussions of "comparability," usually it was not.

To illustrate the value of the pay elements that should be added to BMC in order to calculate a true comparability basis, I will use the preliminary results of a study we are doing at the request of Senator Exon. The major objective of this study is to determine what proportion of the force receives some type of pay, in addition to BMC, and how much this additional pay is worth.

Our study shows that:

- Sixty-two percent of Navy and 56 percent of Air Force personnel receive some additional pay, and most of those who do not receive additional pay live in Government-furnished housing for which no rent is paid.
- Sixty-eight percent of Navy additional pay exceed \$1,200 per year.
- Eighty-eight percent of Navy and 82 percent of Air Force 0-3 to 0-6 receive some additional pay with 56 percent and 40 percent, respectively, receiving at least an additional \$3,600 per year.

--Eighty-one percent of Navy E-5's through E-9's receive additional pay, 35 percent of whom receive at least \$2,400 or more per year.

I have included as appendix I to this statement several illustrative examples of what these additional pays are worth for Navy and Air Force members at various grade levels.

The Rivers' Amendment, enacted in 1967, provided a tie between military basic pay and allowances and Federal white-collar pay--and thus an indirect tie to private sector pay changes via the Professional, Administrative, Technical, and Clerical (PATC) survey. However, it did not establish standards of comparability between the military and the private sector. The linkage was to be temporary until military pay standards could be developed and, in essence, it merely assured that whenever Federal white-collar pay would go up, military basic pay and allowances would go up by a like percentage. The linkage, however, did not take into account the many other components of military pay.

What often confuses this issue is the notion that the extraordinary increases in basic pay and allowances of 1971 and 1972, made in preparation for the All-Volunteer Force (AVF), somehow made military pay comparable to private sector pay. This simply is not the case. These raises made military pay more competitive, but standards of comparability for equivalent levels of work, experience, and responsibility were not established at that time and have not been established to this

day. Interestingly, the Gates Commission report, which formed the basis for justifying the large 1971 and 1972 pay raises, showed that total military compensation for enlisted members with 5 or more years of service and for officers with 4 or more years of service already exceeded total private sector civilian compensation by substantial percentages. Excerpts from the Gates Commission report are attached as appendix II to this statement.

What, then, does this discussion of pay "comparability" versus "competitiveness" mean in the context of the President's proposed freeze on BMC? The evidence suggests that foregoing an across-the-board increase in basic pay and allowances will not have a serious adverse impact on the services' ability to attract and retain the quality and quantity of people they need to meet the manning requirements for the various occupational specialties. At the present time, some military occupations are being overpaid as compared to what relevant labor market conditions would indicate, and, without supplemental pay and bonuses, others would be underpaid. A study we currently have underway demonstrates this point. We found that mid-level career Navy personnel who left those generally easy-to-fill Navy occupations during the first quarter of fiscal year 1982 took an average pay cut of \$5,900 per year in their first civilian job out of the Navy. However, those leaving highly technical jobs took only a relatively small pay cut when they left the Navy. In contrast, our study found that in 1980 military pay was not

competitive for either group. This suggests that in some areas the large increases and other changes in military compensation--such as the addition of the variable housing allowance--have raised service compensation from below comparable civilian pay to substantially above for some occupations. These differences are graphically depicted in appendix III.

In general, the across-the-board philosophy for setting and adjusting pay has resulted in a BMC pay line that is higher than necessary in some areas. In our opinion, foregoing an across-the-board increase in BMC this year would help bring military pay more in line with marketplace conditions, provided of course that the necessary occupational differences are accommodated by targeted special pays. Last year, because of the tight budgetary situation, we suggested that a portion of the resources being considered for a general pay raise be targeted to those areas where manpower shortages exist. We suggested that this could be done through existing manpower management programs, such as the selective bonus programs or through a greater use of proficiency-type pays.

In summary, we believe that the President's proposal not to increase the BMC components of pay this year is consistent with our view that the current base pay line is already generally competitive with private sector pay and that, where it is not competitive, available resources should be targeted to specific manpower problem areas. Although we have had concerns and

disagreements with the services from time to time about how they manage and use these special and incentive pays, including the bonus programs, we fully support them in concept and urge that they be adequately funded.

PAY ADJUSTMENT MECHANISM
ALSO MERITS DISCUSSION

An appropriate mechanism for periodically adjusting military pay levels should be part of any discussion concerning military compensation and "competitive" or "comparable" goals. As I have explained, the current mechanism--that is, the indirect link of BMC to private sector pay changes--was intended to be temporary until military pay standards could be developed and agreed upon. Unfortunately, standards have not been developed, and the temporary indirect linkage to the PATC index via Federal white-collar workers remains. However, over the past couple of years, the military has been urging that a direct linkage be established between the cash elements of BMC and the Employment Cost Index (ECI). The military would prefer the ECI as the direct linkage adjustment mechanism over PATC or other indices on the grounds that it is more reflective of a broader range of military occupations.

We support the military proposal that its pay adjustments be permanently delinked from civil service pay adjustments, and we agree that the ECI is preferable to PATC or other available indices. However, we do not support the proposal that only one element of military pay, namely BMC, be tied directly to any

index, including the ECI. Instead of directly indexing one military pay component, we believe that it would be more desirable to use the ECI as a guide for determining the size of the total "competitive" compensation pie, while at the same time giving the Secretary of Defense the authority to allocate the money to those areas where it is most needed to enable the services to compete with private industry for their manpower needs. (This is similar to a recommendation contained in the 1978 report of the President's Commission on Military Compensation.) If, however, the ECI is to be used as the firm basis for adjusting "comparable" military pay, the entire military pay package should be brought into the equation rather than using a multi-dimensional index to adjust only one dimension of military pay.

REQUEST FOR BONUS MONIES MERITS
CAREFUL COMMITTEE SCRUTINY

The requests of the services in their pending fiscal year 1984 budget for increased enlistment and reenlistment bonuses also merits careful committee scrutiny, regardless of whether the President's pay freeze proposal is finally accepted.

As we know, active duty enlistment bonuses and selective reenlistment bonuses are DOD's two major cash incentive programs for attracting and retaining personnel in occupational specialties where critical shortages exist. In terms of meeting the criteria of being good management tools, these programs come closer than any other monetary incentives currently being used

by the military. For the most part, adequate resources have been made available to managers, DOD managers have the authority to adjust the application of resources in a timely manner, managers generally have had the authority to target the resources to the specific problems, and managers get relatively good and timely feedback on how well the resources applied are working--although there is some question about this last item.

Yet, while the programs themselves come very close to having all the key ingredients, DOD managers have not always used their management authority effectively. Furthermore, bonuses may not always be the most economical or cost-effective solution to a particular problem. DOD officials--of course--have testified that both the enlistment and reenlistment bonus programs have been extremely successful. They point out that the current bonus programs are less costly than their predecessors and that recruitment and retention rates have improved since the programs were initiated.

While this is certainly one way to measure effectiveness, there are several other questions which need to be answered before we could reasonably conclude that these bonus programs are the most cost-effective or economical means of solving specific skill shortage problems. For example, are bonuses the least costly method of attracting the additional number of people needed to fill shortages in specific skills? What cost-benefit analyses have been made of the bonus programs, and what have they shown--i.e., what is the marginal cost of bonuses

to attract or retain those who would not otherwise join or remain in the services? Are cash bonuses being used only after other incentives or investments are shown to be less cost-effective?

In the context of the DOD's request for fiscal year 1984 bonus monies, then, have these questions been addressed? Can we be sure that the requests pending before you are justified? Or is there room for serious questioning and possible reduction?

Unfortunately, we cannot provide you with definitive answers to these questions. However, we can raise several issues associated with the pending budget that merit exploration, and we suspect that such followup probing is likely to raise serious doubts in the minds of committee members concerning the legitimacy of some of the requested funds.

First, we note that all of the services are experiencing very high reenlistment rates and that large numbers of personnel--seeing only limited opportunities for civilian employment--are giving serious consideration to signing-up for additional tours. In light of this, we ask, are all of the bonuses scheduled for payment in fiscal year 1984 necessary? Or can some adjustment be made in order to recognize the reduced competition from outside employment?

