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GUARD AND RESERVE PERSONNEL

Fiscal, Security, and Human Capital Challenges Should be Considered in Developing a Revised Business Model for the Reserve Component

Statement of David M. Walker
Comptroller General of the United States





Highlights of [GAO-07-984](#), a testimony before the Commission on the National Guard and Reserves

Why GAO Did This Study

Over 580,000 reservists have been activated for military operations between September 2001 and March 2007. The challenges of continuing to mobilize large numbers of reserve component servicemembers for ongoing operations while balancing their support to homeland defense missions have led to questions about whether changes are needed in the way the reserve components are structured and resourced, particularly in light of mounting 21st century fiscal imbalances.

This testimony focuses on: (1) the nation's fiscal and security challenges and their implications for the Department of Defense (DOD) and the National Guard and Reserves; (2) the need for DOD to better align its reserve component business model, including human capital strategies, with the reserve forces' current and future needs; and (3) the extent to which DOD's current compensation system for reserve and National Guard personnel is helping the department to meet its human capital goals of recruiting and retaining a high-quality force. The testimony is based on GAO's body of work on the nation's long-term fiscal outlook, National Guard and reserve readiness, military personnel issues such as recruitment and retention, and the report GAO is issuing today on reserve and National Guard compensation issues. GAO has made several recommendations to address these challenges.

www.gao.gov/cgi-bin/getrpt?GAO-07-984.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Janet A. St. Laurent at (202) 512-4402 or stlaurentj@gao.gov.

GUARD AND RESERVE PERSONNEL

Fiscal, Security, and Human Capital Challenges Should be Considered in Developing a Revised Business Model for the Reserve Component

What GAO Found

The nation's growing fiscal imbalance and changing security environment require a fundamental reexamination of defense activities, including the role and structure of the reserve components. The fiscal imbalance, which is due to factors such as mounting budget deficits and rising health care costs, could threaten the nation's future economy and national security. As the fiscal imbalance constrains federal funding, future defense budgets are likely to be affected. DOD faces significant fiscal challenges due to rising compensation and acquisition costs, military operations, and inefficient policies and business practices. To put DOD on a more sustainable path, GAO has suggested that DOD reexamine defense policies and practices, address high risk areas, and develop budgets that set clear priorities based on current and future threats. Reexamining reserve component policies and practices should be included as part of an overall DOD-wide effort to address long-term affordability and sustainability challenges.

DOD's heavy reliance on the reserve components in recent years to support military operations and homeland security needs has highlighted the need to better align the reserves' business model with their 21st century roles. GAO's work has shown that the reserve components face several human capital challenges that will need to be considered as part of an overall effort to develop a new business model. Specifically, GAO's past work has shown that the reserves face challenges including (1) recruiting and retaining members with needed skills, and (2) developing policies, procedures and business processes that facilitate a smooth transition between reserve and active duty status. GAO has made numerous recommendations to assist DOD in addressing these issues.

DOD also does not know the extent to which its reserve compensation system is helping to meet recruiting and retention goals because (1) it has not established a strategy to identify the appropriate mix of compensation and (2) its approach does not provide decision makers with adequate transparency over total costs to compensate reservists, which have risen 47 percent since fiscal year (FY) 2000 in constant dollars. DOD's and Congress' piecemeal approach of adding pays and benefits has contributed to a shift in the mix of compensation toward more deferred benefits—such as retirement pay and health care—from 12 percent of total compensation in FY 2000 to 28 percent in FY 2006, primarily due to costs for enhanced health care for retirees. This allocation is questionable from an efficiency perspective since only 24 percent of those who join the reserves will ultimately receive retirement benefits. Further, reserve compensation costs are found in multiple federal budgets, which does not provide decision makers with adequate transparency over total costs. GAO is recommending today that DOD (1) establish an overall compensation strategy and (2) compile costs in a transparent manner to enable decision makers to determine the affordability, effectiveness, and sustainability of the reserve compensation system. DOD partially concurred with the recommendations.

Mr. Chairman and Members of the Commission:

It is a pleasure to appear before you today to discuss the challenges the National Guard and reserves are facing as the nation moves into the 21st century with mounting fiscal imbalances and new national security concerns overseas and homeland security needs at home. The work the Commission is undertaking is very important, and it is a tribute to the Commission that Congress and the Department of Defense (DOD) have already begun implementing some of the recommendations in the Commission's March 2007 report. As you know, between September 2001 and March 2007, over 580,000 reservists have been activated in numbers not seen since World War II, and reservists from all the services have made major contributions to sustaining ongoing overseas operations as well as homeland security activities. The challenges in mobilizing large numbers of reservists on an ongoing basis have led to questions about whether changes are needed in the way the reserve components are structured and resourced. Over the last few years, we have undertaken a body of work examining the National Guard and reserve's changing roles and missions and recruiting, training, and equipping challenges. Today, I would like to provide you with our observations based on this work. In addition, I would like to highlight our report that is being issued today that focuses on reserve component pay and compensation.¹

My statement today will focus on three main issues: (1) the nation's fiscal and security challenges and their implications for DOD and its reserve components, (2) the need for DOD to better align its business model with the reserve forces' current and future needs, and (3) the extent to which DOD's current compensation system for reservists is helping the department to meet its human capital goals of recruiting and retaining a high-quality force. My statement is based on our analysis of the nation's long-term fiscal outlook, as well as challenges in maintaining U.S. military readiness for overseas and homeland missions. In addition, this testimony relies heavily on our past work on human capital issues, including recruitment, retention, and pay and compensation. We updated some of our information during recent discussions with DOD, Army, and National Guard Bureau officials. To perform our assessment of DOD's reserve pay and compensation we analyzed relevant regulations, legislation, and

¹GAO, *Military Personnel: DOD Needs to Establish a Strategy and Improve Transparency over Reserve and National Guard Compensation to Manage Significant Growth in Cost*, [GAO-07-828](#) (Washington, D.C.: June 20, 2007).

budget justification books, and we interviewed appropriate officials at DOD and the Department of Veterans Affairs. Our scope included fiscal year 2000 through fiscal year 2006 to capture costs prior to the increased use of reservists and associated changes to reserve and Guard compensation. We conducted our work in accordance with generally accepted government auditing standards. A list of our past reports can be found in the Related GAO Products section at the end of this statement.

Summary

The nation's growing fiscal imbalance and changing security environment require a fundamental reexamination of defense activities, including the role and structure of the reserve components. The nation faces large and growing structural deficits due primarily to known demographic trends and rising health care costs. If left unchecked, these fiscal imbalances will ultimately impede economic growth, which could impact our ability to address national and homeland security needs. The imbalances are so significant that neither slowing the discretionary spending growth nor allowing certain tax provisions to expire—nor both together—would eliminate them. Rather, a fundamental reexamination of major priorities is needed to ensure that federal programs and priorities respond to emerging social, economic, and security changes and challenges. To facilitate this reexamination, we issued a *21st Century Challenges* report which highlighted the need for reexamining the base of federal government in 12 areas, including national defense.² Within national defense, we suggested several key issues that need to be addressed including whether the role, structure, and business model of the reserve components are appropriate in light of the changing securing environment. These issues will need to be addressed in the context of DOD's overall fiscal challenges, which include rising compensation and acquisition costs, the cost of supporting ongoing military operations, and inefficient policies and business practices. To put DOD on a more sustainable path, we have suggested that DOD reexamine key defense policies and practices, develop budgets that set clear priorities based on current and future needs, establish a Chief Management Officer to oversee business transformation, and address areas within defense that we have identified as high risk.³ As

²GAO, *21st Century Challenges: Reexamining the Base of the Federal Government*, [GAO-05-325SP](#) (Washington, D.C.: Feb. 1, 2005).

³GAO, *High-Risk Series: An Update* [GAO-07-310](#) (Washington, D.C.: Jan. 31, 2007). DOD has sole responsibility for eight high risk areas and shares responsibility for seven other areas with other federal organizations.

the Commission completes its work, it will be important to examine reserve component policies and practices and evaluate future funding requirements for the Guard and reserves in the context of DOD's broader affordability and sustainability challenges.

DOD's heavy reliance on the reserve components in recent years to support operations in Iraq, Afghanistan, and at home has highlighted the need to better align the reserve components' business model to support their 21st century roles. An effective business model—including an integrated set of strategies and policies for recruiting, training, and compensating individuals and equipping units—is needed to support the National Guard and reserves in conducting 21st century missions within fiscally sustainable resource levels. Although each of the services' reserve components face challenges in adapting to the new security environment, our work has shown that the current business model of the Army National Guard and Army Reserve is not sustainable in the long-term given their changing roles and high pace of operations. In addition, our past work has shown that all of the reserve components face human capital challenges that will need to be addressed as part of a systematic effort to reassess and revise the reserve component business model. These challenges include: (1) addressing inefficiencies in recruiting and retaining personnel in high-demand career fields and occupations, and (2) developing policies, procedures, and business processes to facilitate a smooth transition of personnel between reserve and active duty status. We have made numerous recommendations intended to help the department address these issues. For example, we have recommended that DOD assess the Army Reserve's requirements for full-time support servicemembers and develop a strategic framework that integrates and aligns personnel policies to meet organizational goals. While DOD has taken some recent steps to address our recommendations, such as establishing new mobilization policies intended to achieve more predictable deployments, DOD has not fully addressed these challenges in a way that supports an integrated business model.

