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**National Security and
International Affairs Division**

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August 21, 1997

The Honorable C. W. Bill Young
Chairman, Subcommittee on National Security
Committee on Appropriations
House of Representatives

Subject: DOD Budget: Military Personnel Program

Dear Mr. Chairman:

In response to your request, we evaluated the Department of Defense's (DOD) fiscal year 1998 military personnel budget requests, which total over $60 billion. Our review focused on the services' military personnel strength projections since these projections influence the most significant number of accounts and funds in the budgets–specifically in the pay and allowances accounts. Also, per your request, we reviewed the early retirement accounts that are centrally managed by the Army, the Navy, the Marine Corps, and the Air Force. Our objective was to determine whether the services' personnel budgets should be funded in the amounts requested.

In June 1997, we provided your staff with the preliminary results of our work. **This report summarizes and updates that information, but does not include all actions that may have been taken by the Committees during their reviews of the services' budget requests. We have not acknowledged these committee actions because in some cases House and Senate actions have varied and conference actions are still pending.**

## RESULTS IN BRIEF

We identified potential reductions of about $390.1 million in the services' military personnel requests: $304.4 million in the requests for military pay and allowances and $85.7 million in the request to fund early retirements. We estimate military pay and allowances accounts can be reduced by $255.3 million for the Army, $20.7 million for the Navy, $21.3 million for the Air Force, and $7.1 million for the Marine Corps. The early retirement fund requests can be reduced $48.8 million for the Air Force and $36.9 million for the Army.

MILITARY PAY AND ALLOWANCE ACCOUNTS

The fiscal year 1998 budget requests for active military personnel pay and allowances accounts[1] can be reduced by $304.4 million because the services will begin fiscal year 1998 with 12,300 fewer active military personnel than budgeted for. Our analysis is based on the active military personnel on board as of June 30, 1997, projected to the end of the fiscal year, using updated service projections or historical staffing patterns.

Almost 90 percent of the military personnel budget is used for pay and allowances for officers and enlisted personnel.[2] In preparing their fiscal year 1998 requests for military pay and allowances, the services used fiscal year 1996 actual staffing levels and estimated end strengths for fiscal year 1997, adjusted for expected program changes. The estimated 1997 end strengths are the beginning point for determining workyear costs and end strengths for fiscal year 1998.

If fiscal year 1997 actual end strengths are less than budgeted for, the beginning point for determining fiscal year 1998 requirements is incorrect and the budgets are overstated. Due to the timing of the budget cycles, fiscal year 1997 end strengths are not adjusted before submission of the fiscal year 1998 budget. Additionally, the services do not adjust their fiscal year 1998 budgets based on actual numbers for fiscal year 1997 while Congress reviews the budget.

As shown in table 1, we estimate (1) the Army will begin fiscal year 1998 with 4,500 fewer personnel than originally budgeted for, resulting in a $255.3 million overstatement in fiscal year 1998; (2) the Navy will begin fiscal year 1998 with 6,400 enlisted personnel fewer than budgeted for, resulting in a $20.7 million overstatement; (3) the Air Force will begin fiscal year 1998 with 1,100 enlisted personnel and 100 officers fewer than budgeted for, resulting in a $21.3 million overstatement; and (4) the Marine Corps will begin fiscal year 1998 with 200 officers fewer than budgeted for, resulting in a $7.1 million overstatement.

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[1]The military pay and allowance accounts include basic pay, retired pay accrual, special pay, basic allowance for quarters, incentive pay, variable housing allowance, continental U.S. cost-of-living allowance, station allowance overseas, clothing/uniform allowance, basic allowance for subsistence, separation payment, family separation allowance and social security tax-employer contribution, reenlistment bonus, enlistment bonus, and special duty assignment pay.

[2]The remaining military personnel costs--about 10 percent--are made up of pay and allowances for cadets, subsistence of enlisted personnel, permanent change-of-station travel, and other military personnel programs.