Second, when all of the services are reporting record high quality among new enlistees, can we justify paying yet

additional numbers of enlistment bonuses? Or, as in the case of reenlistment bonuses, can some reduction be made in order to account for conditions of supply and demand?

Third, in the case of the Navy, we note that the requested monies for reenlistment bonuses are substantially larger than in the current fiscal year and that the Navy bases its need for these increased funds on its continuing expansion toward a 600-ship Navy. Yet, we also note that the current pending fiscal year 1984 budget slows down the planned acquisition of ships. In light of this, should not there be corollary slow-down in the growth rate for career personnel? If so, should not the requested increases in selected reenlistment bonus monies also be reduced?

Fourth, in the case of the Navy and Marine Corps, we note that funds have been requested for payment of new Aviation Officer Continuation Bonuses. As you know, last year, we completed an extensive analysis of the implementation of this bonus, and we noted that it had been paid to pilots with very little service remaining, in years-of-service groups with already very high retention, and to naval flight officers where only slight shortages existed. While we do not oppose payment of the bonuses as such, we urge the committee to impress upon the Navy and Marine Corps that payment should be made only to aviators who are truly at a critical retention point in their careers and only in those specialties where critical shortages exist. If such a restricted payment policy is adopted, it is likely that less bonus monies will be needed.

Last, we are concerned that the available reenlistment bonus monies--together with the bleak civilian employment opportunities--may be prompting too many personnel to reenlist--with resulting skill, years of service, and grade imbalances. In our view, the need to constrain excessive grade growth goes beyond the budget savings that can be achieved in fiscal year 1984. For in the future years, the services will likely need additional monies to correct the imbalances that would result from an over-zealous retention pattern in the near term. Accordingly, we urge your careful attention to the relationship of retention patterns expected in fiscal year 1984 to the desired skills, rank, and years-of-service structure of the services. If, as we suspect, the expected retention rates are causing imbalances in this desired force structure, then this would indicate that overall reductions in bonus monies could be made.

In summary then, within the \$781 million requested for enlistment and reenlistment bonuses for fiscal year 1984, we are concerned that, first, bonuses be used only after their need and cost-effectiveness as compared to other incentives is established on an occupational or skill level basis, and, second, that the bonus programs be judiciously managed. As I mentioned earlier, we believe that the President's call for a freeze on BMC is consistent with our position that the current base pay line is already generally competitive with private industry and that, where pay is not competitive, resources should be targeted

to specific manpower problem areas. The use of bonuses is one means of targeting resources. Therefore, within the context of the management concerns I discussed and the potential freeze on basic pay and allowances, we would urge the committee to require the services to fully justify their bonus program requests. This should be done under both a pay freeze and a 4-percent across-the-board pay raise scenario, and the Navy should take into account the current projected ship building program.

PROPOSED GROWTH IN ARMY NCO'S
ALSO MERITS SCRUTINY

If the Army's proposed fiscal year 1984 budget is approved without change, it will be authorized to make a disproportionate increase in the NCO proportion of their force. This increased NCO grade mix will cost about \$58 million (increases approved for fiscal year 1983 are costing another \$52 million).

For the past couple of decades, there has been a steady increase in the richness of the enlisted grade structure of the Army. This growth has been particularly evident since 1980. For example, the proportion of the Army's enlisted strength in the NCO grades (E-4 through E-9)--which was 63 percent in 1980--is proposed to grow to 69.3 percent in fiscal year 1984. This problem of grade increase is often observed during periods of force reduction because the bulk of such reductions is usually taken among new recruits. Yet, the growth in NCO grades over the last few years has occurred during a period of relative stability in Army strength.

One rationale put forward to explain the grade inflation phenomenon is the increasing technical sophistication of weapons systems. If this argument is sound, we would expect the Army to have a lower percentage of NCO's than the Navy and Air Force. Yet, we find that the Army has a higher percentage of NCO's than any of the other services. Are the technological demands of Army jobs more complex than those of the Air Force? We find this hard to believe.

Another observation which gives us cause to doubt the validity of the argument that higher grades are technologically driven is the distribution of the increases in the NCO strengths. If grades were pushed by technology, we would expect the largest proportionate increases to be in the "hands-on" grades (E-4 through E-6). However, the top three enlisted grades (E-7 through E-9) are projected to grow at a greater rate than the NCO force. That is, while the Army shows a 4.5-percent growth in its NCO force from 1982 to 1984, the proportionate growth is 8.9 percent for E-9's, 16 percent for E-8's, and 11.9 percent for E-7's.

We question whether this kind of disproportionate growth at the supervisory and managerial levels is justified, particularly since a report by the Defense Audit Service, in December 1981, concluded that there is a great deal of subjectivity in the Army's grade determination process. They found that factors such as "military judgment" and "precedent" had a strong impact upon grade determination.

For these reasons, then, we believe that the Army's request for funds to pay for additional growth in their NCO ranks must be suspect and subject to very careful scrutiny.

IS A GI BILL NEEDED TO ADDRESS
RECRUITING PROBLEMS?

Proposals to reinstate a GI Bill--but based on recruiting and retention needs rather than rewards for difficult service--are also being considered in both the House and Senate, and, if enacted, funding requests will be made to this committee. In this light, then, are there manpower problems facing the services that could be cost-effectively addressed and corrected by new postservice educational benefits?

Since the inception of the AVF, the Active Force has never been more than about 1.5 percent below their total funded authorized strength and only rarely have the services failed to meet their quantitative recruiting goals. There have been serious reserve shortfalls, but, in the Active Force, there has been no across-the-board problem recruiting the right aggregate number of people--a problem that might call for an across-the-board solution. Instead, we find that recruiting a sufficient number of high-quality men to serve in the enlisted ranks and willing to serve in combat occupations, or with the aptitude needed for certain highly technical jobs, has, at times, been a serious problem for the Army.

As a result, experiments have been conducted with more generous versions of the Veterans Educational Assistance Program

(VEAP), numerous proposals for a GI Bill were introduced and debated at length in the 96th and 97th Congresses, and proposals have been introduced in this Congress, including H.R. 1400, H.R. 613, H.R. 1944, and H.R. 64 in the House and S. 8, S. 691, and S. 667 in the Senate.

Given the nature of the services' manpower problems, can an educational assistance benefit program be justified on grounds of efficiency and cost-effectiveness? A comparison of several key components of the proposed programs with an "ideal" management system provides useful insights.

Under most educational assistance proposals, DOD managers would not have the authority to apply or remove the incentive on a timely basis as the high-quality recruit problem increases or decreases, as it has over the past 6 years. Also, DOD managers generally would not have the authority to target the basic incentive to the specific problem area--a particular service or particular skills--thus reducing its cost-effectiveness. Managers would not have the flexibility to adjust the basic incentive as conditions change, and problems in DOD's information feedback system would prevent managers from knowing just how well the incentive might be working. Further, a GI Bill could soon become institutionalized and looked upon as a "right" rather than as an optional incentive.

Because the "incentive" would be paid to many people who would not need it to join or stay in the service, most of the expenditure would be unnecessary. For example, if a GI Bill

were to be enacted which was limited to high-school diploma graduates, the supply of such people could be expected to increase by 5 to 10 percent. In other words, to attract every 21st or possibly 22nd quality recruit, the incentive would be paid to 20 others who could be expected to enlist without it. As a consequence of this, the cost per additional quality recruit would be very high, as much as \$200,000 per additional enlistee by some estimates.

One of the Senate bills (S. 8) contains a provision requiring the President, upon the recommendation of the Secretary of Defense, to activate or deactivate the bill after taking into account (1) the projected cost of the improved benefit program, (2) the services recruitment and retention experience and projected experience, and (3) the cost of other alternatives for improving recruiting and retention. Thus, because of the services recent recruiting and retention successes, at least in the near term, even if this Senate bill were enacted, it is not likely that a GI Bill would be activated. We believe that if a GI Bill is to be enacted it should contain such a provision requiring a clear finding and determination that an educational benefit program is a more cost-effective alternative than other incentives for achieving the recruiting and retention goals and that it be activated only after such a finding is made.

