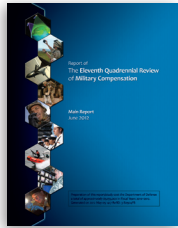


## Main Report

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[Chapter 1. Setting the Stage](#)

This introductory chapter sets the context for the QRMC's analysis. It provides an overview of the principles of compensation as well as discussion of the relationship between compensation, recruiting, and retention.

[Part II. Compensation in the 21<sup>st</sup> Century](#)

[Chapter 2. Military Compensation](#)

Chapter 2 provides an overview of the compensation system and presents a comparison of military and civilian compensation. An understanding of the relative standing of military compensation provides context within which to make decisions about Regular Military Compensation and other elements of the compensation system.

[Chapter 3. Pay Incentives for Critical Career Fields](#)

Chapter 3 reports on pay incentives for critical career fields, with focus on four career fields: special operations personnel, remotely piloted vehicle operators, linguists/translators, and mental health professionals. The analysis identifies common traits and characteristics among them that are likely to emerge in other career fields and that may inform compensation decisions.

[Chapter 4. Combat Compensation](#)

Chapter 4 considers the topic of combat compensation, a subject of timely importance given the conflicts in Iraq and Afghanistan that have endured for much of the past decade. The QRMC evaluated whether combat compensation sufficiently recognizes the dangers of serving in combat or other hostile areas, and whether there is a need to change how such compensation is administered and awarded.

[Chapter 5. Compensation for Wounded Warriors, Caregivers, and Survivors](#)

Chapter 5 examines the adequacy of compensation benefits for wounded warriors, caregivers, and survivors of fallen service members—a subject of increasing importance as combat tactics and equipment, and medical advances on the battlefield are saving the lives of more wounded service members.

[Part III. Compensation and Benefits for Reserve Component Members](#)

[Chapter 6. Reserve Duty](#)

Chapter 6 describes a proposal recommended by the QRMC to reduce and simplify the number of authorities under which a reserve component member performs duty and that provides the foundation for further changes to reserve compensation.

[Chapter 7. Modernizing Reserve Compensation](#)

Chapter 7 considers sweeping changes in the reserve pay and retirement system—urging the department to adopt a “total force” pay structure—that better aligns the active and reserve compensation systems and facilitates the current and anticipated role of the reserve forces.

[Chapter 8. Reserve Component Benefits](#)

Chapter 8 examines benefits for the reserve components—another important element of compensation—with particular emphasis on health care and education benefits.

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[Appendix B. Navy, Air Force, and Marine Corps Results of Total Force Pay Analyses](#)

This chapter presents results of the QRMC's analysis of a total force approach to pay and retirement for the reserve components of the Navy, Air Force, and Marine Corps.

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This appendix details the benefits available to reserve component members and eligible dependents.

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Report of  
**The Eleventh Quadrennial Review  
of Military Compensation**

**Main Report**  
June 2012

Preparation of this report/study cost the Department of Defense a total of approximately \$9,133,000 in Fiscal Years 2010–2012.  
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Report of  
The **11th Quadrennial Review**  
of **Military Compensation**

**Main Report**  
June 2012



THE WHITE HOUSE

WASHINGTON

December 11, 2009

MEMORANDUM FOR THE SECRETARY OF DEFENSE

SUBJECT: Eleventh Quadrennial Review of Military  
Compensation

Under section 1008(b) of title 37, United States Code, every 4 years the President is required to complete a review of the compensation system for the uniformed service members of the Department of Defense, the Coast Guard, and the commissioned corps of the National Oceanic and Atmospheric Administration and Public Health Service. You will be my Executive Agent for this review, consulting me as required.

It is not the powerful weapons that make our Nation the strongest in the world. It is the spirit and skill of our men and women in uniform. The current military compensation system has allowed us to recruit and retain the highest caliber men and women in our Nation's history, and that system needs to be regularly validated for sufficiency and responsiveness.

In these times of unprecedented expectations and demands, our attention must be on the well-being of our personnel in uniform. The defense of the homeland and ongoing overseas operations require us to examine and determine whether compensation levels are sufficient to sustain current and future efforts to recruit and retain the right skill set and experience level.

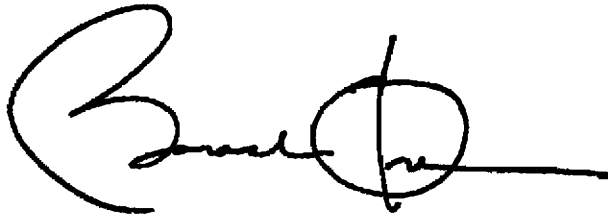
I would like your review to focus on the following areas:

1. the compensation for service performed in a combat zone, combat operation, or hostile fire area, or while exposed to a hostile fire event;
2. the Reserve and National Guard's compensation and benefits for consistency with their current and planned utilization;

3. the compensation benefits available to wounded warriors, caregivers, and survivors of those fallen service members; and
4. the pay incentives for critical career fields such as mental health professionals, linguists/translators, remotely piloted vehicle operators, and special operations personnel.

As the Executive Agent for the Eleventh Quadrennial Review of Military Compensation, you shall ensure that representatives of other relevant executive branch agencies, such as the Secretaries of Homeland Security, Commerce, and Health and Human Services, participate in this review, as appropriate. The review should be completed within 1 year of its initiation, with an update submitted to the President after 6 months, and a preview of the results 30 days prior to the end of the review period.

On behalf of the American people, I thank you in advance for your leadership in this area, your thoughtful resource analysis, and, more importantly, your sincere concern for our uniformed personnel and their families.

A handwritten signature in black ink, appearing to be "Barack Obama", written in a cursive style.



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# Preface

Every four years, the president directs “a complete review of the principles and concepts of the compensation system for members of the uniformed services.”<sup>1</sup> The First Quadrennial Review of Military Compensation (QRMC) was convened in 1965. Since that time, nine subsequent reviews have taken place, with the most recent—the 10<sup>th</sup> QRMC—issuing its report in 2008.