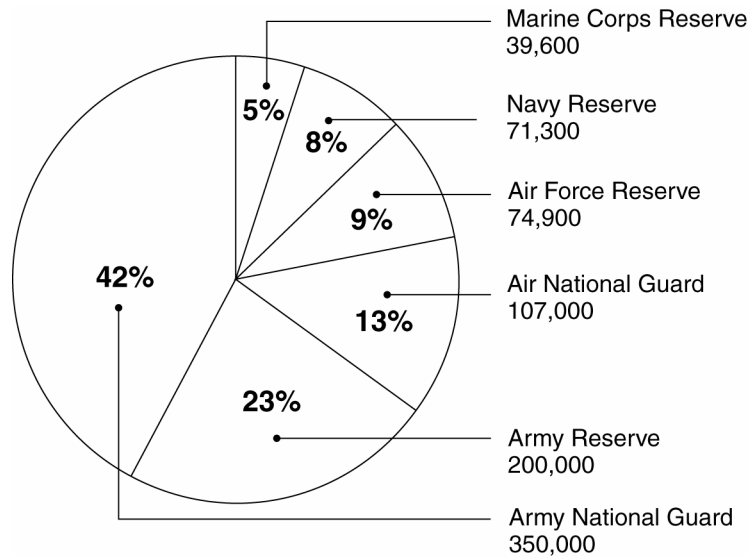
An appropriate compensation strategy that supports human capital goals is another key component of a sustainable business model. However, DOD does not know the extent to which its current compensation system for reserve and Guard servicemembers is helping it meet its human capital goals of recruiting and retaining personnel. Two primary reasons for this uncertainty are that (1) the department has not established an overall compensation strategy to identify the appropriate mix of reserve compensation to efficiently maintain its force, and (2) its approach to compensation does not provide decision makers in Congress and DOD

with adequate transparency over total costs for reservists. Using fiscal year 2006 constant dollars, the federal government's total cost to compensate part-time and full-time reserve servicemembers—including cash, noncash, and deferred benefits—has increased about 47 percent since fiscal year 2000, rising from about \$13.9 billion in fiscal year 2000 to about \$20.5 billion in fiscal year 2006. Much of the total growth in compensation is driven by the costs for deferred compensation—that is, funds set aside today for future compensation such as retirement pay and health care. The cost for deferred compensation has tripled over this period, primarily due to costs to provide enhanced health care benefits for retirees. This allocation is questionable from an efficiency perspective, since fewer than one in four of those who join the reserves will ultimately earn retirement benefits. The shift in the mix of compensation can be attributed to the fact that DOD and Congress have added pays and benefits for reservists and Guard service members in recent years using a piecemeal approach that has not been based on an established strategy and does not adequately consider the appropriateness, affordability, and sustainability of the increased compensation costs. Moreover, DOD does not know the efficiency and effectiveness of these changes in meeting its recruiting and retention goals because it has not established performance measures. Furthermore, because costs to compensate servicemembers are found in multiple budgets both within and outside of DOD and are not compiled in a single source to provide total cost, DOD's approach to reserve compensation does not provide decision makers in Congress and DOD with adequate transparency over compensation—including the allocation of costs to cash, noncash, and deferred compensation, as well as the cost for mobilized reservists. Until total reserve compensation costs are compiled in a transparent manner—and decisions are based on established compensation strategies—decision makers will be unable to determine the affordability, cost effectiveness, and ultimately the sustainability of the reserve compensation system. In our report on reserve compensation that we are issuing today, we are making recommendations that DOD (1) establish an overall compensation strategy and performance measures and (2) compile costs in a transparent manner to aid decision makers. In commenting on a draft of our report on reserve compensation, DOD partially concurred with our recommendations.

Background

DOD has six reserve components: the Army National Guard, the Army Reserve, the Air National Guard, the Air Force Reserve, the Navy Reserve, and the Marine Corps Reserve. The six reserve components combined are authorized about 830,000 personnel (see fig. 1).

Figure 1: Reserve Component Authorized Personnel



Source: GAO analysis of DOD data.

Sixty-five percent of the total authorized personnel in all of the reserve components combined are in the two Army reserve components. Each of the reserve components are composed primarily of citizen soldiers who balance the demands of a civilian career with military service on a part-time basis, usually 1 weekend a month and 2 weeks a year for annual training. In addition, reserve forces have some full-time servicemembers who enhance readiness by assisting unit commanders in administrative, training, and maintenance tasks.

DOD's fiscal year 2008 budget request for the Army National Guard and Army Reserve is about \$13.5 billion and \$7.1 billion respectively. When combined, these amounts equate to about 16 percent of the Army's total budget request. DOD has also requested about \$8.2 billion for the Air National Guard and \$4.3 billion for the Air Force Reserve, which equate to about 9 percent of the Air Force's total budget request. In contrast, the Navy and Marine Corps allocate about 3 and 5 percent respectively of their service's budgets to their reserve components, which are significantly smaller in size than the Army and Air Force reserve components.

On September 14, 2001, President Bush declared that a national emergency existed as a result of the attacks on the World Trade Center in New York and the Pentagon in Washington, D.C., and he invoked the partial mobilization authority⁴ which enabled the activation of up to 1,000,000 reservists for periods of active duty not to exceed 24 consecutive months. The Office of the Secretary of Defense implements the activation of reservists under this mobilization authority, and provides policy, programs, and guidance for the mobilization and demobilization of the reserve components.

The National Guard, comprised of the Army National Guard and the Air National Guard, has a unique dual mission that consists of both federal and state roles. In its federal status, along with the Army Reserve and Air Force Reserve, respectively, the National Guard has been deployed to Afghanistan and Iraq, as well as to other locations around the world. In this status, National Guard members are paid using federal funds. The National Guard may also be activated under state law to provide critical infrastructure protection or respond to state emergencies under control of the governor. In this status, the National Guard is paid using state funds. In addition, the National Guard may be activated under Title 32 of the United States Code by which Guard forces remain under the control of the state governor but are compensated with federal funding. This authority has been used to assist states in responding to large-scale, multistate events, such as Hurricane Katrina in 2005.

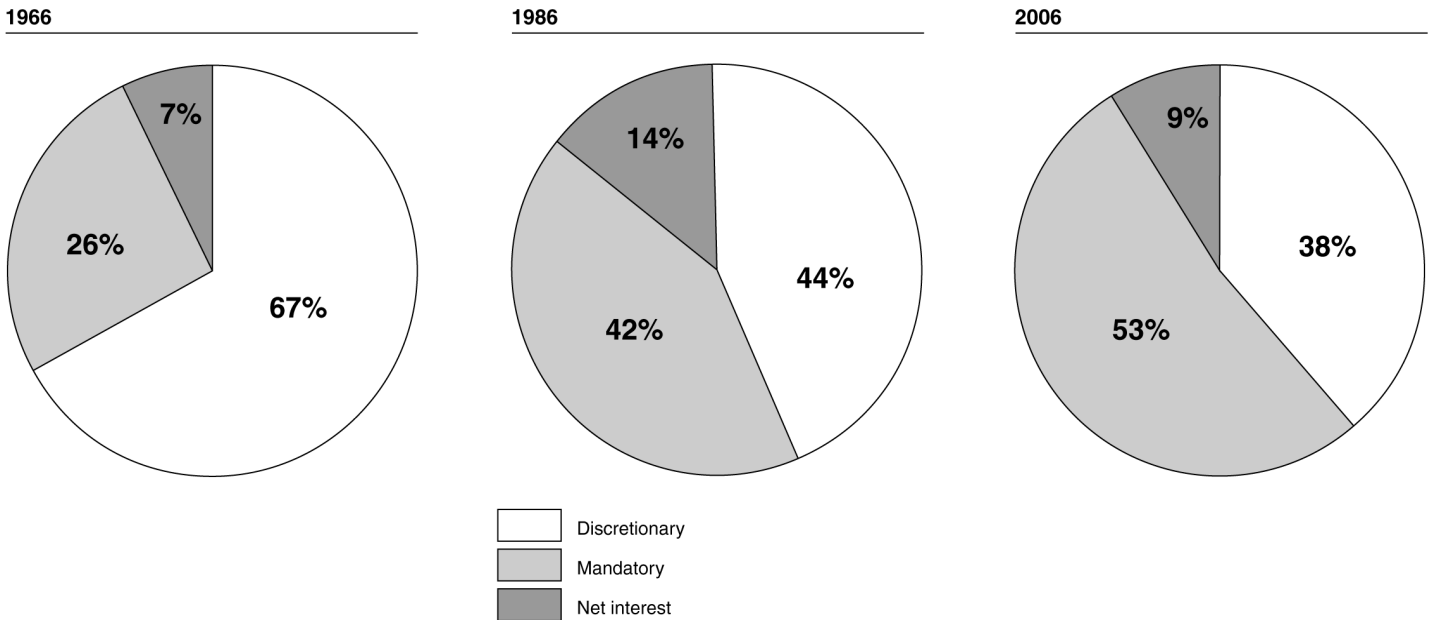
⁴10 U.S.C. §12302.