A positive feature of some recent proposals, which has generally not been found in other GI Bill proposals, including

H.R. 1400, is that the basic educational benefits would be paid for by DOD rather than by the Veterans Administration. This would require DOD managers to consider the cost of educational assistance along with the cost of other available incentive options and, through this tradeoff analysis process, help the services choose the most cost-effective incentive. It seems obvious that as long as the services get a "free" recruitment and retention incentive--"free" in the sense that it is funded by the Veterans Administration rather than by DOD--that they are going to favor a GI Bill. However, when faced with the question of whether they wanted a GI Bill if they were required to finance it from service appropriations, each of the service manpower chiefs indicated that they did not want a GI Bill under these conditions. This, we believe, provides rather convincing evidence of how they view such a program in terms of its cost-effectiveness as compared to other recruitment and retention incentives.

An additional feature, not in any House or Senate proposals, which would further encourage DOD managers to make realistic tradeoff analyses, would be to adopt an accrual accounting approach so that future liabilities would be more clearly reflected in the current budget.

Consideration of increasing the Government's contribution to the basic VEAP--from \$2 to \$3 for each \$1 contributed by the service member as proposed by one Senate bill--also should be guided by an evaluation of its impact on the recruiting

marketplace, its need, and whether alternative programs would meet the manpower demands of the services in a more efficient and cost-effective manner. All the services have reported that the basic VEAP program has had only minimal effect on recruiting. This is consistent with the findings of a March 1982 Congressional Budget Office study which reported the basic VEAP (without kickers) offers very little recruiting improvement. In contrast, however, the Army has reported great satisfaction with Ultra-VEAP, a program which allows up to \$12,000 in bonuses to be added to the \$5,400 contributed by the Government under the basic VEAP program. Of the four services, only the Army uses the Ultra-VEAP authority.

Because of the requirement for a service members' contributions under VEAP and the negative impact of this on participation rates, the overall cost of VEAP--even with the proposed enhancement--would likely be less than the cost of other proposed GI Bills. Despite such lower costs, however, the question that should be addressed concerns the need for the VEAP program. As recent history shows, only the Army of the four services has had major problems in attracting high-quality recruits, and they have been able to counter these with the use of Ultra-VEAP and other incentives. Accordingly, we see little need at this time to enhance the basic VEAP benefit. We also see little justification at this time for enactment of GI Bill authorization legislation.

SHOULD THE LIMITATION ON RETIRED
PAY COLA BE MADE PERMANENT?

The Congress also is likely to consider the President's 1984 budget proposal to make permanent the limitation on COLA's for nondisability military retirees by allowing only one-half of the full COLA increase for retirees under age 62. At the present time, there is a temporary 50-percent COLA limitation for retirees under age 62 which applies to the fiscal year 1983 through 1985 adjustments.

The military retirement system has been a prime target for budget cutting because of (1) its enormous cost--\$17 billion for fiscal year 1984, roughly 6 percent of the DOD's budget--and (2) the perception that the system provides more generous benefits than necessary--members may retire at any age upon completing 20 years of service and, up to 1983, retired pay was fully indexed to changes in the Consumer Price Index (CPI).

Over the past decade, at least five major commissions or study groups have recommended changes to the military retirement system, the most recent being the President's Commission on Military Compensation in 1978. However, the services have generally supported the current system, which is essentially geared to a 20-year career, because they believe (1) it insures a youthful force and a stable supply of experienced personnel and (2) it supports the up-or-out promotion system. They have generally been able to fend off reform proposals on the basis that the studies and reviews have not adequately addressed what

they considered to be the underlying reason for the current retirement system structure--that is, that the system must remain responsive to the management of the Active Force in support of defense requirements.

In short, the services' view is that the current retirement system provides their desired force profile, and they argue correctly that any changes in the retirement component of the compensation system will have some affect on their age/experience profile. However, in our opinion, the question the services have not satisfactorily addressed to date is whether the force profile produced by the current compensation system is the most effective or whether different profiles, supported by a different compensation structure, including the retirement position of the system, would be more effective and less costly. The lack of agreement regarding the force profile has been the underlying reason why fundamental reforms of the military retirement system have not been made despite the many commission and study group recommendations.

We believe that the current military retirement system does not necessarily produce the most effective force profile at the least cost. "Youth and vigor" is obviously important for some military jobs, but, as the force becomes more technically oriented, the desirability and need for "youth" in all military occupations becomes highly suspect. The current system causes many active duty members to make career decisions which may not

be in the services' best interest, both in terms of causing too many people to stay at some career points--for instance, those between 11 and 20 years of service--and not enough at other career points--for instance, below 10 years and beyond 20. However, it must also be recognized that major changes to the retirement system which substantially reduce life-stream earnings of active duty personnel should not be made without a full understanding of how such a change will affect the force profile.

There is little question that the proposal to limit permanently the COLA increases for retirees under age 62 to one-half of the CPI would reduce the life-stream earnings of active duty personnel. For example, if inflation is only 5 percent per annum for the next 21 years, the purchasing power of a typical E-7 retiring this year at age 41 would be reduced by 40 percent by age 62. Under the same conditions, the purchasing power of the typical O-5 retiring after 20 years of service would be reduced by about 38 percent. However, because the size of the life-stream earning reductions is dependent upon future inflation rates, the exact amounts cannot be projected with any certainty. At this point, neither we nor the services know how this proposed change in the retirement system would affect active duty members' career decisions and whether the cumulative affect of member's career decisions would produce a more or less effective force at a higher or lower cost.

The General Accounting Office has suggested in the past that annual COLA increases for both Federal civilian and military retirees could be limited to something less than the full CPI increase. However, we also recognize that such a decision should not be made without first knowing the full consequences of the action.

The Fifth Quadrennial Review of the Military Compensation (QRMC), currently underway, is conducting an overall review of military retirement. We have been informed that an initial step in this process is to obtain from the individual services their views as to what a baseline force profile should look like; that is, in an environment unconstrained by the current compensation systems, but constrained by current end-strength authorizations, what would be the composition of an "ideal" baseline force? This involves questions about the most desirable number of career personnel in all year-of-service groups, including the ideal number that should be retained beyond 20 years of service.

We are encouraged by the QRMC's efforts, but we should call to your attention that other groups' attempts to reform the military retirement system have faltered--in the final analysis--on the unwillingness of the services to fully accept the resulting force profile changes. Consequently, we are hopeful--but not confident--that the QRMC will produce the desired changes. If they do, it is likely that the changes will be more defensible from a force manning perspective than the