In December 2009, President Barack Obama directed the secretary of defense to conduct the Eleventh Quadrennial Review of Military Compensation (11<sup>th</sup> QRMC). In his charge to the secretary, the president stated:

It is not the powerful weapons that make our Nation the strongest in the world. It is the spirit and skill of our men and women in uniform. ... In these times of unprecedented expectations and demands, our attention must be on the well-being of our personnel in uniform. The defense of the homeland and ongoing overseas operations require us to examine and determine whether compensation levels are sufficient to sustain current and future efforts to recruit and retain the right skill set and experience level.

The reality of “unprecedented expectations and demands” was a constant influence as the QRMC conducted its deliberations. The experiences gained during ten years of combat operations in Iraq and Afghanistan had a direct bearing on the topics selected for examination by the 11<sup>th</sup> QRMC. Moreover, the expectation that demands will remain high in the future, and that the effects of this war will endure long after the last troops leave the battlefield, shaped our recommendations.

Many topics addressed by the 11<sup>th</sup> QRMC have been in the policy spotlight in recent years—either under study by other groups or the subject of legislative or regulatory proposals. The QRMC’s deliberations benefited from these previous efforts. For example, our assessment of reserve compensation and benefits and the reserve duty system applied analytical rigor to further the review conducted by the 2008 Commission on the National Guard and Reserves, as well as the department’s *Comprehensive Review of the Future Role of the Reserve Component*, completed in 2011. Both of these efforts provided useful insights into the challenges facing the reserve components and areas of change that could realize widespread benefits for the future.

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1. United States Code, Section 1008(b), title 37. The seven uniformed services are: United States Army, United States Marine Corps, United States Navy, United States Air Force, United States Coast Guard, United States Public Health Service Commissioned Corps, and National Oceanic and Atmospheric Administration Commissioned Corps.

The subject of veterans and wounded warriors has been high on the Obama administration's agenda, not surprising after a decade of war in the Middle East. Congress has passed many legislative initiatives related to health care, education and training, and a wide range of benefits for members and their families—a number of which have measurably increased compensation for wounded warriors, caregivers, and survivors. Were the QRMC's review of this topic conducted even five years ago, the outcomes presented in this report would likely have been far less encouraging.

While many have made extraordinary contributions to the QRMC, there are a number of individuals who deserve special recognition. Dr. Saul Pleeter spearheaded the analysis on combat compensation. Working with the Department of Treasury, Dr. Pleeter was able to quantify the extent to which the Combat Zone Tax Exclusion benefits service members and provide sound evidence of how the U.S. tax code skews benefits so that troops who are most exposed to the hazards of combat often receive the lowest benefits. Drs. David Loughran, Paul Heaton, and Amalia Miller conducted groundbreaking analysis on the financial well-being of wounded warriors and surviving spouses. Their analyses provided clear evidence of our nation's commitment to caring for those service members who have made extraordinary sacrifices for this country. Special thanks go to the Department of Veterans Affairs and the Social Security Administration without whom these analyses would not have been possible.

With change comes uncertainty and the desire to understand how that change will affect behavior and the ability of military leaders to sustain the all-volunteer force. The analysis and modeling performed by Mr. Michael Mattock and Drs. James Hosek and Beth Asch proved invaluable in assessing the impact on force structure of transforming the reserve compensation system, as recommended by the QRMC. Just as importantly, their analyses provided options that would not only sustain the force but also enable better force management while reducing cost.

Ms. Barbara Bicksler and Ms. Lisa Nolan deserve special recognition for bringing together the many facets of this study and creating a report that is well written and makes complex subjects and the underlying research in each focus area easy to understand. Ms. Bicksler's insights from previous QRMCs, the Defense Science Board, and similar committees, studies, and boards made her an irreplaceable asset to the QRMC. Recognition goes as well to Mr. Greg Byerly for outstanding graphics design and Ms. Catherine Alexandrow for meticulous copy-editing.

Special acknowledgment also goes to Lieutenant Colonel Ron Hunter, who was an extraordinary asset during his tenure with the QRMC. Working closely with other federal agencies, he broke through barriers that enabled the research community to



gain access to data rarely available to them. Drawing from his ten-year assignment with the military compensation directorate and his keen business acumen, he made many insightful and valuable contributions to further and strengthen the analysis performed by the QRMC. His tenacity was pivotal to the success of our efforts.

Finally, while not a participant in this study, the QRMC recognizes the long-standing contributions to the reserve components made by Mr. Francis M. Rush, Jr. who passed away in November 2011. Mr. Rush was the staff director for the 6<sup>th</sup> QRMC, which focused exclusively on compensation for the National Guard and reserves. Following his retirement from the Air Force in 1988, he was appointed to the Senior Executive Service and served as the Deputy Assistant Secretary of Defense for Manpower and Personnel in the Office of the Assistant Secretary of Defense for Reserve Affairs. Two signature accomplishments while serving in this capacity were enactment of the Reserve Officer Personnel Management Act and the Uniformed Services Employment and Reemployment Rights Act. Before retiring in 2000, Mr. Rush served in a number of other leadership positions in the Office of the Secretary of Defense. While Mr. Rush devoted a lifetime of service to others, he will be remembered most for his untiring focus on improving the well-being of the members of our nation's uniformed services and their families—an aim the QRMC aspired to emulate in developing its recommendations.



# Executive Summary

Since September 11, 2001, many demands have been placed on our nation's men and women in uniform. Ten years of armed conflict have been marked with multiple combat deployments, shortened time between deployments, warriors returning with combat injuries that would have been fatal in earlier wars, and the National Guard and reserve playing a major role in the war effort. These and other factors have placed enormous stress on service members and their families. At the same time, the fiscal environment, dominated by a long recession, a slow recovery, and a rising federal budget deficit, is putting pressure on federal departments and agencies to apply resources more efficiently and effectively to accomplish their objectives. The Department of Defense (DOD) faces fiscal challenges on many fronts; among them is the rising cost of personnel.