Long Term Fiscal Challenges Require DOD to Balance Wants, Needs, and Affordability of Its Active and Reserve Forces

The nation's growing fiscal imbalance and changing security environment require a fundamental reexamination of defense activities, including the role and structure of the reserve components. Our nation is on an unsustainable fiscal path. Long-term budget simulations we and others⁵ have performed indicate that, over the long-term, we face large and growing structural deficits due primarily to known demographic trends and rising health care costs. Absent policy changes on the spending and /or revenue side of the budget, the growth in mandatory spending on federal retirement and health entitlements will encumber an escalating share of the government's resources. By 2040 federal revenues may be adequate to pay little more than interest on the federal debt. The imbalances are so significant that neither slowing discretionary spending growth nor allowing certain tax provisions to expire—nor both together—would eliminate them. If not addressed in the coming years, these fiscal imbalances will lead to serious budgetary pressures on federal discretionary spending which includes defense accounts. A symptom of these budgetary pressures is seen in the declining proportion of federal spending available for discretionary spending. For example, while the proportion of federal spending for mandatory programs doubled from 26 percent in 1966 to 53 percent in 2006, the proportion of federal spending available for discretionary spending has decreased from 67 percent to 38 percent in the same period (see fig. 2).

⁵As we reported in 2005 ([GAO-05-352T](#)), the Congressional Budget Office has also produced long-term budget simulations that show over the long-term the nation faces a large and growing structural deficit.

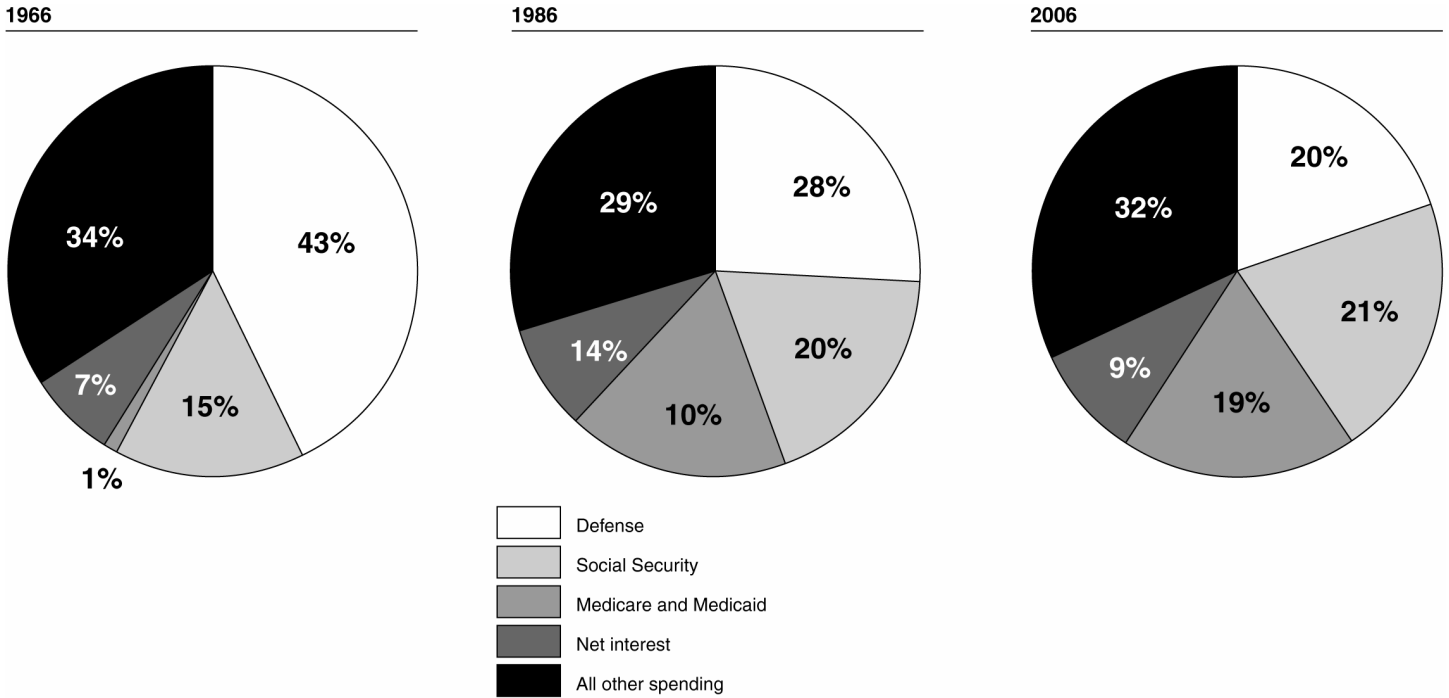
Figure 2: Federal Spending for Mandatory and Discretionary Programs



Source: Office of Management and Budget.

Another sign of the existing budgetary pressure on defense spending is seen in the declining share of defense spending as a proportion of total federal spending. Since 1966 defense spending as a proportion of total federal spending has declined from 43 percent to 20 percent (see fig. 3).

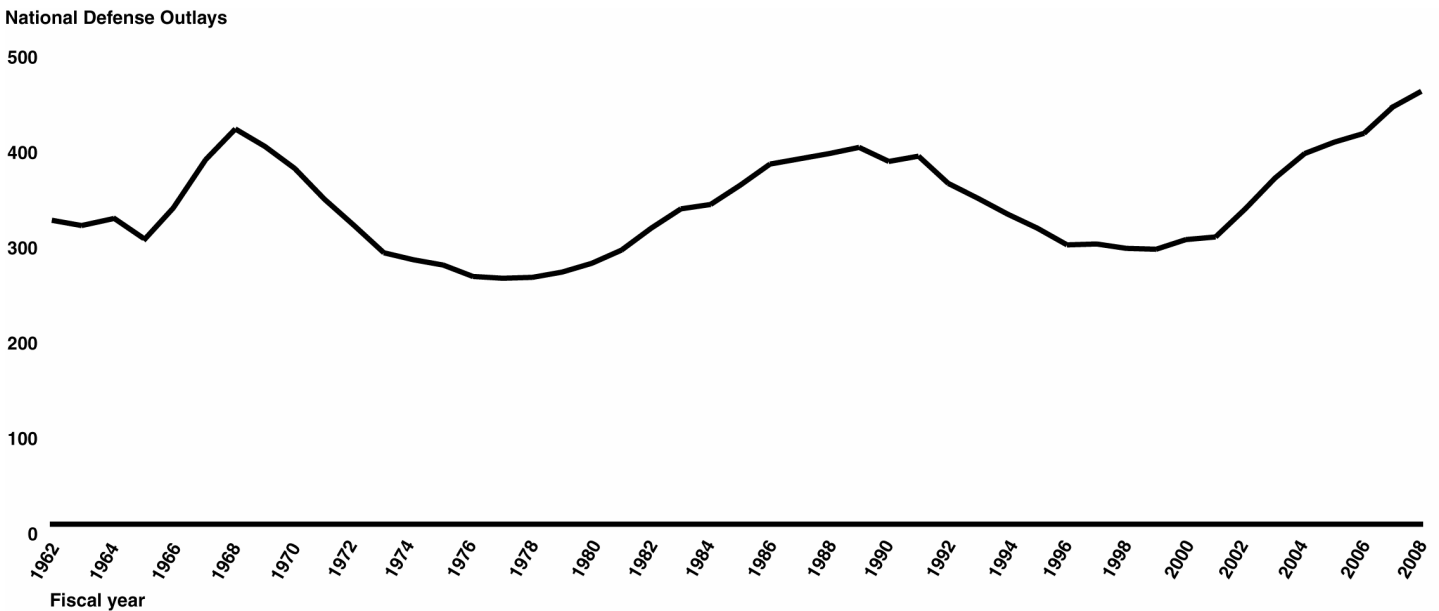
Figure 3: Composition of Federal Spending



Source: Office of Management and Budget.
Note: Numbers may not add to 100 percent due to rounding.

Federal spending on defense in constant 2000 dollars has fluctuated over the years in response to changing economic conditions and a changing security environment (see fig. 4). For example, defense spending declined in real terms from 1990 to 1998 following the end of the Cold War. More recently, defense spending has increased as result of the Global War on Terror. However, future pressures on the federal budget are likely to lead to a downturn in defense spending in the future.