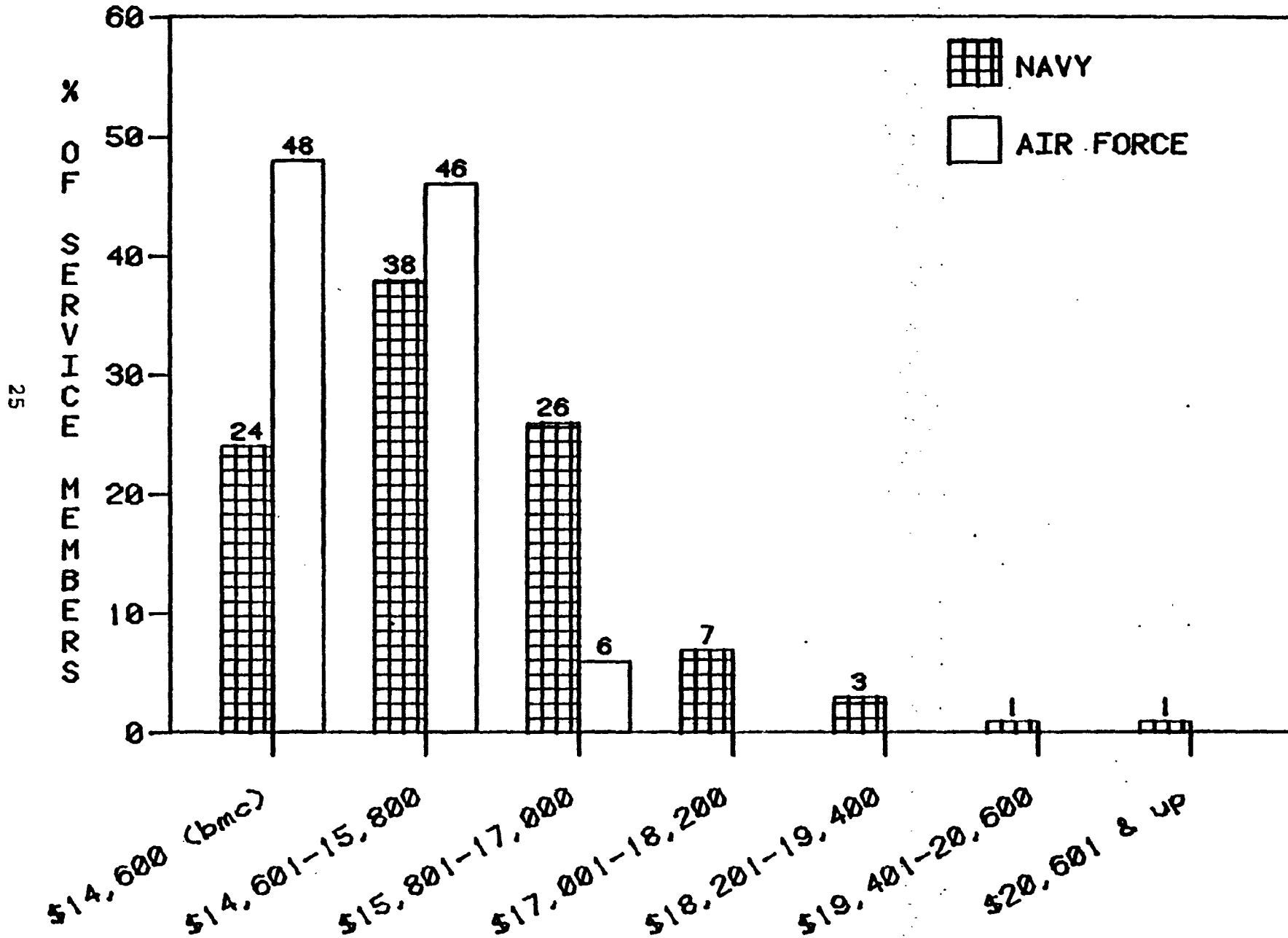
proposed COLA cap; if they fail, enough time will remain before the current cap expires for alternative actions. Accordingly, we believe that the committee should defer any decisions on the legislative proposal to make the 50-percent COLA cap permanent until the report of the QRMC is available and there is time to complete any followup analysis.

CONCLUSION

Mr. Chairman, we have covered a number of interrelated issues this morning, all of which I discussed in the context of a management system structure which allows and encourages military managers to use the most cost-effective mix of incentives available for achieving their manpower objectives. Implicit in the concept of using cost-effective incentives is the need for DOD managers to (1) identify the specific manpower problems that need to be solved, (2) perform tradeoff analyses among the alternative solutions, and (3) have the authority to select the most efficient and cost-effective mix of monetary and nonmonetary incentives. With your encouragement, we are confident that the services can make significant progress toward these goals and that cost-efficiencies will result.

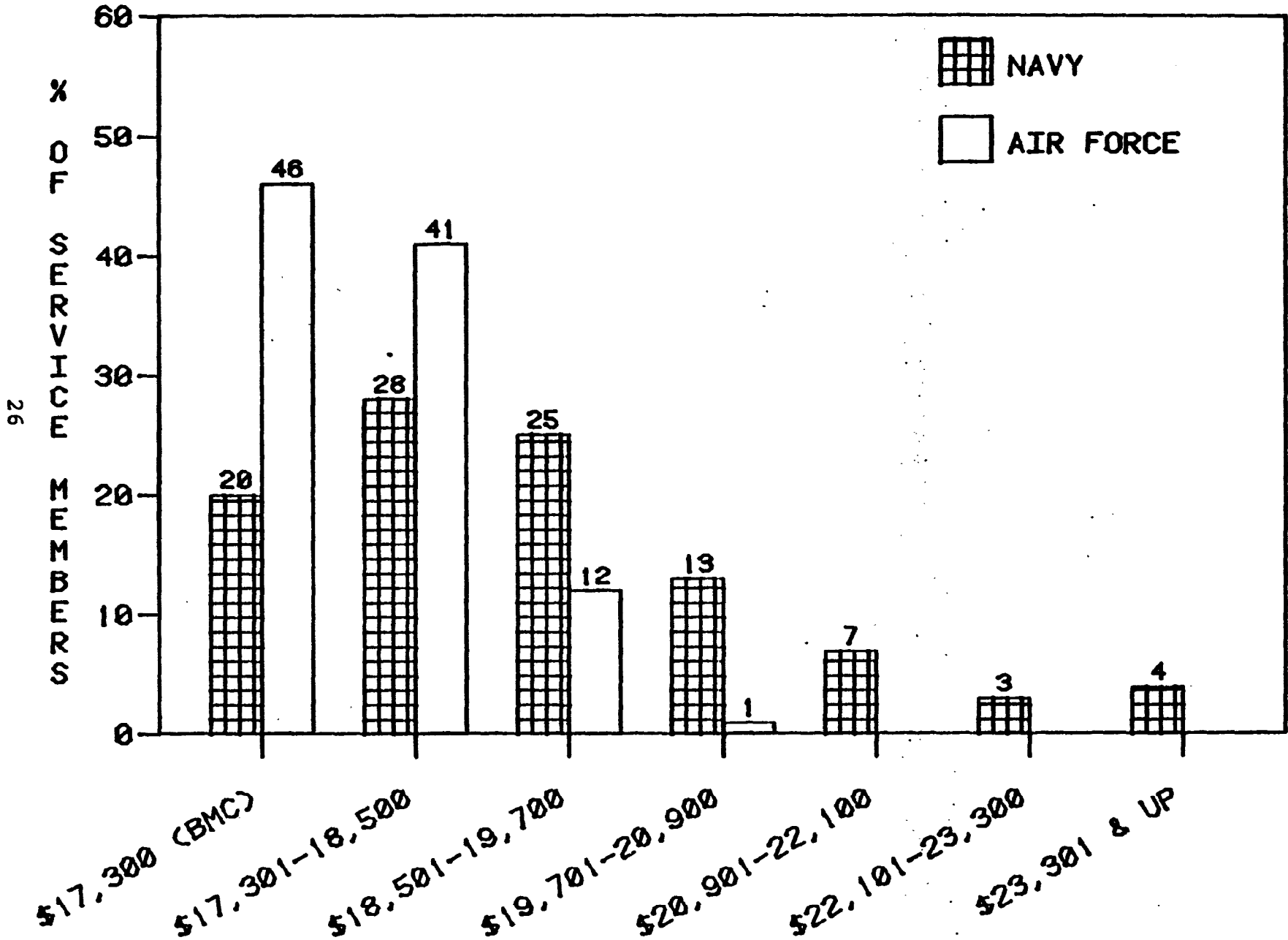
Mr. Chairman, this concludes my formal statement. We would be happy to respond to any questions you may have.

**NAVY AND AIR FORCE--GRADE E-4
PERCENT RECEIVING SELECTED PAY ITEMS--INCLUDING VHA--
IN ADDITION TO BASIC MILITARY COMPENSATION (BMC)**