It is within this context that the 11<sup>th</sup> QRMC was chartered to examine whether compensation levels are sufficient to sustain recruitment and retention of the high-caliber men and women in uniform who serve our nation. As directed in its charter, the 11<sup>th</sup> QRMC examined four areas of the military compensation system:

- ❖ Pay incentives for critical career fields such as mental health professionals, linguists/translators, remotely piloted vehicle operators, and special operations personnel
- ❖ Compensation for service performed in a combat zone, combat operation, or hostile fire area, or while exposed to a hostile fire event
- ❖ Compensation benefits available to wounded warriors, caregivers, and survivors of fallen service members
- ❖ Compensation and benefits for the reserves and National Guard, consistent with their current and planned utilization

Additionally, the 11<sup>th</sup> QRMC assessed the competitiveness of military compensation with the private sector—an understanding of which serves as a useful foundation for examining specific elements of the compensation system.

## Compensation for the 21<sup>st</sup> Century

### Military Compensation

The United States is slowly recovering from an unusually long and deep recession. The large federal budget deficit is creating mounting pressure to control growth in federal programs. Unemployment remains high, at 8.1 percent in April 2012, and

is projected to fall slowly over the next several years. The projected slow decline in unemployment suggests a strong recruiting environment in the near term. Although the United States ended its involvement in the decade-long conflict in Iraq, we remain a nation at war, with troops committed to the fight in Afghanistan through 2014. The wartime climate has tempered the desire of America's youth to join the military. These competing pressures mean that the civilian economy must be continuously monitored to guard against adverse recruiting and retention outcomes. It also means guarding against drastic cuts in recruiting resources, as some resources, such as advertising and recruiters, take time to reconstitute. The recent past has proven how quickly the recruiting environment can deteriorate and the cost of not being prepared.

Compensation plays an important role in recruiting, retaining, and motivating the men and women in uniform who serve this nation. Without adequate compensation, the nation would be unable to sustain the all-volunteer force, in the size and with the skill sets needed to support the missions called for in the national security strategy. To maintain its viability, members of the all-volunteer force must receive compensation that is competitive with civilian earnings.

For more than 40 years, Regular Military Compensation (RMC) has been recognized as a better measure than basic pay alone for comparing military and civilian compensation. RMC includes basic pay, housing and food allowances, and an adjustment due to the allowances not being subject to federal income tax. Because this measure essentially reflects the “gross pay” that service members receive in their paychecks, it provides an appropriate comparison of military and civilian wages.

Military compensation has outpaced civilian wages and salary growth since 2002. Military pay began to increase in 2000, owing to a pay adjustment that responded to recruiting and retention difficulties, and was intended to bring military compensation back in line with civilian pay. The pay adjustment was accompanied by a commitment to increase basic pay in step with the Employment Cost Index (a benchmark for civilian pay growth) plus one-half of one percentage point from 2002 through 2006—a policy that was ultimately extended through 2010. The increase in military compensation also reflects rapid growth in the housing allowance, which increased by 5.7 percent in 2007, 4.7 percent in 2008, and 5.0 percent in 2009.

In contrast, there has been no real growth in civilian wages and salaries over much of the past decade—in part, reflecting a recessionary economy. At the same time, the cost of benefits in the civilian sector grew until about 2004, and then began to fall, only to increase again starting in 2010—fueled largely by growth in the cost of health care.

In 2009, average RMC for enlisted members exceeded the median wage for civilians in each relevant comparison group—those with a high school diploma, those with some college, and those with an associate’s degree. Average RMC for the enlisted force corresponded to the 90<sup>th</sup> percentile of wages for civilians from the combined comparison groups. For officers, average RMC exceeded wages for civilians with a bachelor’s or graduate-level degree. Average RMC for the officer force corresponded to the 83<sup>rd</sup> percentile of wages for the combined civilian comparison groups.

A comparison between military and civilian wages does not, by itself, determine if military pay is at the optimal level. As previously noted, other factors are also at play including: recruiting and retention experiences and outlook; unemployment in the civilian economy; political factors, such as a wartime environment or risk of war; and the expected frequency and duration of overseas deployments. But the relative standing of military compensation provides context to help make decisions about RMC and other elements of the compensation system, such as those studied by the QRMC.

### **Pay Incentives for Critical Career Fields**

Special and incentive (S&I) pays, which include both monthly pays and bonuses, are flexible compensation resources used by force managers to address staffing requirements that cannot be efficiently handled through across-the-board increases in basic pay. S&I pays can be targeted to specific segments of the force in order to attract and retain qualified personnel in hard-to-fill areas. Historically, these pays have amounted to about 5 percent of total military compensation, yet they provide significant leverage in managing the all-volunteer force. The recent consolidation of S&I pay authorities provides the uniformed services with greater flexibility to target additional compensation where needed to address emerging staffing shortfalls and maintain staffing in critical or hard-to-fill skills.

S&I pays have traditionally been used to supplement military pay under the following circumstances: high civilian wages for similar skills, rapid growth in demand, onerous or dangerous working conditions, high training investment costs, and occupations requiring special skills and proficiency. When considering the use of an incentive pay or bonus to meet force management objectives, two challenges typically arise. The first is determining the optimal amount of the incentive to achieve *numeric* staffing objectives, and the second is establishing eligibility criteria to achieve desired *proficiency* or quality objectives.

A systematic and robust analysis of personnel and market data can help personnel managers evaluate the potential impact of different incentive strategies and, by doing

so, better optimize their limited S&I budgets. Such an assessment should consider service requirements for a critical skill, the current inventory of personnel in that field, current and projected accession and retention rates, both military and civilian pay and benefits in the field, and the effect that establishing or adjusting an S&I pay will have on meeting staffing requirements. A structured approach can also be used to periodically conduct a rigorous assessment of S&I pays to ensure that they keep pace with changing conditions. It is important to remember that while such analysis is valuable, personnel managers must consider its results in the context of their experience and judgment to determine whether the estimated impact of special pays is worth the cost.

The QRMC examined four critical fields—mental health professionals, linguists/translators, remotely piloted vehicle (RPV) operators, and special operations personnel—using a systematic evaluation process as described here. The results revealed common traits and characteristics that are likely to emerge in other career fields, and can help inform future evaluations.