Table 1: Overstatement of Active Military Personnel Pay and Allowances for Fiscal Year 1998

| Service | Category[a] | Our estimate of beginning strength for FY 1998[b] (in thousands) | Beginning strength used in FY 1998 budget request (in thousands) | Difference between GAO estimate and budget request (in thousands) | Equivalent average workyears overstated[c] (in thousands) | Average compensation rate[d] | Overstatement[e] (in millions) |
|---|---|---|---|---|---|---|---|
| Army | Enlisted and Officer | 491.0 | 495.5 | 4.5 | | $36,777 | **$255.3[f]** |
| Navy | Enlisted | 335.3 | 341.7 | 6.4 | .633 | 32,729 | **20.7** |
| Air Force | Enlisted<br>Officer | 301.5<br>74.4<br>375.9 | 302.6<br>74.5<br>377.1 | 1.1<br>0.1<br>1.2 | .550<br>.050<br>.600 | 31,566<br>77,768 | **17.4**<br>**3.9**<br>**$21.3** |
| Marine Corps | Officer | 17.8 | 18.0 | .2 | .099 | $71.476 | **7.1** |
| **Total** | | **1,220** | **1,232.3** | **12.3** | | | **$304.4** |

[a]Only affected categories are displayed.

[b]Estimated end strengths for fiscal year 1997, which would be the beginning strength for fiscal year 1998, are based on (1) the Navy's May 1997 revised estimates, (2) the Army's and Air Force's July 1997 revised estimates, and (3) the Marine Corps' June 1997 actual and past staffing patterns.

[c]Workyears are based on projected beginning and budgeted personnel end strengths. In general, workyears are calculated as follows: (1) Add budgeted beginning and end strengths and divide total by two to get the budgeted average workyears. (2) Add budgeted end strength to our estimate of beginning strength and divide the total by two to get our estimate of average workyears. (3) Compare our estimated average workyears with the budgeted average workyears. The difference is the equivalent overstated average workyears.

[d]Average compensation rates are derived from budgeted direct program pay and allowances for officer and enlisted personnel divided by budgeted average workyears, respectively.

[e]Overstatement is calculated by multiplying the number of overstated equivalent average workyears by the average compensation rate.

[f]Savings based on the Army's projected cost savings of $199.3 million due to underexecution and $56 million for favorable foreign currency fluctuations. The estimate does not include additional savings if the Army follows its current plan to end fiscal year 1998 with 10,200 fewer military personnel or the costs for increased recruitment and force reshaping, not currently justified in the Army's fiscal year 1998 budget.

In commenting on a draft of this report, DOD officials noted the possibility for additional costs if the Army does not meet our estimated or its budgeted end strength of 495,200 for fiscal year 1998. Also, Air Force officials requested we use their July 1997 revised estimates to calculate fiscal year 1997 end strengths for their active military pay and allowances accounts. We have updated our figures accordingly.

## EARLY RETIREMENT FUNDS

The Air Force's and Army's requests for 15-year temporary early retirement funds can be reduced by $48.8 million and $36.9 million, respectively. The Air Force request can be reduced if (1) the program is limited to the first 6 months of fiscal year 1998 and (2) costs are based on our manpower projections. The Army request is not justified because the Army is below rather than above approved end-strength levels.[3]

Congress approved voluntary separation pay programs to assist the services in downsizing their force structures, while maintaining readiness, and limiting the personnel hardships associated with a drawdown. The Temporary Early Retirement Authority (TERA) Program is used to encourage the retirement of service members that have been in the military for 15 to 20 years. The Special Separation Benefits (SSB) Program is another early retirement program for personnel with 6 to 19 years of service. The authority to use TERA and SSB programs during the force drawdown terminates on October 1, 1999.

All of the services have met their drawdown goals established by Congress. However, the Air Force plans to downsize by an additional 9,600 personnel in fiscal year 1998 and has requested $147.8 million to provide early-out incentives for 1,000 officers and 2,800 enlisted personnel.