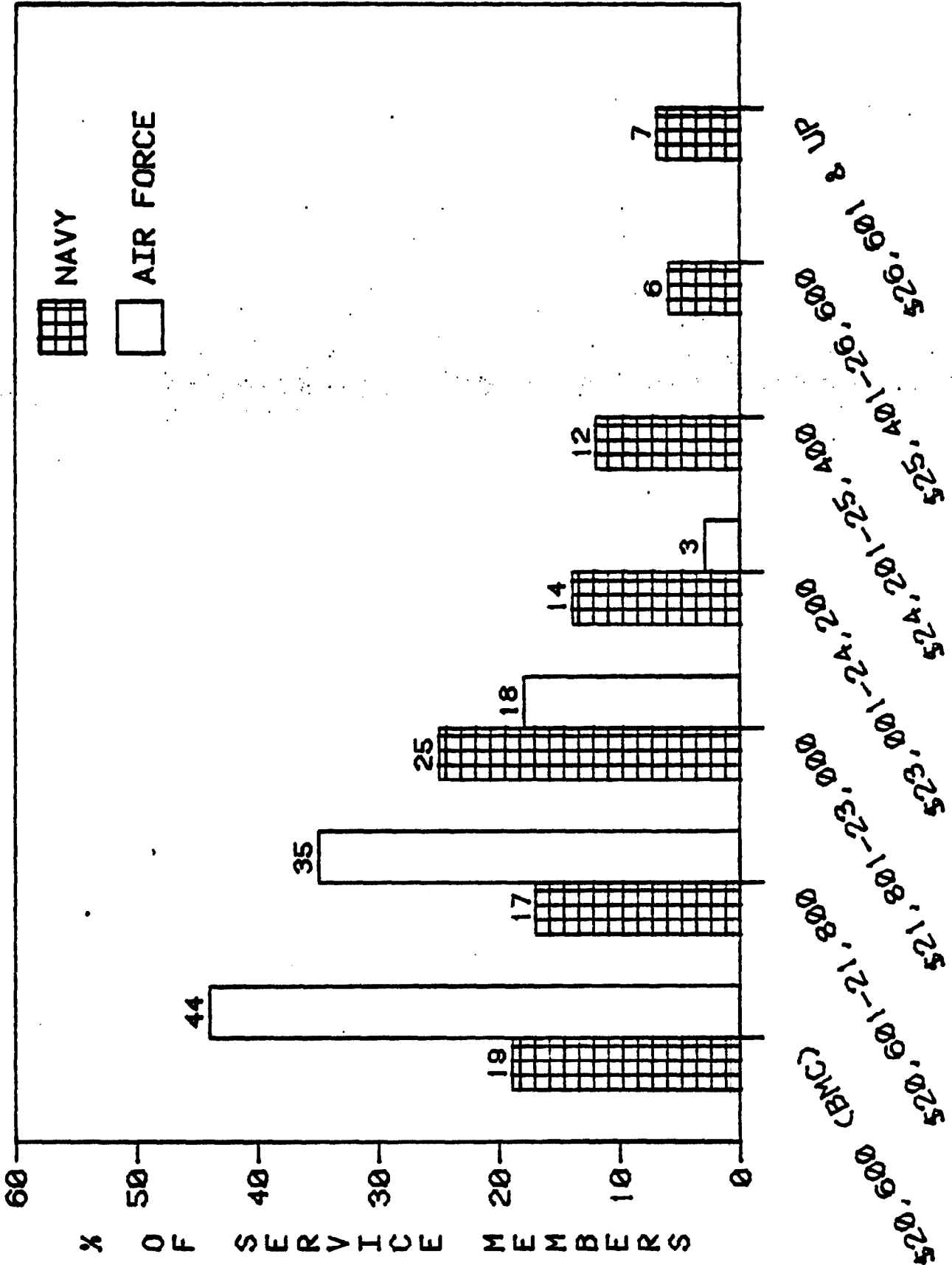


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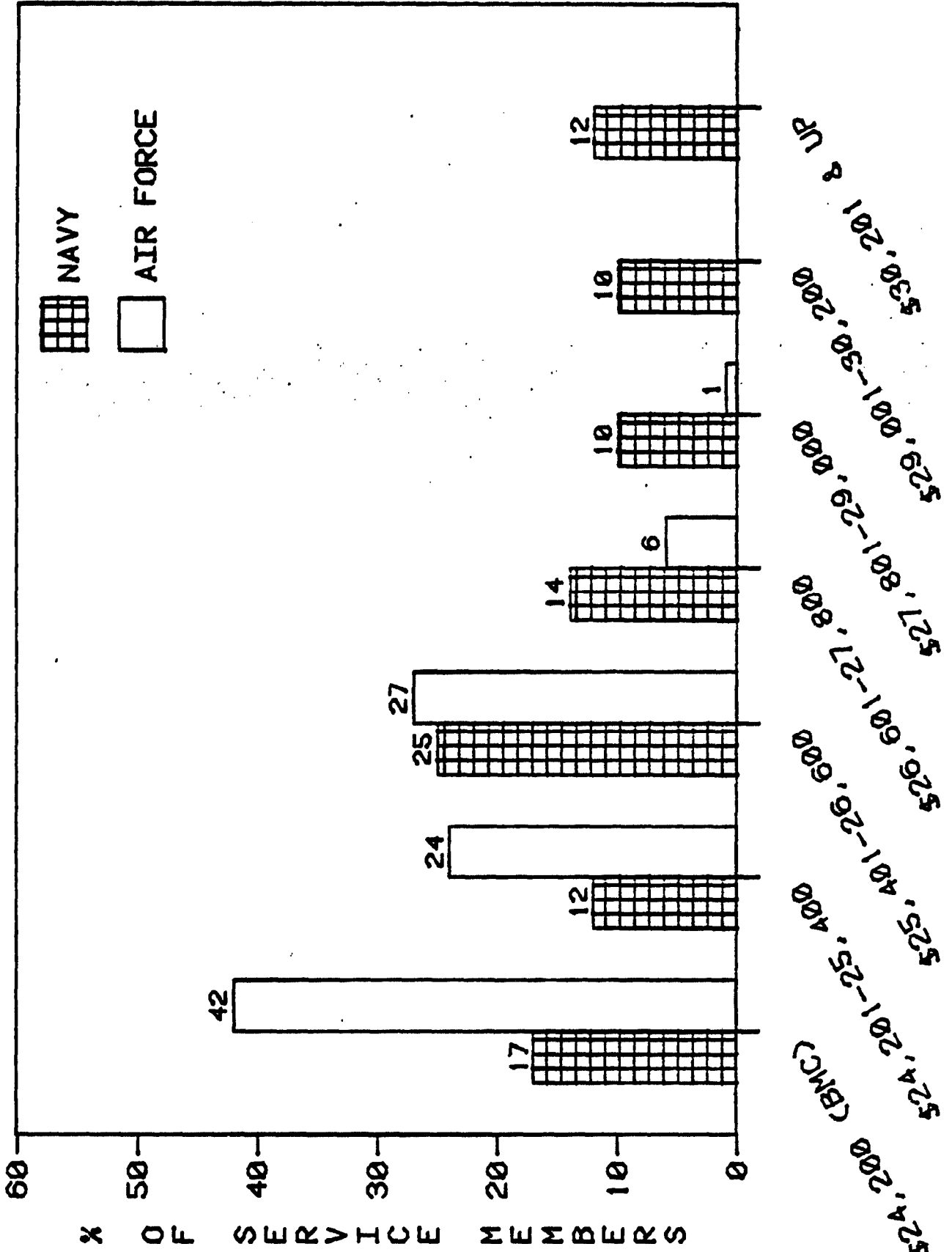
NAVY AND AIR FORCE--GRADE E-5
 PERCENT RECEIVING SELECTED PAY ITEMS--INCLUDING VHA--
 IN ADDITION TO BASIC MILITARY COMPENSATION (BMC)