- ❖ **Staffing shortfalls.** Overall staffing in each of the four occupational groups is generally below authorized personnel levels. Staffing shortfalls do not mean that missions are not being accomplished. Rather, operating tempo is higher than desired in order to meet mission requirements, and may remain so until shortfalls are filled.
- ❖ **Demand growth.** Meeting planned growth for all these occupations presents a challenge. The largest growth will be for mental health professionals, and RPV and sensor operators, for which planned growth between fiscal years 2010 and 2015 exceeds 25 percent. In the mental health field, growing military requirements are complicated by demand in the civilian sector, and a projected decline in the number of medical students entering the mental health field. For RPV operators, demand in the civilian sector is projected to double in the next ten years. The military services will need to closely monitor these expected trends and the potential impact on recruiting and retention.
- ❖ **Competitive compensation.** A comparison of military compensation and civilian wages in these four career fields shows varied outcomes. In cases where there is a pay differential in favor of civilian wages, incentive pays have proven to be effective in both reducing the gap and encouraging

retention. For example, use of the Critical Skills Retention Bonus for senior personnel in special operations forces proved very effective in increasing continuation rates. As the economy emerges from the recession, civilian job opportunities are likely to become more plentiful and wages are likely to rise. In a healthier economy, the services may have to work harder to attract and retain a sufficient number of personnel.

- ❖ **Effectiveness of special and incentive pays.** While effective in many cases, S&I pays may not be sufficient to resolve staffing challenges in all occupations. When retention rates are high and staffing shortfalls persist, the additional pay needed to increase retention will become increasingly expensive, with diminishing results. Whether incentive pay is a cost-effective solution is something the services must carefully consider. Though improvements in retention can help, meeting the challenging growth goals for many high-demand specialties will likely require increased accessions. For skills found in the civilian sector, such as mental health professionals, the services could take advantage of programs through which they can access trained and experienced personnel—in order to alleviate the need for expensive and time-consuming training, and more quickly fill shortfalls in experienced personnel.

The utility of a career incentive pay also emerged as a crosscutting issue in the QRMC's evaluation. The use of career incentive pays is not new; such pays exist for nuclear officers, aviation officers, and health professionals. The QRMC's review suggests that a career incentive pay could have utility for special operations forces, the cryptologic linguist community, and possibly the RPV community as it matures—and potentially other occupational specialties as future operational requirements evolve. But rather than create numerous career-specific incentive pays, a career pay structure that can be used for any community or career field is a more efficient approach.

**RECOMMENDATION: CAREER INCENTIVE PAY**

Provide authority for a career incentive pay structure, similar to the career pays for aviators and health professionals, which could be used for other communities or career fields.

## Combat Compensation

Two elements of compensation are exclusive to combat and combat support operations: Hostile Fire Pay/Imminent Danger Pay (HFP/IDP) and the Combat Zone Tax Exclusion (CZTE), which we collectively refer to here as “combat compensation.” The QRMC found that, over time, the relationship between the degrees of danger to which a member is exposed and combat compensation has eroded. The fundamental issue is that the level of benefit is not closely aligned with combat or exposure to the dangers of combat.

HFP/IDP is now more inclusive than its predecessor “combat pay,” which was first authorized during World War II to recognize service under extreme conditions of danger and was provided to those taking the “brunt of the action.” Today, this pay is provided in areas where danger varies greatly. Furthermore, HFP/IDP is the same for all members, regardless of income and whether exposed to combat or in a location where danger is imminent.

Similarly, the CZTE applies in many areas that are far removed from combat. The entire Gulf region is designated as a combat zone, yet there is no combat in most of the Gulf countries or even a recognized danger in some of them. Further, the Adriatic Sea and Balkan countries are still designated combat zones. What this means is that actual combat service is not being appropriately recognized. In addition, the *amount* of benefit received is not correlated with exposure to combat or imminent danger. Often, members in those countries with the highest casualties do not receive the highest benefit; those with the highest income do. The principal reason for this outcome is that far more junior personnel—E-5 and below, who receive the lowest benefit from the CZTE—are deployed to combat areas with the highest casualties. In contrast, areas where casualties are the lowest have far more senior personnel deployed, who typically enjoy the greatest benefit from the CZTE.

### RECOMMENDATION: COMBAT COMPENSATION

Establish differentials in hazardous duty pays:

- Set Hostile Fire Pay at an amount higher than Imminent Danger Pay.
- Establish more than one level of Imminent Danger Pay to recognize different levels of exposure to danger.

Institute two tax credits to replace the Combat Zone Tax Exclusion:

- Establish a refundable Combat Tax Credit for which eligibility is contingent upon receipt of Hostile Fire Pay.
- Establish a separate Direct Support Tax Credit for which eligibility is contingent upon receipt of Imminent Danger Pay.

Require annual recertification of combat zones.



Current law (title 37, section 351) allows for a pay differential that can be used to recognize different levels of danger. The QRMC understands that the department is preparing to implement this provision—separating HFP and IDP into two individual pays—and recommends that there be a meaningful difference between the HFP awarded to members exposed to hostile fire and the IDP provided to members located in relatively less hazardous, but still potentially dangerous areas.

The QRMC further recommends that the department establish more than one pay level for IDP that is correlated with different levels of threat. Putting in place multiple levels of pay would require well-defined criteria for each level. But establishing different levels of pay offers an opportunity to align IDP with the varying degrees of danger faced by service members. The QRMC recognizes that Congress recently passed a provision to prorate HFP—a change the QRMC supports—so that it is only paid during the period in which a member is actually exposed to danger.

The CZTE allows all enlisted pay to be excluded from federal income tax, including incentive pays and bonuses. For officers, the exclusion is limited to the basic pay level of senior enlisted advisors plus HFP/IDP—currently just over \$7,700 a month. Historically, congressional preference was to benefit the enlisted member. But provisions of the federal tax code created unintended and, arguably, objectionable outcomes, so that the CZTE now favors officers far more than enlisted members. The reason for this outcome is that individual tax liability is based on the progressive tax rate structure. As a result, senior officers who have high earnings (and potentially higher tax liability) receive the greatest benefit from the CZTE, whereas junior enlisted members receive little or no benefit because they already pay little or no income tax.