Figure 4: National Defense Outlays in Constant Fiscal Year 2000 Dollars, 1962–2008



Source: Office of Management and Budget.

Note: Amounts exclude supplemental funding to support military operations.

To address the tough choices for our fiscal future, a fundamental reexamination of major priorities is needed. This will enable us to recapture our fiscal flexibility and ensure that federal programs and priorities respond to emerging social, economic, and security changes and challenges. Our capacity to address a range of important challenges reshaping American society and our place in the world will be predicated on when and how we deal with this historically unprecedented long-term fiscal challenge. Absent action to avert this fiscal crisis, these forces will ultimately erode, if not suddenly damage, our economy, our standard of living, and ultimately our national security. Ultimately, this reexamination should entail a national discussion about what Americans want from their government and how much they are willing to pay for those things.

In addition to these growing fiscal constraints, DOD faces a number of other near- and long-term challenges. DOD's near-term challenges include paying for operations in Iraq and Afghanistan and maintaining readiness. To pay for its operations, DOD has been given a significant infusion of funds, with an annual appropriation totaling over \$430 billion for fiscal year 2007 and additional funding for homeland defense and operations in Iraq, Afghanistan, and elsewhere approximating \$380 billion over the past

3 fiscal years. Despite this infusion of funds, DOD still faces significant challenges in maintaining readiness in all components active and reserve. For example, the significant use of Army National Guard forces for overseas and homeland security missions since September 11, 2001, has resulted in declining readiness, weakening the Army National Guard's preparedness for future missions.⁶ In addition, DOD faces the long-term challenge of determining how it will reorganize its forces and identify the capabilities it will need to protect the country from current, emerging, and future conventional and unconventional security threats. Specific issues that will need to be addressed while DOD meets these long-term challenges include weapons modernization, force transformation, and military pay and benefits. Striking an affordable balance between near- and long-term needs will be an ongoing challenge, particularly with the federal government's current and projected fiscal imbalances.

Although DOD's budget is likely to be constrained by future fiscal limitations, DOD continues to pursue some inefficient programs and practices, including, directly or indirectly, 15 of 27 areas that we have identified as high risk.⁷ Since 1990, we have periodically reported on government operations that we identify as high risk and which need urgent attention and transformation in order to ensure that our national government functions in the most economical, efficient, and effective manner possible. Out of the 27 items on our list of high-risk areas governmentwide, DOD has sole responsibility for 8. These 8 areas are: (1) business transformation, (2) business systems modernization, (3) personnel security clearance program, (4) support infrastructure management, (5) financial management, (6) supply chain management, (7) weapon systems acquisition, and (8) contract management. In addition to the DOD-specific high-risk areas, DOD shares responsibility for 7 other high-risk areas that are governmentwide in scope, such as strategic human capital management. DOD has thus far failed to effectively address many of these high risk programs resulting in billions of dollars spent annually to sustain inefficient policies and business practices in key operations that support our forces.

⁶GAO, *Reserve Forces: Actions Needed to Better Prepare the National Guard for Future Overseas and Domestic Missions*, [GAO-05-21](#) (Washington, D.C.: Nov. 10, 2004).

⁷GAO, *High-Risk Series: An Update* [GAO-07-310](#) (Washington, D.C.: Jan. 31, 2007).

To address these critical inefficiencies, we have suggested that DOD reexamine defense policies and practices, develop budgets that set clear priorities and consider long-term resource implications, address high-risk areas, and designate a Chief Management Officer⁸ who would be responsible for overall business transformation efforts. In addition, to facilitate decision makers in this process of reexamining the base of the federal government, we have drawn on our past and pending work to produce a *21st Century Challenges* report⁹ which provides examples of the kinds of hard choices the country will need to make stemming from these fiscal challenges. This report identifies challenges in 12 broad areas including homeland security, international affairs, and national defense. Within the national defense area, we draw attention to specific challenges DOD and the nation face concerning the reserve component. These challenges include addressing the following questions:

- *Are the active and reserve components appropriately sized, structured, and used to meet the current and future national security demands?*
- *Is the current business model sustainable for the reserve component?*

Reexamining reserve component policies and practices should be included as part of the overall DOD-wide reexamination effort we advocate. Moreover, as the Commission evaluates potential changes to the Guard and reserves' structure and policies, it will be important to consider the funding implications of alternative approaches within the context of the nation's and DOD's fiscal challenges. A variety of competing proposals are being made to restructure and enhance funding for the reserve components, such as expanding personnel benefits and procuring equipment. It will be important to understand the analytical basis for such proposals and assess the extent to which they address long-term affordability and sustainability challenges.

⁸GAO-07-310.

⁹GAO, *21st Century Challenges: Reexamining the Base of the Federal Government*, GAO-05-325SP (Washington, D.C.: Feb. 1, 2005).

Guard and Reserve Business Model Should be Revised to Better Align with 21st Century Roles and Missions

Although DOD recognizes that the changing security environment has placed new demands on reserve components, DOD has not yet fully adapted the reserve component business model to support reservists' evolving roles and missions. An effective business model—including an integrated set of strategies and policies for recruiting, training, and compensating individuals as well as for equipping units—is needed to support the National Guard and reserves in conducting 21st century missions within fiscally sustainable resource levels. Although each of the services' reserve components faces challenges, our work has shown that the Army National Guard and Army Reserve do not have a sustainable set of policies and resourcing strategies that aligns with their changing roles and high pace of operations. In addition, we have found that all of the reserve components face human capital challenges that will need to be addressed as part of a systematic effort to reassess and revise the reserve components' business model. These challenges include: (1) addressing inefficiencies in recruiting and retaining personnel with needed skills, and (2) eliminating inefficient policies, procedures, and business systems which impede the smooth transition of personnel between reserve and active duty status. While DOD has taken some recent steps to address these challenges, such as establishing new mobilization policies intended to achieve more predictable deployments, DOD has not fully addressed these challenges in a way that supports an integrated business model.

Reserve Component Business Model Is Not Fully Aligned with Heavy Reliance on Reserves in the New Security Environment

The changing security environment has had significant implications for the Guard and reserves and led to a need to reexamine and revise the reserve component business model. Although each of the services' reserve components has faced challenges in adapting to the new security environment, the Army National Guard and Army Reserve are most in need of a fundamental rethinking of the manner in which they are organized and structured to support operations at home and abroad. We have previously reported and testified to the Commission that DOD's business model for the Army National Guard is not sustainable over time at the current pace of operations as evidenced by the significant personnel and equipment shortages that nondeployed National Guard units have experienced in order to fully equip and staff units deployed overseas.¹⁰ The ongoing demand for Army National Guard units to support overseas operations represents a fundamental change from the strategic reserve

¹⁰GAO, *Reserve Forces: Army National Guard and Army Reserve Readiness for 21st Century Challenges*, GAO-06-1109T (Washington, D.C.: Sept. 21, 2006).

mission for which its units were structured. We have also reported that the Army National Guard historically has been structured primarily to serve as a strategic reserve force and has faced significant challenges and worsening personnel and equipment shortages as a result of supporting ongoing operations.¹¹ In addition, potential threats against the homeland have implications for the reserves' missions and business model. Both the Army National Guard and Air National Guard have increasingly been called upon to prepare for and respond to domestic disasters such as Hurricane Katrina.¹² Moreover, the National Guard could potentially be called on to play a key role in responding to terrorist events. In January 2007, we reported that the types and quantities of equipment the National Guard needs to respond to potential large-scale terrorist events and natural disasters have not been fully identified because the multiple federal and state agencies that would have roles in responding to such events have not completed and integrated their plans.¹³ Establishing plans and requirements for National Guard units to respond to homeland security missions should be a key starting part of a comprehensive reassessment of the Army and Air National Guard's business model.

The other reserve components are also playing key roles in supporting ongoing operations and adapting to new missions which require them to reexamine long-standing policies and ways of doing business. For example, numerous Marine Corps reserve units have deployed to Iraq and Afghanistan to help meet the high demand for ground forces, and nondeployed units face equipment and personnel challenges. In addition, the Air National Guard, Air Force Reserve, and Navy Reserve have contributed in numerous ways such as providing airlift and intelligence capabilities. Although Air National Guard and Air Force Reserve units have historically been resourced at higher levels than their Army counterparts, senior leaders have recently testified about increasing readiness challenges in supporting ongoing operations and an aging aircraft inventory.

¹¹GAO, *Reserve Forces: An Integrated Plan is Needed to Address Army Reserve Personnel and Equipment Shortages*, [GAO-05-660](#) (Washington, D.C.: July 12, 2005).

¹²GAO, *Hurricane Katrina: Better Plans and Exercises Needed to Guide the Military's Response to Catastrophic Natural Disasters*, [GAO-06-643](#) (Washington, D.C.: May 15, 2006).

¹³GAO, *Reserve Forces: Actions Needed to Identify National Guard Domestic Equipment Requirements and Readiness*, [GAO-07-60](#) (Washington, D.C.: Jan. 26, 2007).