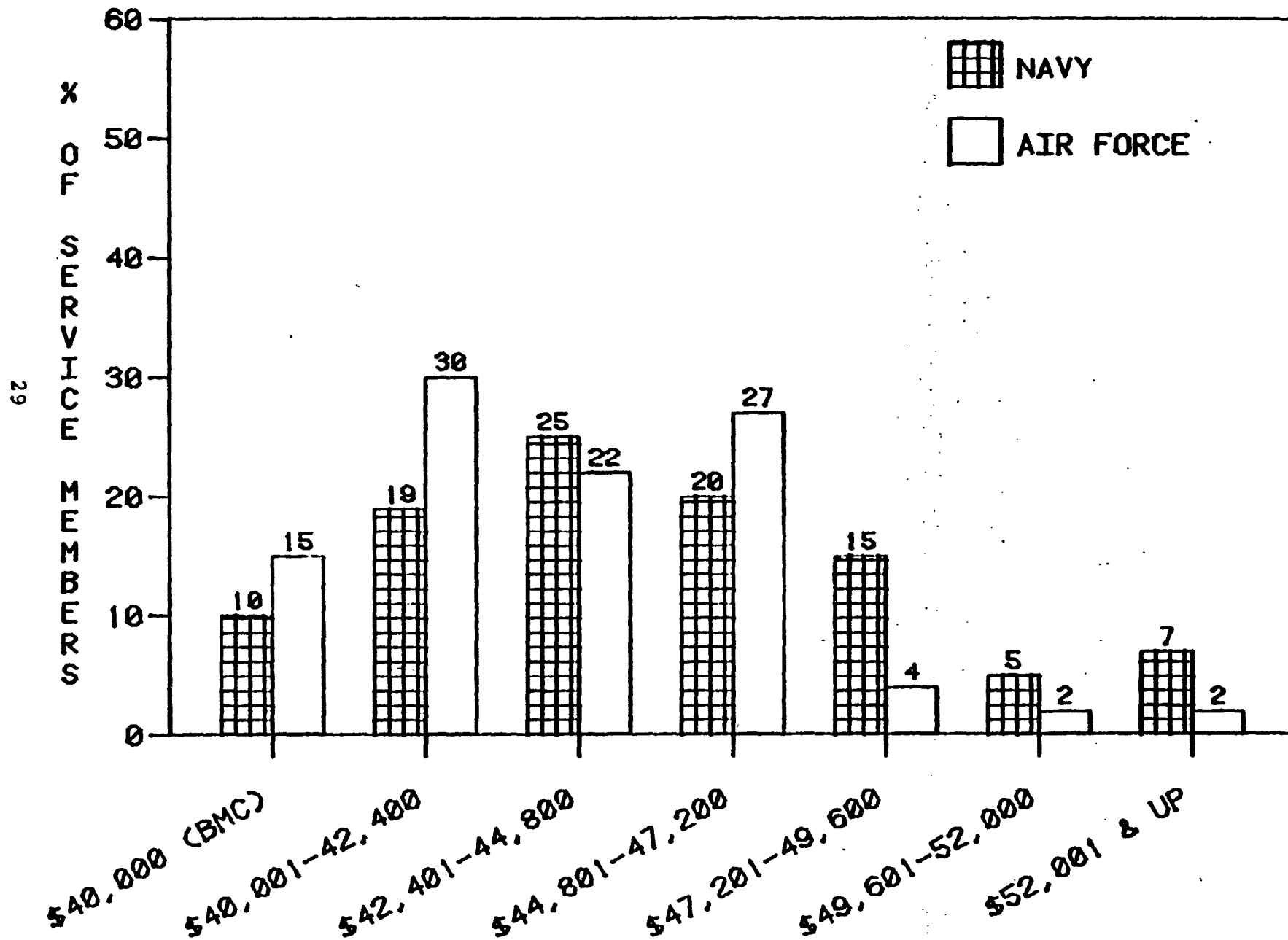
NAVY AND AIR FORCE--GRADE E-6
 PERCENT RECEIVING SELECTED PAY ITEMS--INCLUDING VHA--
 IN ADDITION TO BASIC MILITARY COMPENSATION (BMC)



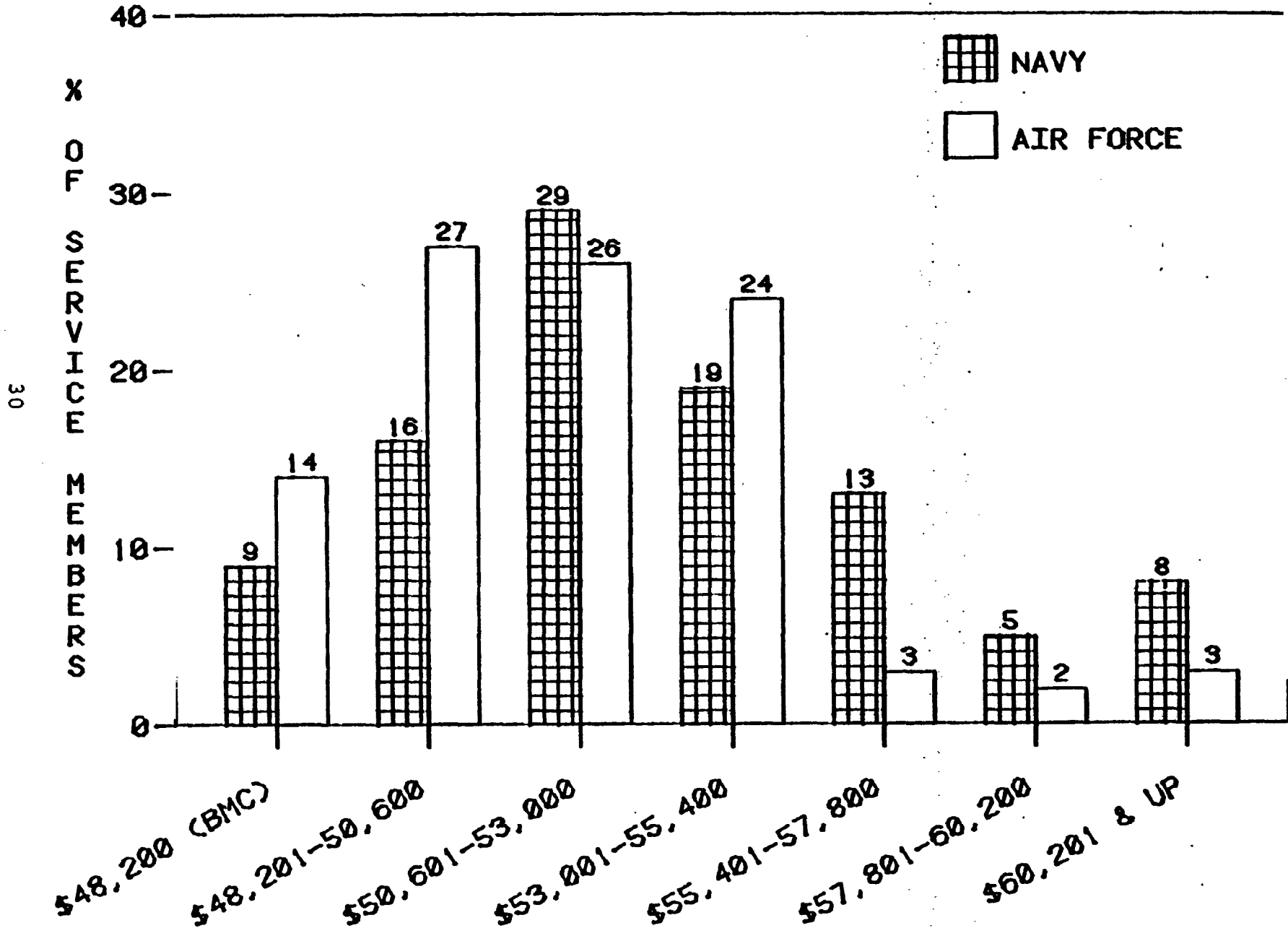
NAVY AND AIR FORCE-GRADE E-7
 PERCENT RECEIVING SELECTED PAY ITEMS--INCLUDING VHA--
 IN ADDITION TO BASIC MILITARY COMPENSATION (BMC)