Because exposure to danger when serving in the same location or under the same conditions is no greater for senior service members than more junior members of the force, senior members should not receive a higher combat-related benefit—just as HFP/IDP does not vary by grade. The QRMC concludes that replacing the CZTE with a *refundable* Combat Tax Credit would *equalize the benefit* for all members. Eligibility for the tax credit would be based on receipt of HFP, and the credit would be *prorated* for only those days served in a combat zone when the member is receiving HFP. In addition, a separate Direct Support Tax Credit should be established. Eligibility in this case would be based on receipt of IDP, and the credit would be *prorated* for only those days served in a direct support area when the member receives IDP. The amount of the Direct Support Tax Credit should be set lower than the Combat Tax Credit, proportional to the difference between HFP and IDP.

A tax credit is independent of tax bracket and, like all tax credits, would be applied after an individual's tax liability is computed. By making this a *refundable* tax credit, junior members who have little or no tax liability would receive the full amount of the credit as a refund. Furthermore, the tax credit could be set at a level that would not increase total costs.

Finally, annual recertification of combat zones could facilitate more timely termination when combat operations end and ensure that designations do not outlast the threat. This concept is similar to the requirement for annual recertification of a national emergency.

### **Compensation for Wounded Warriors, Caregivers, and Survivors**

Technological advances in battlefield medicine are saving the lives of many more wounded service members. But often these members survive with serious injuries, face months of treatment and rehabilitation, and possibly a lifetime filled with challenges because of their wounds—all of which may have significant financial implications for the member and his or her family. In some cases, a family member serves as caregiver, helping the wounded member with activities of daily living—a decision that may create additional financial challenges for the family. And in the unfortunate event that a member does not survive his or her wounds, the financial situation of surviving family members also changes.

Wounded warriors, their caregivers, and survivors of fallen service members have access to a range of disability, retirement, and other benefits designed to compensate for the financial losses that result from their injuries. The QRMC examined the economic impact of combat injuries on members and their families, and the extent to which compensation benefits mitigate those impacts. The results show that the benefit programs are working well.

**Wounded Warriors.** While on active duty, wounded warriors do not experience a sudden or unplanned change in compensation. Pay and Allowance Continuation and continued eligibility for the CZTE help stabilize earnings. However, research shows that, on average, earnings decline over time for wounded members of both the active and reserve components with those who are seriously injured experiencing a larger decrease in earnings than those with wounds that are not serious. The most seriously injured personnel in the active component experience annual income losses of nearly \$22,000, on average. For the reserve components, the most seriously injured personnel suffer average earnings losses of over \$25,000 annually, by the fourth year following deployment. Spousal earnings also decline, with the decline more

significant for the spouses of reserve component members. For those active members who are seriously injured, spousal earnings decline for the first three years and then recover. Reserve component spouses' earnings show a steady decline.

The QRMC's analysis of retired and disability pays found that, on average, the compensation available to wounded warriors offsets the income losses suffered by nearly all injured service members and their families. Among the seriously and very seriously injured, compensation benefits more than offset earnings losses with both groups experiencing a net gain in household income. The review also showed that compensation levels rise with the severity of the injury and increase over time. And for those personnel who do experience earnings losses, the loss is small, on average.

The QRMC's results demonstrate the critical role of disability compensation in offsetting the sometimes-significant earnings losses that injured service members experience after they return home. Continuing such analysis beyond the four-year post-deployment window, over the course of a full career and into retirement, might reveal a different picture for some groups of service members than the near-term impacts discerned by the QRMC.

#### RECOMMENDATION: WOUNDED WARRIORS

Continue to examine wounded warriors' earnings and disability payments in order to monitor the long-term financial well-being of the wounded.

**Caregivers.** When wounded warriors require long-term or permanent help from a caregiver, that role is most often performed by a family member or loved one—most frequently spouses or mothers. These caregivers face substantial and multifaceted challenges, but it is the compensation benefits available to these individuals that are the focus of the QRMC's study. In recent years much attention has been focused on the challenges of America's wounded warriors. As a result, new benefits have been established, including compensation for caregivers provided by the Departments of Defense and Veterans Affairs (VA).

Individuals who take on the role of caregiver can experience many financial challenges associated with new out-of-pocket expenses such as travel costs, childcare expenses, or costs associated with establishing a new residence. Many caregivers in the workforce experience a decline in earnings when they cut back work hours or even quit their jobs in order to care for a disabled spouse or family member. Research shows that an average caregiver loses approximately \$2,900 in wages each month he or she remains out of work to care for a wounded service member.

Although not intended to serve as income replacement programs, the new DOD and VA benefits provide a source of compensation and help offset the earnings loss that caregivers experience. The QRMC, however, identified differences in the two programs that may cause some individuals to lose their caregiver benefit when a member leaves military service and transfers to the VA. These differences center on eligibility criteria and definitions of terminology associated with the severity of injury. There are other differences that could also complicate transition between the two programs.

The QRMC believes the eligibility criteria for the VA stipend should more closely align with DOD's eligibility criteria. Other recommended changes include expanding the VA program to include as recipients non-relatives who are not living with the veteran full-time, and making the DOD caregiver compensation tax exempt, as is the VA stipend. Ultimately, the goal is to facilitate a more seamless transition for service members between the DOD and VA. In addition, both the DOD and the VA would benefit from a better understanding of the economic status of caregivers, similar to the information and insights regarding the economic status of wounded military personnel. Today the data are not available to conduct such an analysis, but as the caregiver compensation programs mature, these programs could generate the information needed to carry out a more robust analysis of the financial implications for caregivers.

### RECOMMENDATION: CAREGIVERS

Facilitate a more seamless transition between the Departments of Defense and Veterans Affairs by making eligibility criteria, disbursement policies, and the tax treatment of caregiver compensation consistent between the two programs.

Once the caregiver compensation programs mature, conduct further analysis to better understand the financial implications for caregivers.

**Survivor benefits.** An array of compensation benefits is available to the survivors of fallen service members that provide survivors with critical short-term assistance immediately following the service member's death, as well as long-term income support and reparation compensation. Benefits are available through the VA, the DOD, and the Social Security Administration. Prolonged combat operations over the past decade have drawn considerable attention to the plight of surviving family members; as a result, this system of financial protections has been strengthened and expanded.