The reserve components have taken some steps to adjust their business models to align with their new roles, but face challenges in equipping and training personnel. The Army is implementing a new modular brigade structure for its active and reserve components. However, implementing this restructuring is complicated by challenges such as significant retraining of personnel into reassigned specialties that will take several years to complete. In addition, the Air Force's planned changes to its reserve force structure will have significant impacts on personnel and training requirements.

DOD Needs More Effective Strategies for Recruiting and Retaining Personnel with Required Skills

DOD will also need to develop more effective strategies for recruiting and retaining personnel in needed occupational specialties as part of an overall effort to adapt the reserve components' business model to meet the needs of the new security environment. Even when the reserve components have met their overall goals for recruiting and retaining servicemembers during the last few years, they have faced difficulties recruiting and retaining personnel with certain skills. DOD must recruit and retain tens of thousands of reserve and National Guard members each year to fill almost 860 occupational specialties. The current pace of operations and the likelihood of deployment of reservists from all the services, coupled with a growing economy that offers opportunities in the private sector, have made recruiting and retaining members for all the services and components a significant challenge. In addition, DOD reports that over half of today's youth between 16 and 21 cannot meet the military's entry standards for education, aptitude, health, moral character, or other requirements. In addition, future retention challenges will also include the dynamics of a new generation that appear to be increasingly likely to make frequent job changes over the course of a career.

We reported in November 2005 that even when DOD met aggregate recruiting and retention goals, it had too many personnel in some occupations and not enough in others. For example, the services were not consistently able to fill all their requirements for about 47 percent of their reserve and National Guard occupational specialties, while other occupational specialties were consistently overfilled.¹⁴ Underfilled occupations included: combat engineers, intelligence analysts, field artillery surveyors and data systems specialists, and explosive ordnance

¹⁴GAO, *Military Personnel: DOD Needs Action Plan to Address Enlisted Personnel Recruitment and Retention Challenges*, GAO-06-134 (Washington, D.C.: Nov. 17, 2005).

disposal technicians. On the other hand, the services consistently were able to recruit more personnel in about 21 percent of reserve and National Guard occupational specialties than they were authorized. Examples of specialties that were overfilled included: avionics mechanics, personnel clerks, supply specialists, motor vehicle operators, and patient administration specialists.

We also noted that while DOD had taken several steps, such as adjusting its recruiting, advertising, and financial incentives programs, to help meet recruiting and retention goals, DOD lacked information on financial incentives provided for certain occupational specialties. This made it difficult for the department to determine whether the financial incentives were being targeted most effectively. We found that while DOD requires some reporting by the active components on their over- and underfilled occupational specialties, the department has levied no such requirement on the reserve components. Further, DOD requires the service components to provide minimal justification of their use of financial incentives paid to service members in some occupational specialties and lacks the information needed to ensure funding spent on recruiting and retention is appropriately and effectively targeted to occupational specialties for which the components have the greatest need. We recommended that DOD require the services to report all their over- and underfilled occupational specialties, including reasons why the specialties are over- and underfilled, and to justify the use of financial incentives provided to service members in occupational specialties that have more personnel than authorized. Based on this information, we also recommended that DOD develop a management plan to address recruiting and retention challenges. DOD acknowledged the importance of annually tracking fill rates across occupations and the need to closely manage bonus programs.

DOD Policies and Procedures Should Facilitate Individuals' Smooth Transition between Reserve and Active Duty Status

If the nation expects reservists to routinely support domestic and overseas contingencies rather than serving as a strategic reserve, DOD will also need to develop an integrated set of policies, procedures, and business systems to more efficiently enable reservists to move from peacetime to operational status. The processes that DOD uses to transition reservists from their reserve status to active duty status to support national security objectives—particularly those used to support involuntary mobilization—have not been efficient in providing a sustainable flow of trained forces to meet the changing operational needs of combatant commanders in the new security environment.

Following the start of military operations in Iraq, we reported that the processes DOD used to activate reserve personnel to support military operations after September 11, 2001, were hampered by inefficiencies and DOD lacked adequate systems for tracking personnel and other resources.¹⁵ Specifically, DOD's mobilization process relied on multiple layers of coordination between the services, the Office of the Secretary of Defense, and the Joint Staff to validate, approve, and fill mobilization requirements. In addition, DOD officials did not have visibility over the entire mobilization process, including the readiness of the force, primarily because DOD lacked adequate systems for tracking personnel and other resources within small units and some systems used by the active and reserve components were incompatible.¹⁶ We recommended that DOD (1) capture readiness information for all the units that are available to meet combatant commander requirements so that resources would be visible to key mobilization officials, (2) develop a single system or fully integrated automated systems that would provide for the seamless transfer of reservists' information, and (3) develop a strategic framework that integrates and aligns personnel policies to meet organizational goals. We also reported that the Army Reserve and the Army National Guard were not provided the number of full-time support personnel they needed to maintain unit readiness and had not been provided additional staff as units made preparations for deployments.¹⁷ We recommended that the Army reassess the full-time support needs of the Army Reserve in light of its new operational role.

DOD has agreed with many of our recommendations to improve the transition of reserve personnel from peacetime to operational status and has begun to take actions intended to address mobilization challenges. For example, in January 2007, the Secretary of Defense authorized a decrease in the length of mobilizations, such as those to Iraq and Afghanistan, from 18 months to 1 year¹⁸ and directed the services to manage mobilizations of

¹⁵GAO, *Military Personnel: DOD Actions Needed to Improve the Efficiency of Mobilizations for Reserve Forces*, [GAO-03-921](#) (Washington, D.C.: Aug. 21 2003).

¹⁶[GAO-03-921](#).

¹⁷GAO, *Reserve Forces: Army National Guard and Army Reserve Readiness for 21st Century Challenges*, [GAO-06-1109T](#) (Washington, D.C.: Sept. 21, 2006); GAO, *Reserve Forces: Observations on Recent National Guard Use in Overseas and Homeland Missions and Future Challenges*, [GAO-04-670T](#) (Washington, D.C.: April. 29, 2004).

¹⁸Services can, at their discretion, exclude individual skill training required for deployment and post-mobilization leave activities from the 1-year activation period.

reservists with the goal of mobilizing reserve personnel for no more than 1 year for every 5 years. Further, to improve unit cohesion, the Secretary directed that the services mobilize forces on a unit basis rather than mobilizing individuals and transferring them to deploying units. However, the extent to which DOD will be able to implement these policies in the midst of ongoing operations is unclear. Also, it is not clear what impact these policies will have on employer support for the reserves. We recently reported that additional actions are needed to improve oversight of reserve employment issues, such as improving reporting of information on reservists' complaints to Congress.¹⁹

We have also identified numerous problems with DOD's data bases and business systems, which have impeded the smooth transition of personnel from reserve to active duty status. For example, we found numerous errors in pay and benefits provided to reservists who were mobilized to support operations.²⁰ These problems are symptoms of a larger DOD-wide problem resulting from the proliferation of numerous service- and component-unique business systems during the past few decades. DOD initiated the Defense Integrated Military Human Resources System (DIMHRS) program in fiscal year 1998 to consolidate the personnel and pay systems across the military components. However, 9 years after program initiation, DOD has yet to deploy DIMHRS, and the concerns it was intended to address persist.²¹ In 2005, we reported that DOD was not effectively managing the DIMHRS program, thereby jeopardizing the likelihood that it would deliver promised system capabilities and benefits

¹⁹GAO, *Military Personnel: Additional Actions Needed To Improve Oversight Of Reserve Employment Issues*, [GAO-07-259](#) (Washington, D.C.: Feb. 8, 2007).

²⁰GAO, *Army National Guard: Inefficient, Error-Prone Process Results in Travel Reimbursement Problems for Mobilized Soldiers*, [GAO-05-79](#) (Washington D.C.: Jan. 31, 2005).

²¹GAO, *Military Pay: Army Reserve Soldiers Mobilized to Active Duty Experienced Significant Pay Problems*, [GAO-04-911](#) (Washington, D.C.: Aug. 20, 2004), and *Military Pay: Army National Guard Personnel Mobilized to Active Duty Experienced Significant Pay Problems*, [GAO-04-89](#) (Washington, D.C.: Nov. 13, 2003).

on time and within budget.²² We made several recommendations aimed at improving the department's oversight of the program. We are currently evaluating DOD's implementation of our prior recommendations.

DOD Does Not Have a Compensation Strategy and Lacks Transparency over National Guard and Reserve Compensation Costs

Developing compensation strategies targeted to recruit and retain individuals with needed skills is another key element of a sound business model. However, DOD does not know the extent to which its current compensation system for Guard and reserve servicemembers is helping it meet its human capital goals of recruiting and retaining personnel. The cost to compensate National Guard and reserve servicemembers has increased about 47 percent since fiscal year 2000. In addition, the mix of compensation—cash, noncash, and deferred compensation—has shifted more toward deferred, even though this may not be the most efficient use of resources. Moreover, the department does not know if the current mix is appropriate or sustainable to efficiently maintain its force primarily because (1) it has not established an overall compensation strategy and performance measures and (2) its approach to compensation does not provide decision makers in Congress and DOD with adequate transparency over total costs for reservists.