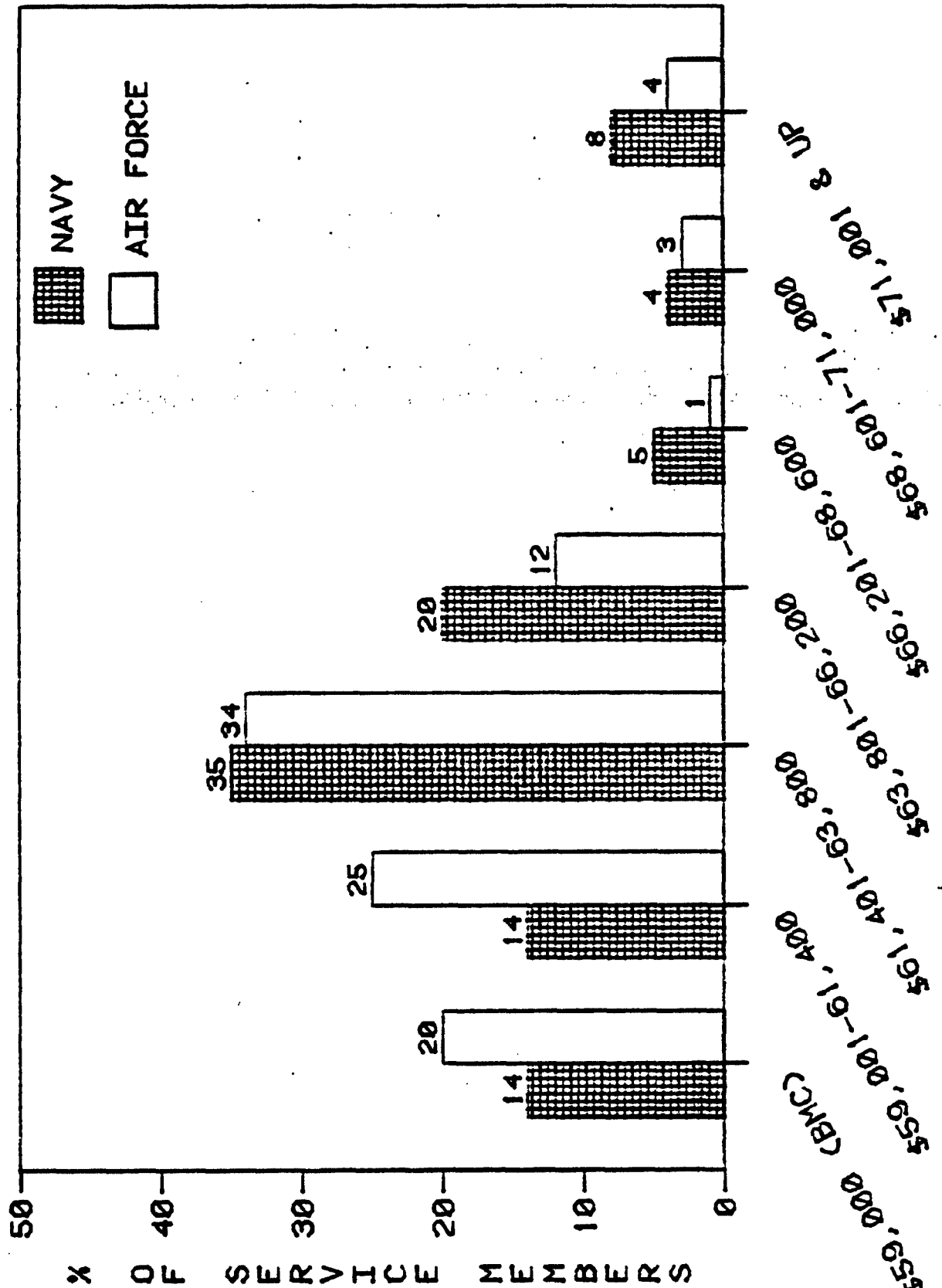
**NAVY AND AIR FORCE-GRADE O-4
PERCENT RECEIVING SELECTED PAY ITEMS--INCLUDING VHA--
IN ADDITION TO BASIC MILITARY COMPENSATION (BMC)**



**NAVY AND AIR FORCE--GRADE O-5
PERCENT RECEIVING SELECTED PAY ITEMS--INCLUDING VHA--
IN ADDITION TO BASIC MILITARY COMPENSATION (BMC)**



NAVY AND AIR FORCE--GRADE O-6
 PERCENT RECEIVING SELECTED PAY ITEMS--INCLUDING VHA--
 IN ADDITION TO BASIC MILITARY COMPENSATION CBMC



EXCERPT FROM
The President's Commissions on
All-Volunteer Armed Force
February 1970

TABLE 5-II.—Enlisted men's and comparable civilian compensation profiles by length of service
[1970 pay rates] ¹

Years of service	Regular military compensation ²	Total military compensation ³	Total civilian compensation ⁴	Regular military compensation as a percent of total civilian compensation	Total military compensation as a percent of total civilian compensation
1	\$ 2,776	\$ 3,251	\$ 5,202	53.4	62.5
2	3,357	3,935	5,803	57.8	67.8
3	4,496	5,275	6,370	70.6	82.8
4	4,909	6,249	6,908	72.2	90.5
5	5,783	8,516 ⁵	7,409	78.1	114.9
6	6,172	8,151	7,876	78.4	103.5
7	6,636	8,741	8,306	79.9	105.2
8	6,845	9,125	8,691	78.8	105.0
9-10	7,242	9,505	9,065	79.9	104.9
11-12	7,715	9,825	9,327	82.7	105.3
13-16	8,290	10,643	9,956	83.3	106.9
17-20	8,964	11,611	10,298	87.0	112.8
21 +	10,483	14,047	10,723	97.8	131.0

Footnotes are found at the end of the table.

EXCERPT FROM
The President's Commissions on
All-Volunteer Armed Force
February 1970

TABLE 5-II.—Continued
Officers' and comparable civilian compensation profiles by length of service [1970 pay rates]¹

Years of service	Regular military compensation ²	Total military compensation ³	Total civilian compensation ⁴	Regular military compensation as a percent of total civilian compensation	Total military compensation as a percent of total civilian compensation
1	\$ 7,337	\$ 8,422	\$ 8,558	85.7	98.4
2	7,568	8,740	9,291	81.5	94.1
3	9,145	10,732	9,957	91.8	107.8
4	10,906	12,874	10,556	103.3	122.0
5	11,963	14,486	11,089	107.9	130.6
6	12,277	15,050	11,555	106.2	130.2
7	12,779	15,880	12,021	106.3	132.1
8	12,856	16,214	12,488	103.0	129.8
9-10	13,245	16,759	13,243	100.0	126.5
11-12	14,058	18,144	14,689	95.7	123.5
13-16	14,986	19,545	15,844	94.6	123.4
17-20	16,159	21,290	16,470	98.1	129.3
21 +	19,142	26,771	17,765	107.8	150.7

TABLE 5-II.—Footnotes:

¹ See appendix B below for a discussion of the degree of comparability between the military and the civilian compensation figures recorded in this table.

² Regular military compensation is the sum of basic pay, basic allowances for subsistence and quarters, and tax advantage. The two allowances are provided either in cash or in kind. In either case they are nontaxable. The tax advantage is an estimate of the taxes saved by the military personnel but paid by a comparable civilian in order to have the same net compensation. The basic pay ratios are those expected to be in effect in late 1970, which are assumed to be 8 percent above those prevailing in July of 1969.

³ Total military compensation includes, in addition to the regular compensation, the other current cash pays such as bonuses, incentive pay, and specialty pays (except hostile fire pay), as well as the estimated value of future retired pay. It also includes an estimate of the value of such fringe benefits as full medical services for the individual and his family and commissary and post exchange privileges.

⁴ The total civilian compensation figures recorded in column (3) are derived from the wages and salaries reported by the Census

Bureau's Current Population Survey for 1963, 1964, 1965, and 1966. These earnings were converted to 1966 dollars, were smoothed somewhat to reduce sampling error, and were adjusted by a factor of 1.225 to take account of the pay raises between 1966 and 1970. In addition, the reported earnings were raised by 8.6 percent to take account of the employer's contributions to such fringe benefits as are included in the total military compensation figures. The 8.6 percent figure is based on the 1967 Civilian Fringe Benefit data reported by the U.S. Chamber of Commerce. The civilian compensation figures that are being compared with the compensation figures for enlisted personnel are those for white high-school graduates aged 19, 20, 21, and so on, while the figures used for the officer comparison are those for white college graduates, 16 years of education or more, aged 23, 24, 25, and so on. It is assumed here that the average enlisted man enters military service at age 19 and the average officer begins his career at age 23.

⁵ Total military compensation is higher in year 5 than in the subsequent 2 years of service because it includes the regular reenlistment bonus that is given in lump sum form at the point of reenlistment.

ATTRACTIVENESS OF CIVILIAN PAY FOR
CAREER PERSONNEL LEAVING THE NAVY

PERSPECTIVE

The Navy has generally maintained its strength levels in aggregate, but continues to experience shortfalls in some important ratings. It has been particularly concerned about the exodus of experienced personnel in highly technical ratings. To deal with the shortages, Navy has requested and received substantial increases in pay, bonuses, career sea pay, and other special pays.

OBJECTIVES

To determine whether people in selected ratings leaving the Navy during their 6th to 12th year obtained and sustained higher paying civilian jobs, we surveyed those who left the Navy in fiscal year 1980, 1981, and the first quarter of 1982 to obtain information about their civilian job and earnings.

We sampled people from each of three skill imbalance categories:

"Highly Technical"--Ratings where skills are marketable in the civilian sector.