The QRMC undertook an analysis of these benefits, similar to that conducted for wounded warriors, to determine how well survivor payments compensate for the income losses experienced by spouses following a service member's death—the largest component of which is, not surprisingly, the loss of the service member's earnings. The QRMC found that, on average, recurring survivor benefits replace between 57 and 78 percent of a member's earnings, depending on family size and component. In general, this replacement value compares favorably to the benefits provided to the survivors of DOD civilian federal employees whose deaths are connected to a contingency operation. When lump sum benefits—the Servicemembers' Group Life Insurance and the death gratuity—are factored into the analysis and expended over a 20-year period, the replacement rate is even more favorable, covering over 140 percent of earnings losses for all families. Many in-kind benefit programs—such as health care, education, and housing programs—not included in the QRMC's analysis can further reduce a family's out-of-pocket expenses after a service member's death.

The QRMC concluded that the current system of benefits available to the survivors of military service members is comprehensive and robust. But the QRMC identified two areas where opportunities exist to improve the compensation structure. The first involves concerns that have been raised about the reduction in Survivor Benefit Plan payments when a spouse is also entitled to Dependence and Indemnity Compensation. The second is the disparity in Survivor Benefit Plan payments when a reserve component member dies while performing inactive duty training. The QRMC's recommendations in both areas are discussed in Chapter 5.

## Compensation and Benefits for Reserve Component Members

The role of the National Guard and reserve has changed significantly over the past two decades, most notably since 2001. Historically, the purpose of the reserve components was to provide trained units and qualified persons in time of war or national emergency—that is, to maintain strategic depth. The reserve compensation system was designed to support this mission. As such, the system is focused on compensation for training—weekend drills and two weeks of active duty annually. Under this system, benefits are typically provided for extended periods of active duty, usually longer than 30 days.

Today, the reserve components serve two purposes—to support operational missions on a regular basis *and* to provide strategic depth. National strategy and departmental guidance make clear that this expanded role of the guard and reserve will endure. Thus, the reserve compensation system needs to be modernized to better align with guard and reserve roles in an integrated total force.

### Reserve Duty

For over a decade, the DOD has considered alternatives that would simplify the system under which guard and reserve members perform duty. Today’s “byzantine” system is complicated, confusing, and frustrating—for both commanders and service members. While active component members have a single duty status—active duty—reserve component members serve in an array of statuses governed by a diverse set of laws, policies, and practices. Moreover, funding for the reserve components is drawn from different sources depending on the type or purpose of duty—a further complication of the system. Statuses also vary depending on whether duty is voluntary or involuntary, and according to strength accounting restrictions. The structure causes members to encounter disruptions in pay and benefits as they transition between types of duty or duty periods, and it causes commanders to experience frustrations when seeking to access reserve component members for operational missions. It is a system that impedes seamless employment of guard and reserve members in a total force.

Although simplifying this system is not strictly a compensation issue, the system does have a significant impact on a member’s compensation and benefits. Simplifying the duty system also sets the conditions for modernizing reserve compensation and better aligning benefits with purpose. It is for these reasons that the QRMC included duty reform in its deliberations.

#### RECOMMENDATION: RESERVE DUTY SYSTEM

Reduce the number of authorities to order a member to duty from 30 to 6.

The 11<sup>th</sup> QRMC proposes six authorities under which a commander calls or orders a reserve component member to perform duty. These proposed authorities are clear and concise, align with the applicable title of the United States Code, and involve just three types of full-day duty—active duty, full-time National Guard duty, and federal service—and one type of duty for a partial day, inactive service. The six authorities are:

- ❖ Title 10, Armed Forces
  - Active duty
  - Inactive reserve service
  - Federal service

- ❖ Title 32, National Guard
  - Full-time National Guard duty
  - Inactive National Guard service
- ❖ Title 14, Coast Guard
  - Active duty

These authorities are clear and concise. A member is either performing duty under one of these authorities or is not on duty. Much of the complexity of the current system occurs because authority, purpose, and restrictions are intertwined. The QRMC construct separates authorities from purpose and restrictions, but the system retains these elements in a manner that is transparent to the member and operational commander. Orders can be amended as needed to allow for new purposes or funding sources, so the system retains needed details and fidelity for use by personnel and resource managers to plan and account for utilization and budget expenditures. Designating a single order writing authority for each reserve component, which the QRMC recommends, would facilitate this new approach.

From the member's perspective, the system is clear. Orders are issued once, so pay and benefits for the member and family are not disrupted—a principal benefit of the system. The system also benefits the operational commander, as it significantly limits the authorities a commander must contend with when using personnel resources from the reserves, so reserve members become easier to access. Most important, this structure sets the conditions for transitioning to a total force pay system and aligning benefits for reserve component members with their current and planned use.

### **Modernizing Reserve Compensation**

Under the current reserve compensation system, the majority of required training is performed as inactive duty, typically with two training periods in a day. The balance of the annual training requirement is performed as active duty or full-time National Guard duty. Moreover, pay for active duty is different depending on whether the duration of duty is for 30 days or fewer, or more than 30 days. *What this means is that reserve members are paid more for a day of weekend training than for a day serving in combat.* Furthermore, many reservists today are performing duty far beyond the minimum training requirements—participating in operational missions at home and overseas, and volunteering for other types of short- and longer-term active duty assignments. In addition, “typical training” may combine actual mission support with readiness training. In short, the system is not aligned with how the force is used.

The reserve compensation system needs to be modernized to support both the strategic *and* operational roles of the reserve components, such that compensation can be targeted to improve readiness by rewarding those who commit to a heightened level of mission readiness and service.

### RECOMMENDATION: RESERVE COMPENSATION

Transition reserve compensation to a “total force” pay structure:

- Pay Regular Military Compensation to reserve members for each day of reserve service, regardless of the type of duty. Augment with incentive pays to sustain and shape the force.
- Align reserve and active duty retirement systems more closely by allowing guard and reserve members to receive retired pay upon their 30<sup>th</sup> anniversary of service (having attained 20 qualifying years of service).

Under the total force pay approach, reserve component compensation would be more closely aligned with the approach used to compensate active component members. It is applicable to both the strategic and operational roles of the reserve components—not skewed to one role or the other, as is the case today—and can provide greater flexibility to manage the force. It is a comprehensive approach that addresses both current and deferred compensation, while also realizing cost savings that could be used for other force management purposes. The total force pay approach has three primary elements.