Cost to Compensate National Guard and Reserve Servicemembers Has Increased Significantly Since Fiscal Year 2000

The total cost to the federal government to compensate both part-time and full-time reserve and National Guard servicemembers has increased significantly—about 47 percent—since fiscal year 2000, increasing from about \$13.9 billion in fiscal year 2000 to about \$20.5 billion in fiscal year 2006. This cost includes: (1) cash compensation, such as basic pay and other allowances; (2) noncash compensation, such as education assistance and health care; and (3) deferred compensation, such as retirement pay and health care. However, this cost does not include all compensation,

²²See, for example, GAO, *DOD Systems Modernization: Management of Integrated Military Human Capital Program Needs Additional Improvements*, [GAO-05-189](#) (Washington, D.C.: Feb. 11, 2005); *Defense Management: Foundational Steps Being Taken to Manage DOD Business Systems Modernization, but Much Remains to be Accomplished to Effect True Business Transformation*, [GAO-06-234T](#) (Washington, D.C.: Nov. 9, 2005); and *Defense Business Transformation: A Comprehensive Plan, Integrated Efforts and Sustained Leadership Are Needed to Assure Success*, [GAO-07-229T](#) (Washington, D.C.: Nov. 16, 2006).

such as accrual costs for veterans' benefits.²³ Moreover, these costs do not include National Guard and reserve members who were called to active duty to support military operations.

Health care costs are a primary factor contributing to the growth in reserve compensation. Since fiscal year 2000, total health care costs for reservists have grown about 500 percent, from \$835 million in fiscal year 2000 to \$4.4 billion in fiscal year 2006. This increase is largely due to new and enhanced health care benefits for retirees. For example, in 2001 Congress added TRICARE for Life, a health care benefit for Medicare-eligible retirees,²⁴ and DOD estimates that TRICARE for Life represented 48 percent of the increase in DOD's spending on health care from fiscal years 2000 through 2005.²⁵ Additionally, Congress added a premium-based health care benefit for Selected Reservists and their dependents known as TRICARE Reserve Select that provides a continuation of health coverage

²³Veterans' benefits include health care, compensation and pension, education and training, vocational rehabilitation, guaranty home loans, life insurance, burial benefits, and dependents' and survivors' benefits. Reservists who have served honorably on active duty establish veteran status and may therefore be eligible for veterans' benefits including health care and monthly compensation, depending on the length of active military service and other eligibility factors. In addition, reservists who are never called to active duty may qualify for some veterans' benefits such as education, home loan guaranty, vocational rehabilitation, disability pension, and life insurance. In the absence of a formal actuarial model, we were unable to determine the deferred or accrual costs for reservists' benefits provided by the Department of Veterans Affairs. Furthermore, the Veterans Affairs budget does not distinguish between active and reserve cost, which prevented us from associating current noncash costs for programs such as vocational rehabilitation and disability pension with reserve compensation. In addition, we decided to associate all installation-based noncash benefits (such as commissaries and morale, welfare, and recreation centers) with the active components compensation costs although reservists are eligible to take advantage of those benefits. As a result, our compensation cost for reserve and guard personnel is likely understated.

²⁴In fiscal year 2001, Congress expanded retiree health care coverage to supplement Medicare.

²⁵GAO, *DOD's 21st Century Health Care Spending Challenges, presentation for the Task Force on the Future of Military Health Care*, [GAO-07-766CG](#) (Washington, D.C.: April 18, 2007).

as reservists transition on and off of active duty.²⁶ According to DOD estimates, the cost for this new health care benefit will increase in fiscal year 2008 to about \$381 million, and will continue to increase to about \$874 million by fiscal year 2013. Moreover, DOD predicts that the cost for health care will continue to increase significantly and consume more than 12 percent of its total budget by fiscal year 2015, compared to 7.5 percent in fiscal year 2005.

Over this same time period, the per capita cost to the federal government for part-time drilling reservists²⁷ almost doubled, from about \$10,100 in fiscal year 2000 to about \$19,100 in fiscal year 2006. This per capita cost is an average of what it cost the government to compensate servicemembers; it is not what the servicemembers “receive in their paycheck.” Servicemembers’ individual cash compensation will vary significantly depending on individual pay grade and other factors such as years of service and family status.²⁸ It is noteworthy that this increase in per capita cost occurred during a time when the average number of part-time drilling reservists declined by about 6 percent from about 746,400 in fiscal year 2000 to 699,800 in fiscal year 2006. This decline in the average number of part-time servicemembers may be attributed to many factors, such as the Navy’s restructuring of its force as part of its Active-Reserve Integration process, which reduced the number of part-time reservists. Moreover,

²⁶In the National Defense Authorization Act for Fiscal Year 2004, Congress established TRICARE health care coverage for unemployed reservists or those ineligible for health care coverage from their civilian employer. However, this provision was not implemented by DOD. The Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 included provisions for reservists to receive 1 year of TRICARE standard for each period of 90 consecutive days served in a contingency operation given that the reservists signed a commitment to serve continuously in the Selected Reserve during the covered period. When implemented by the DOD, the program was called TRICARE Reserve Select. The National Defense Authorization Act for Fiscal Year 2006 enhanced this coverage by creating a three-tier system of eligibility, based on the percentage of co-pay. The John Warner National Defense Authorization Act for Fiscal Year 2007, further expanded the program to give access to the benefit to all Selected Reservists and eliminated the tiered eligibility system. TRICARE Reserve Select is scheduled to be implemented in October 2007.

²⁷Part-time drilling reservists drill 1 weekend a month and participate in active duty training for 2 weeks a year. These personnel are referred to as pay groups A and B in the services budget justification books, and they also may participate in special and school training, such as operational, refresher, and proficiency training. In addition, we included pay groups F and P in our part-time analysis.

²⁸This compensation does not include all of the costs required to support additional servicemembers, because it does not include those costs associated with recruiting and training personnel.

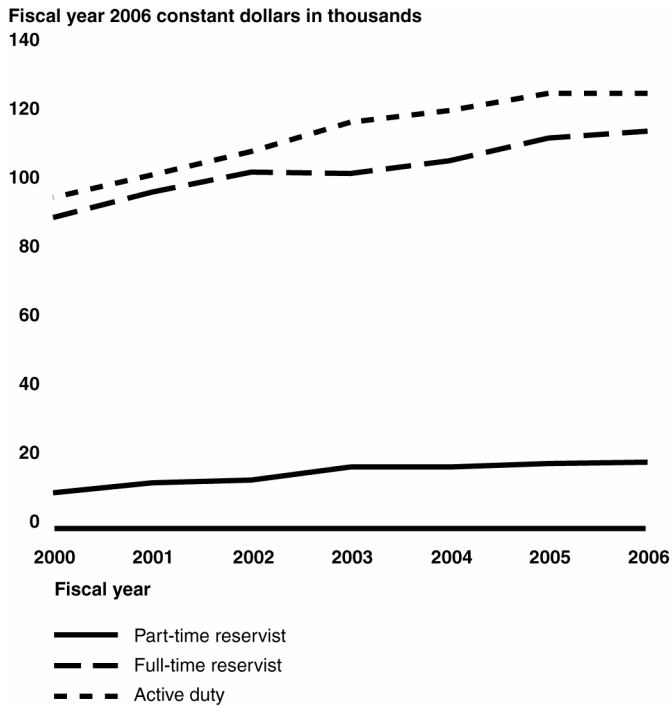
Army National Guard and Army Reserve officials attributed the decline in average strength to their recruiting difficulties.

In addition to the drilling reservists, about 9 percent of reservists work full-time, and their per capita cost to the federal government also increased, from about \$90,100 in fiscal year 2000 to about \$115,200 in fiscal year 2006, or about 28 percent.²⁹ Unlike their part-time counterparts, the full-time reservists' average strength increased by about 9 percent during this time period, increasing from about 64,500 in fiscal year 2000 to 70,300 in fiscal year 2006.³⁰ Full-time reservists are eligible to receive the same compensation as active duty servicemembers, whose per capita cost for compensation was about \$126,200 in fiscal year 2006. Figure 5 shows the trend in per capita costs for part-time reservists, full-time reservists, and active duty servicemembers from fiscal year 2000 through fiscal year 2006. Although full-time reservists are eligible to receive the same compensation as active duty service members, the per capita cost for compensation presented here is less than the per capita cost for an active duty servicemember. This is because some costs were not associated with the full-time reservists, such as accrual costs for veterans' benefits or costs for installation-based benefits, such as exchanges and family support programs.

²⁹Full-time reserve and National Guard personnel are referred to as "Administration and Support" in the budget justification books, but are often referred to as active guard and reserve (AGR) or full-time support (FTS), depending on service culture. These personnel are called to active duty for reasons including organizing, administering, recruiting, instructing, and training reserve component personnel, and special work such as security.