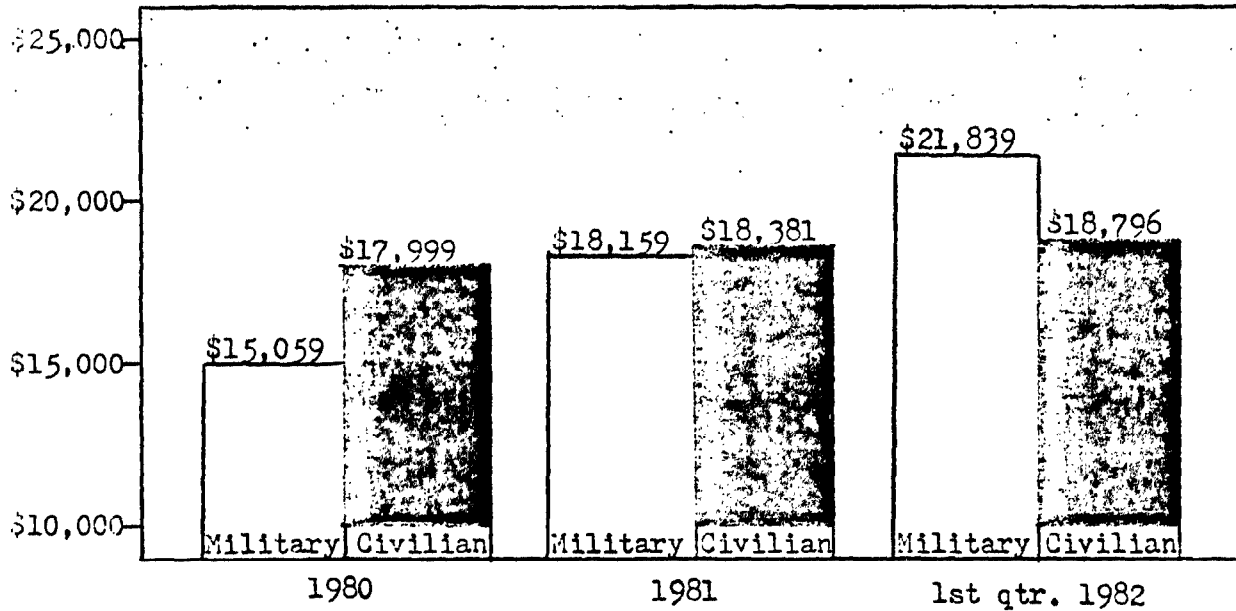
"Unattractive"--Ratings viewed as unattractive due to working environment.

"Nonbonus"--Ratings that have been easy to fill.

COMPARISONS OF MILITARY PAY AT SEPARATION
TO INITIAL CIVILIAN EARNINGS

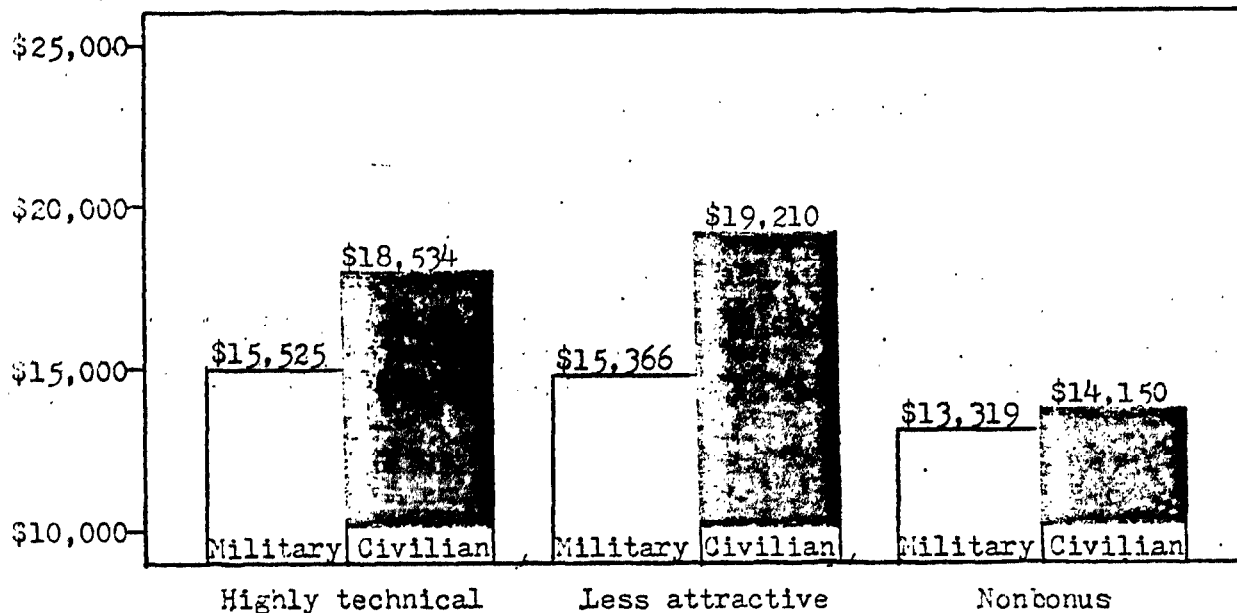
On the average, as shown below military pay was

- FY 1980: about \$2,900 less than civilian earnings;
- FY 1981: about equal to civilian earning; and
- FY 1982: about \$3,000 more than civilian earnings.

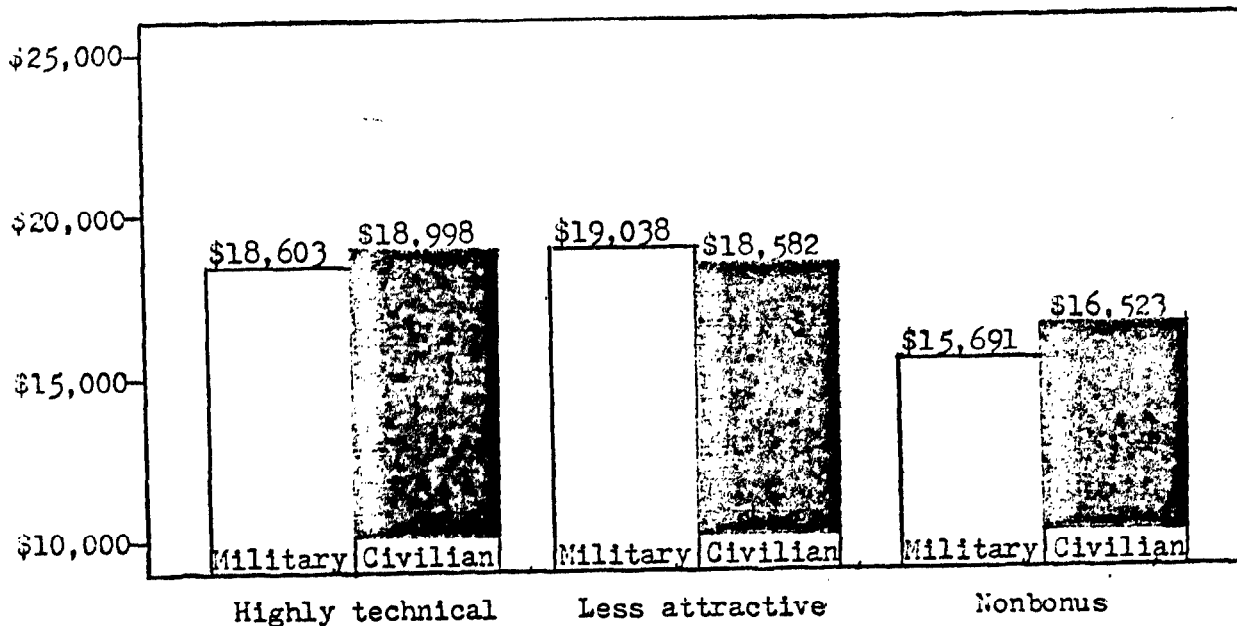


This trend was consistent across the three groups of ratings. But the disparity among the three groups between the higher average military pay and average initial civilian earnings was pronounced.

In 1980 military pay was lower in all three groups.



In 1981 military pay was about the same for all three groups; slightly lower for technical skills, slightly higher for less-attractive skills, and nearly \$1,000 lower for easy-to-fill occupations.



By the first quarter of 1982 military pay was ahead for all three groups, but farthest ahead for the easy-to-fill jobs.