- ❖ **Total force pay.** The basis for the total force pay approach is RMC: basic pay, allowances for housing and food, and a tax advantage owing to the fact that allowances are not subject to taxation. Reserve members would receive a day of RMC for each day of reserve service, regardless of the type of duty.
- ❖ **Incentive pay.** In addition to RMC, members would receive incentive pay that can be implemented in a variety of ways—for example, as a percent of basic pay, as a fixed amount, or as a fixed amount that is targeted to a particular number of years of service. Other options, or a combination of these, are also feasible. Incentive pay is an essential means of sustaining the size and shape of the reserve force under total force pay.
- ❖ **Retired pay.** Reserve component members who have attained 20 qualifying years of retirement benefits could begin receiving retired pay on the 30<sup>th</sup> anniversary of their service start date or at age 60, whichever comes first.



Members would receive one retirement point for each day of service, and the points needed for a qualifying year would be reduced from the current 50-point requirement to 35.

The QRMC conducted extensive analysis to understand the impact of the total force compensation approach on cost and force structure in the active and reserve components. This analysis was instrumental in refining the QRMC's recommended approach and clarifying how the elements of the strategy, individually and collectively, will affect force structure. Importantly, the analysis showed that changing pay and allowances alone, with the resulting reduction in compensation, would not sustain the force. But the size and shape of the force can be maintained by adding incentive pays.

The analysis also illustrated how this pay structure reduces personnel costs, freeing up resources the reserve components could use to target compensation for other purposes, such as increasing readiness, encouraging greater participation, preparing for deployment, shaping the force, and improving staffing in high-demand units. The incentive pay alternatives analyzed by the QRMC resulted in different levels of savings and retention patterns—but in general illustrated how such pays can be fine-tuned to sustain the force.

Retirement reform is an essential part of the transition to a total force compensation system—even though the approach is viable irrespective of changes to the retirement system. Ideally, a single retirement system would serve both the active and reserve force. But the active and reserve components have substantially different force profiles, in part the result of the differences in the two retirement systems. So, any undertaking to establish a single retirement system must first determine if altering the force profile of one or both components is desirable and acceptable, or if the cost to maintain the current profile under a single retirement system is affordable.

The QRMC's analysis showed that the 30-year retirement system recommended here resulted in participation for the reserve component far closer to that of the current force, with virtually no impact on the active component. In contrast, extending the 20-year retirement system to the reserves caused considerable disruption in the force profile for both active and reserve components. Should the active duty system be adjusted in the future, the QRMC would support further alignment of the reserve retirement system, with the goal of a single retirement system for the total force. What we propose here is a first, cost-effective step toward that goal.

However strongly the QRMC believes the total force compensation approach is in the best interest of the uniformed services, such a transition is not without

concerns. For one, higher compensation currently associated with weekend training will be reduced. As a result, other incentives will be required to maintain current strength and force profile. Specifically, the use of an incentive pay can produce positive force management outcomes. Without a change in the reserve retirement system, retirement income is also reduced, since reserve members would receive one retirement point for each day of duty, instead of two points per day for two periods of inactive duty, as under the current system. But this negative effect is countered with the QRMC's retirement reform proposal to allow reserve members to receive retired pay upon their 30<sup>th</sup> anniversary of service. Thus, concerns associated with total force compensation can be ameliorated, such that the advantages of the recommended approach far outweigh the disadvantages.

### **Reserve Component Benefits**

Benefits are another important element of compensation that affect recruiting and retention—with health and education benefits being among the most valuable. Because most reserve component members perform duty less than full time, the benefits they receive are often based on the level of participation and, for some benefits, the training category of the member. The QRMC examined the breadth of reserve benefits and found that, in general, these benefits are robust and consistent with reserve utilization. In a large number of cases reserve benefits are the same benefits afforded to active component members. The QRMC identified several areas, however, where improvements could enhance the current benefit structure and made recommendations involving health care, educational assistance, and disability, which are discussed in detail in Chapter 8.

### **Final Thoughts**

The uniformed services are facing new threats, performing new missions, employing advanced technology, and responding to adaptive adversaries. New and innovative approaches to managing the force will be required to meet these challenges and prepare service members to operate in an increasingly complex environment. The goal of this QRMC has been to evaluate whether or not the current compensation system supports the way the force is being used today and its anticipated use in the future. Are compensation elements being used the way they were intended? Do they support force management requirements? Do they align with planned utilization of the total force? The recommendations put forward in this report are alternatives that better align compensation with the realities of 21<sup>st</sup> century warfare and the ways in which the total force is being used to meet our nation's security challenges.



Part I

**Introduction**



## Chapter 1

# Setting the Stage

Since September 11, 2001, many demands have been placed on our nation's men and women in uniform. Ten years of armed conflict have been marked with multiple combat deployments, shortened time between deployments, warriors returning with combat injuries that would have been fatal in earlier wars, and the National Guard and reserve playing a major role in the war effort. These and other factors have placed enormous stress on service members and their families. At the same time, the fiscal environment, dominated by a long recession, a slow recovery, and a rising federal budget deficit, is putting pressure on federal departments and agencies to apply resources more efficiently and effectively to accomplish their objectives. The Department of Defense (DOD) faces fiscal challenges on many fronts; among them is the rising cost of personnel.

It is within this context that the Eleventh Quadrennial Review of Military Compensation (11<sup>th</sup> QRMC) was chartered to examine whether compensation levels are sufficient to sustain recruitment and retention of the high-caliber men and women in uniform who serve our nation. As directed in its charter, the 11<sup>th</sup> QRMC examined four areas of the military compensation system:

- ❖ Pay incentives for critical career fields such as mental health professionals, linguists/translators, remotely piloted vehicle operators, and special operations personnel
- ❖ Compensation for service performed in a combat zone, combat operation, or hostile fire area, or while exposed to a hostile fire event
- ❖ Compensation benefits available to wounded warriors, caregivers, and survivors of fallen service members
- ❖ Compensation and benefits for the reserves and National Guard, consistent with their current and planned utilization

Additionally, the 11<sup>th</sup> QRMC assessed the competitiveness of military compensation with the private sector—an understanding of which serves as a useful foundation for examining specific elements of the compensation system.