³⁰The percentage of full-time reservists varies by component. For example, in fiscal year 2006 the Navy Reserve and the Air National Guard had the highest percentage of full-time reservists, about 12 and 18 percent, respectively while the Air Force Reserve and Marine Corps Reserve had the lowest percentage, about 3 and 6 percent, respectively.

Figure 5: Trend in Per Capita Costs for Part-Time Reservists, Full-Time Reservists, and Active Duty Servicemembers, Fiscal Years 2000 through 2006



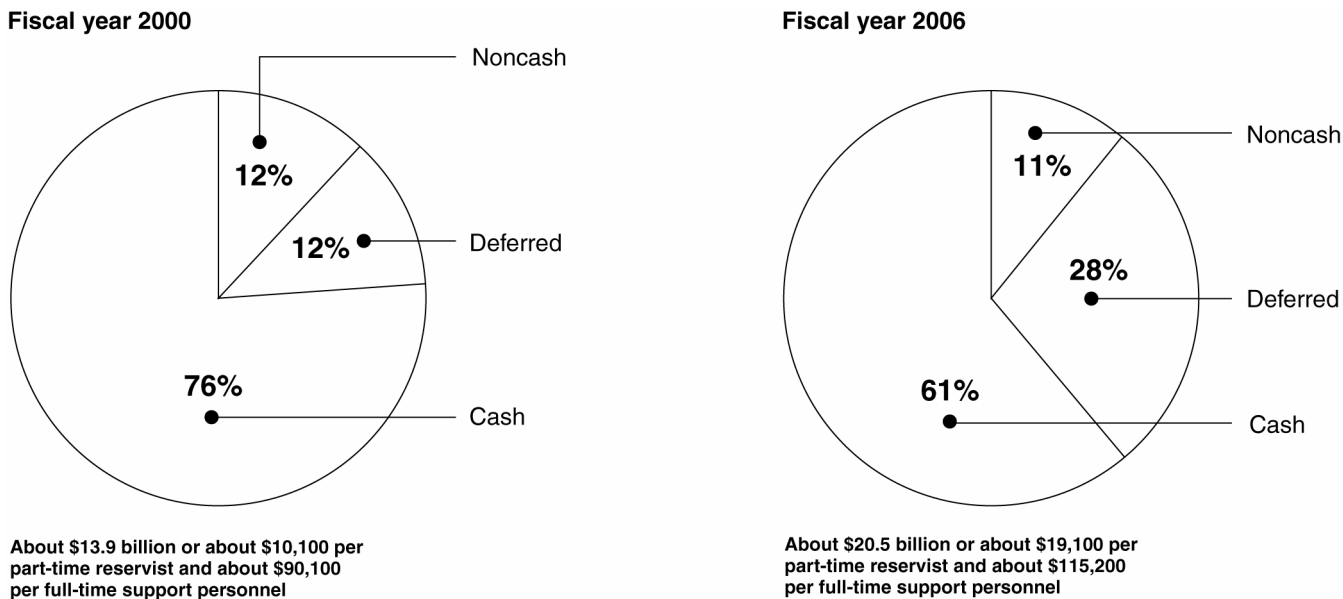
Source: GAO.

DOD Does Not Know the Extent to Which Its Mix of Reserve Compensation Is Meeting Its Human Capital Goals

DOD and Congress have reacted to the current environment of increased mobilizations and recruiting difficulties by adding to reservists' compensation. However, these efforts have been done in a piecemeal fashion that has shifted the mix of reserve compensation toward more deferred benefits, even though this may not be the most efficient allocation to enable DOD to meet its recruiting and retention human capital goals. Significant increases in the frequency and length of mobilizations to Iraq and Afghanistan have led to family separations for longer periods and interruptions in reservists' civilian careers. In recent years, Congress and DOD have added benefits and pays to address reserve component recruiting problems. For example, the reserve incentive program, which primarily provides discretionary cash bonuses for enlistment and reenlistment, increased more than 1000 percent from fiscal year 2000 to fiscal year 2006. According to service officials, this increase was to address potential recruiting shortfalls.

The resulting complex accumulation of pays and benefits has shifted the mix of reserve compensation toward deferred compensation—that is, the promise of future compensation like retirement pay and health care. Figure 6 shows that deferred compensation increased from 12 percent of total reserve compensation in fiscal year 2000 to 28 percent in fiscal year 2006. Deferred compensation affects the current cost of compensation because funds must be set aside today to provide these benefits in the future, over the reservist's lifetime.

Figure 6: Allocation of Reserve Compensation to Cash, Noncash, and Deferred in Fiscal Years 2000 and 2006



Source: GAO.

While DOD and Congress have added pays and benefits over the past 6 years, it is questionable whether DOD and Congress adequately considered the appropriateness of the changes, including how the changes compared to compensation in the civilian sector, what the efficiency and return of these changes would be in terms of meeting the department's human capital goals of recruiting and retention, or whether the compensation changes were affordable and sustainable over the long-term. DOD defines efficiency of its compensation system as paying no higher or lower than necessary to fulfill the basic objective of attracting,

retaining, and motivating the kinds and numbers of servicemembers needed.³¹ However, this increase in deferred compensation may not necessarily provide the most efficient allocation or the best return on the compensation investment. In fact, DOD does not know the most efficient allocation of compensation needed to meet its recruiting and retention goals because it has not evaluated reserve compensation to determine the appropriate mix of compensation to attract and retain sufficient numbers of qualified servicemembers.

Although the efficiency of noncash and deferred compensation is difficult to assess because the value servicemembers place on them is highly individualized, studies indicate cash compensation is not only preferred to noncash and deferred compensation, but it is also a more efficient recruiting and retention tool for active duty servicemembers. In our 2005 report on active duty compensation, we stated that it is generally accepted that some deferred benefits, such as retirement, are not valued as highly by servicemembers as current cash compensation.³² Cash pay today is a far more efficient tool than future cash or benefits for the recruiting and retention of active duty servicemembers. For example, a study assessing the military drawdown in the early 1990s found that when active duty servicemembers were offered a choice of lump-sum cash payments or annuities, a vast majority selected the lump-sum payment, even though it had considerably less net present value.³³ This preference for cash compensation has a profound impact on the efficiency of DOD's compensation system, especially considering that less than one in four part-time reservists will receive these costly deferred benefits.³⁴ More specifically, about 24 percent of those who join the reserve and Guard will ultimately earn nondisability retirement pay and health care for life. Typically, deferred and noncash compensation is offered across the board,

³¹Department of Defense, Office of the Secretary of Defense, *Military Compensation Background Papers: Compensation Elements and Related Manpower Cost Items, Their Purpose and Legislative Backgrounds*, 6th ed. (Washington, D.C.: April 2005).

³²GAO, *Military Personnel: DOD Needs to Improve the Transparency and Reassess the Reasonableness, Appropriateness, Affordability, and Sustainability of Its Military Compensation System*, [GAO-05-798](#) (Washington, D.C.: July 19, 2005).

³³John T. Warner and Saul Pleeter, "The Personal Discount Rate: Evidence from Military Downsizing Programs," *The American Economic Review* (March 2001).

³⁴GAO, *Military Personnel: DOD Needs More Data Before It Can Determine if Costly Changes to the Reserve Retirement System Are Warranted*, [GAO-04-1005](#) (Washington, D.C.: Sept. 15, 2004).

which limits the department's flexibility to offer incentives, target servicemembers, or turn on and off compensation as it is needed to recruit and retain servicemembers. Moreover, these changes may not be sustainable over the long-term. Some of the noncash and deferred compensation that have been added in response to the department's recruiting problems are, in fact, inflexible benefits and long-term costs that the department will find difficult to stop providing, such as health care for reservists.

DOD Has Not Established a Compensation Strategy and Performance Measures to Gauge Efficiency of Reserve Compensation

DOD is unable to gauge the efficiency of the mix of reserve compensation and its compensation tools because it has not established an overall compensation strategy or performance measures.³⁵ We have previously found that programs such as compensation systems need performance measures and goals to guide decision makers and program policy.³⁶ Moreover, DOD's Personnel and Readiness strategic plan states the importance for DOD to identify requirements and tailor compensation and other programs to achieve objectives and continuously review personnel management.³⁷ In addition, we have also reported that it is necessary for an agency to monitor and evaluate its progress toward its human capital goals and the contribution that human capital outcomes have made toward achieving program results.³⁸

The lack of a strategy to guide compensation policy is a long-standing problem faced by DOD. We identified the lack of explicit compensation principles in 1979 and again in 2005 in our reports on active duty compensation.³⁹ Our past reports pointed out that DOD lacked explicit

³⁵Department of Defense, Office of the Secretary of Defense, *Military Compensation Background Papers: Compensation Elements and Related Manpower Cost Items, Their Purpose and Legislative Backgrounds*, 6th ed. (Washington, D.C.: April 2005).