The Air Force early retirement budget request could be reduced by limiting the TERA program for both officers and enlisted personnel to the first 6 months of fiscal year 1998 as the Army plans to do. Currently, the Air Force plans to offer early retirement under the TERA program in the first 6 months of fiscal year 1998 for enlisted personnel but throughout the fiscal year for officers. This reduction appears possible because Air Force officials estimate that 800 of the 1,000 officers would use the TERA program if it were offered only during the first 6 months of the year, thereby saving about $35.8 million.

Based on Air Force estimates, these savings would be offset by $35.2 million in SSB program costs, which it would need to pay to get the remaining 200 officers to

[3]The Navy has not requested temporary early retirement funds but plans to offer early retirement during the first 3 months of the fiscal year and cover these costs with military pay and allowance funds.

retire early to reach projected staffing goals. However, our analysis shows a lower projected end strength. We estimate that the Air Force will start fiscal year 1998 with about 1,100 fewer enlisted and 100 fewer officers than planned. Based on these lower end strength projections, budgeted enlisted separation costs could be reduced by $30.6 million (1,100 times the average TERA cost of $27,851).

Under our projections, added SSB costs for officers would be $17.6 million rather than $35.2 million because the Air Force would only need to get 100 rather than 200 officers to retire early under the SSB program. The net officer separation costs would then be $18.2 million–$35.8 million in savings achieved by limiting the program to the first 6 months minus $17.6 million in added SSB costs for officers. Therefore, the total potential reduction in the Air Force's 15-year temporary retirement funds would be $48.8 million–$30.6 million in enlisted separation costs and $18.2 million in officer separation costs.

The Army's entire $36.9 million TERA Program budget request could be eliminated because the Army has requested these funds to reshape rather than to downsize its force.[4] Army officials indicated that reshaping the force would take more time if the TERA program were not used for this purpose. However, the Army has already achieved its downsizing goals and is in fact having difficulty recruiting enough people to reach minimum congressionally mandated end strength levels. Therefore, it appears illogical to provide an incentive to 1,100 enlisted personnel to retire under these conditions.

In commenting on a draft of this report, Air Force officials noted that the House's version of the National Defense Authorization Act for Fiscal Year 1998 (H.R. 1119) includes a provision to suspend the authorization for TERA during fiscal year 1998. As noted earlier, we did not consider budget actions that the Committees may have taken since conference actions were not yet completed.

## SCOPE AND METHODOLOGY

To meet our objective, we interviewed program and budget officials responsible for managing the military personnel programs and/or preparing the budget requests; reviewed and analyzed financial, budget support, and program documents related to the active military personnel pay and allowances and retirement funds and analyzed prior-year funding levels and obligations to identify trends. We conducted our review at Army, Navy, Air Force, Marine Corps, and DOD headquarters, Washington,

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[4]The Army's current enlisted rank mix is not in balance with the planned fiscal year 1998 budgeted mix. For example, as of May 1997, the Army had more E-3s and fewer E-4s than required. This imbalance also applies to other ranks and skill positions. The Army plans to correct this imbalance by "reshaping the force structure."

D.C. We performed our review from November 1996 to August 1997 in accordance with generally accepted government auditing standards.

Although additional budget reductions could result from the implementation of recommendations from the Secretary of Defense's fiscal year 1997 Quadrennial Defense Review to reduce active military personnel levels, we did not include these additional potential budget reductions in this report.

DOD and service officials commented orally on a draft of this report. They generally agreed with the approach and methodology we used to develop our findings. We have incorporated their comments where appropriate.

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We are sending copies of this report to the Chairmen and Ranking Minority Members of the House and Senate Committees on Appropriations, the Senate Committee on Armed Services, and the House Committee on National Security; the Secretaries of Defense, the Army, the Navy, and the Air Force; and the Commandant of the Marine Corps; and the Director of the Office of Management and Budget. Copies will be made available to others upon request.

This report was prepared under the direction of Mark E. Gebicke, Director, Military Operations and Capabilities Issues, who may be reached on (202) 512-5140 if you or your staff have any questions. Major contributors to this report are listed in enclosure I.

Sincerely yours,

Henry L. Hinton, Jr.
Assistant Comptroller General

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