³⁶GAO, *A Model of Strategic Human Capital Management*, [GAO-02-373SP](#) (Washington, D.C.: Mar. 15, 2002).

³⁷Under Secretary of Defense for Personnel and Readiness' (OUSD—P&R), *Strategic Plan, FY2006-2011* (April 18, 2006).

³⁸GAO, *Human Capital: Key Principles for Effective Strategic Workforce Planning*, [GAO-04-39](#) (Washington, D.C.: Dec. 11, 2003).

³⁹GAO, *Military Personnel: DOD Needs to Improve the Transparency and Reassess the Reasonableness, Appropriateness, Affordability, and Sustainability of Its Military Compensation System*, [GAO-05-798](#) (Washington, D.C.: July 19, 2005); *The Congress Should Act to Establish Military Compensation Principles*, [GAO/FPCD-79-11](#) (Washington, D.C.: May 9, 1979).

compensation principles, which creates challenges in making major changes to compensation. Moreover, DOD does not have performance measures to gauge the efficiency of its compensation system or the various compensation tools. Without performance measures, DOD does not know which of its compensation tools—cash, noncash, or deferred—works best at recruiting and retaining servicemembers, and it does not know the most effective, efficient mix of compensation.

Determining the return on investment for compensation and the impact of compensation on recruiting and retention is not an easy task and should be approached with caution. DOD and service officials often point to meeting end strength or recruiting and retention goals as evidence that compensation is appropriate or working. Although end strength is an important indicator, we do not believe it is sufficient alone. Meeting recruiting and retention goals does not indicate if the compensation system is efficient or yielding the best return on the department's investment. In fact, numerous other factors, such as the economy, ongoing contingency operations, and DOD's own recruiting and advertising program also influence the department's ability to recruit and retain servicemembers.⁴⁰ As a result, DOD does not know if the additions to the compensation system—which are becoming increasingly costly—are appropriate to enable the reserve components to recruit and retain a high-quality workforce in sufficient numbers and that the federal government has the best return on investment. Until DOD establishes a strategy for determining the best mix of cash, noncash, and deferred compensation and develops performance measures to evaluate the efficiency of compensation tools, DOD and Congress will be unable to make informed decisions about which compensation tools will provide the best return on investment, be sustainable in the long term, and be effective in recruiting and retaining the future reserve force.

⁴⁰DOD, *9th Quadrennial Review of Military Compensation* (Volume I; May 17, 2002); *Commission on the National Guard and Reserves, Strengthening America's Defenses in the New Security Environment* (March 1, 2007); GAO, *Military Recruiting: DOD Needs to Establish Objectives and Measures to Better Evaluate Advertising's Effectiveness*, [GAO-03-1005](#) (Sept. 19, 2003).

DOD Does Not Have Transparency over Total Costs of Reserve Compensation

Decision makers in Congress and DOD do not have adequate transparency over total costs for providing reserve compensation—including the allocation of costs to cash, noncash, and deferred compensation and the cost of mobilized reservists. Good business practices require adequate transparency over investments of resources, especially in times of fiscal balance constraints. However, today there is no single source where decision makers can go to see all the costs of reserve compensation. In addition, the cost of mobilized reservists is also not transparent.

Part of the lack of transparency is due to the fact that about a quarter of the costs of reserve compensation are found outside the military personnel appropriation for DOD. In fact, costs are located within three federal agencies—DOD, Department of Veterans Affairs, and Department of Treasury—depending on the type of compensation and the status of the reservists—active reserve or mobilized. Furthermore, within DOD, compensation costs are found in four different budgets—the reserve components' military personnel, active components' military personnel, active components' operation and maintenance, and the Defense Health Program. Most of the cash costs—such as basic pay, allowances, and special pays and incentives—are located in either the reserve or active military personnel budgets, depending on whether the reservist is mobilized.⁴¹ In addition, the reserve military personnel budgets combine some cash costs. For example, pays and allowances includes such costs as retired pay accrual, basic allowance for subsistence, basic allowance for housing, and special and incentive pay as authorized. Furthermore, some noncash costs are located in the active operation and maintenance budget and active and reserve military personnel budgets.⁴² Some of these noncash costs, such as those for commissary and morale, welfare, and recreation facility use are not broken out by active and reserve costs because usage of these facilities is open to both components. Moreover, deferred costs for health care for the Medicare-eligible retirees and their dependents are found in the Defense Health Program budget, while some

⁴¹The military personnel budgets include such things as basic pay, allowances for housing and subsistence, special and incentive pays, other allowances, and retired pay accrual. The pay and benefits for mobilized reservists are located in the active military personnel budget.

⁴²The operation and maintenance budget includes costs for morale, welfare, and recreation programs and commissaries. The Veteran's Affairs budget includes costs for the Home Loan Guaranty program and disability compensation. The military personnel budgets include costs for noncash items such as death gratuities and clothing and travel allowances.

of the costs for concurrent receipt of disability retirement are found in the Treasury budget.⁴³

Transparency over compensation costs is further limited when reservists are mobilized because mobilized reservists are paid from active duty budgets. Moreover, compensation costs for mobilized reservists are difficult to determine within the active components budgets, in part because they are paid out of the supplemental funding the active components receive for the global war on terrorism. The absence of information about the compensation costs of mobilized reservists further dilutes decision makers' ability to see the full picture of the costs of reserve compensation to the federal government. In addition, as mobilizations are expected to become a regular part of reservists' careers, these costs will become a part of doing business for the reserves, which increases the importance of being able to identify them.⁴⁴

In our report on reserve compensation that we issued today,⁴⁵ we are making recommendations to assess the appropriateness of the reserve compensation system and to improve transparency over total reserve compensation costs. Our recommendations are that DOD (1) establish a clear compensation strategy that includes performance measures and (2) compile total costs to provide reserve compensation for part-time, full-time, and mobilized reservists and communicate these costs as well as the allocation of these costs among cash, noncash, and deferred compensation to decision makers within the administration and Congress.

In commenting on a draft of our report on reserve compensation, DOD partially concurred with our recommendations. In response to our specific recommendation to develop a compensation strategy and performance measures, the department partially concurred and described several steps that they had taken including chartering an independent commission to

⁴³The Health Affairs budget includes costs for all health care benefits except for health care for retirees younger than age 65. The Treasury budget includes contributions to retirement pay accrual to offset concurrent receipts.

⁴⁴*Secretary of Defense Memorandum for Secretaries of the Military Departments, Chairman of the Joint Chiefs of Staff, Under Secretaries of Defense*, "Utilization of the Total Force" (Jan. 19, 2007). This memo states that the planning objective for involuntary mobilization for the Guard and reserves will remain a 1-year mobilized to 5-year demobilized ratio. However, today's global demands will require a number of selected National Guard and reserve units to be remobilized sooner than this standard.

⁴⁵[GAO-07-828](#).

review military compensation. In addition, the department noted that it has primarily sought cash compensation in recent years, and that many of the increases in deferred compensation were not sought by DOD. In response to our recommendation to improve transparency, DOD stated that the Office of Management and Budget could more appropriately address this recommendation because it has visibility over all parts of the budget. We continue to believe that DOD needs an explicit compensation strategy to underpin its business case to decision makers, and transparent information that compiles the total costs of compensation as part of the military budget submission.

Conclusions

A general reassessment of the Guard and reserves' business model and human capital strategies is critical to enable DOD to continue to achieve its goal of having a sustainable all-volunteer force. The current business model that was developed under Cold War assumptions is not well aligned with the Guard and reserves' new operational role. The Commission has the opportunity to take a comprehensive look at how DOD and Congress need to work together to craft a business model for the reserve component that addresses both current and future challenges. A revised business model for the reserve component should include integrated policies, procedures, and business systems for recruiting and retaining personnel; facilitation of individuals' movement between reserve and active duty status; and compensation of personnel with a combination of cash and benefits that best supports the achievement of human capital goals. In the past, DOD and Congress have reacted to the reserves' new operational role by adding compensation without adequate consideration of how additional compensation and benefits compare with civilian sector compensation; whether they are appropriate, affordable, and sustainable over the long-term; or their return on investment in terms of recruiting and retention. The Commission has the opportunity to consider how DOD should construct a pay and compensation strategy that addresses these challenges to ensure that DOD uses its compensation resources more efficiently which ultimately would improve DOD's ability to recruit a highly qualified force in sufficient numbers. Addressing these challenges as part of a comprehensive reassessment of the reserve component's business model is especially important in light of existing budgetary pressures. Without a sustainable business model, DOD may not be well positioned to support operations at home and abroad and achieve its long-term goals of transformation and modernization.

Mr. Chairman and Members of the Commission, this concludes my prepared statement. I would be happy to answer any questions you may have at this time.

For further information regarding this testimony, please contact Janet A. St. Laurent at (202) 512-4402 or stlaurentj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Individuals who made key contributions to this testimony are listed in enclosure I.

Enclosure I: GAO Contact and Staff Acknowledgments

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