## Principles of Compensation

An important underpinning to the analysis conducted by the 11<sup>th</sup> QRMC is a set of principles of military compensation. These principles were initially set

forth in the January 1984 report of the *Fifth Quadrennial Review of Military Compensation*, which was directed, among other things, to produce a coherent and logical statement of concepts and principles of military compensation in relation to national security objectives. These principles have stood the test of time and remain relevant today. In fact, all QRMCs subsequent to the 5<sup>th</sup> have been guided by most or all of these principles.

The military compensation system must meet a wide range of essential and challenging force management goals: **attracting** high-quality individuals to military service; **retaining** individuals in the appropriate numbers and skills; **motivating** individuals to perform at their best; and **inducing** individuals to separate on good terms at a desirable time. In total, the compensation system serves as both a reward to individual service members and a critical tool for effectively shaping the force.<sup>2</sup>

The military compensation system not only serves multiple purposes, it is also complex in nature with numerous disparate parts—some of which will be discussed in greater detail in later chapters of this report. This complex system is in many respects held together as a coherent whole by the principles outlined here. In essence, these principles serve as the underlying theory of the system and as tenets against which to evaluate proposed changes. Thus, these principles served as guidelines to the 11<sup>th</sup> QRMC and reference points against which to test the findings and recommendations proposed throughout this report.

The six principles of the military compensation system require that the system:<sup>3</sup>

- ❖ **Be integral to overall manpower management.** The military compensation system, by the very nature of its purpose, must support manpower policies that, in turn, support the military, strategic, and operational plans of the nation.
- ❖ **Achieve economic and military efficiency.** The level of military compensation should be no higher or lower than necessary to fulfill the basic objectives of attracting, retaining, and motivating the type and numbers of personnel needed for the active and reserve forces.
- ❖ **Achieve equity.** Service members must believe that they are treated fairly. This principle deals with the concept of equal pay for substantially equal work under the same general working conditions. Yet equity does not

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2. U.S. Department of Defense, *Report of the Ninth Quadrennial Review of Military Compensation*, Volume I, Washington, DC: Office of the Under Secretary of Defense for Personnel and Readiness, 2002.

3. The principles detailed here were drawn from the *Fifth Quadrennial Review of Military Compensation, Executive Summary*, January 1984, and discussion in the *Military Compensation Background Papers*, Sixth Edition, April 2005.

always mean *identical*, as there can be different conditions of employment within or among the uniformed services.

- ❖ **Be effective in peace and war.** The military compensation system must operate effectively in both peace and war. It must allow for rapid and smooth expansion and contraction of the force, and apply to reservists and retirees as well as active duty members.
- ❖ **Have sufficient flexibility.** The compensation system should be designed in such a way that adjustments can be made quickly in response to changing conditions in manpower supply and demand, and in combat tactics and technology. The compensation system should allow for rapid and equitable adjustments to reflect changes in the national economy and should avoid rigid linkages between elements designed to serve different needs.
- ❖ **Provide sufficient motivation to the individual.** Compensation should be designed to encourage superior performance and advancement to higher responsibilities.

## Recruiting and Retention

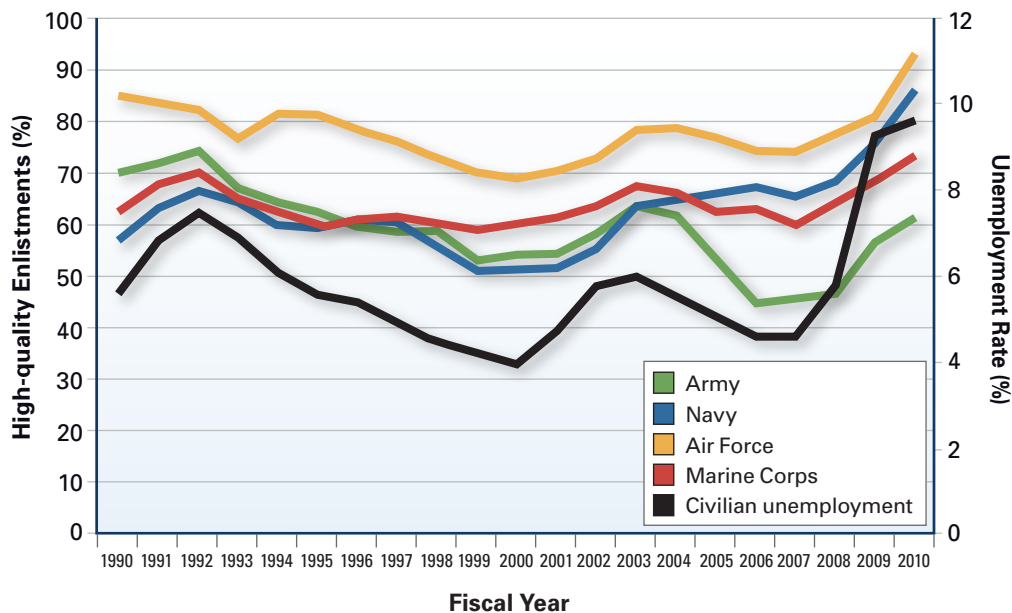
Staffing a volunteer force of the size and geographic distribution of the U.S. military is a daunting challenge. The DOD currently maintains an active duty force of about 1.4 million personnel and a selected reserve force of about 850,000. Successful recruitment and retention in these forces requires attracting the requisite number and quality of individuals away from competing civilian alternatives. To do so, the military services must offer sufficiently attractive remuneration in the form of current and deferred cash compensation as well as in-kind benefits such as health care—the levels of which are affected by conditions of service and the pride that members derive from military service. But many other factors affect the recruiting market and the department's ability to attract high-quality youth to military service; principal among them are the state of the civilian economy and the level of military pay relative to civilian wage opportunities.

The U.S. military recruits about 180,000 new active duty enlisted personnel each year to maintain an enlisted force of approximately 1.16 million service members. In addition to numerical recruiting targets, the department also has goals for the overall quality of new recruits. A substantial portion of each service's new enlistees must meet DOD's standards for high quality, which are measured in terms of both educational achievement and training aptitude. To ensure high quality in the force, the department's benchmarks call for 90 percent of each service's new enlistees to have high school diplomas, and 60 percent to score at or above the average score of

50 on the Armed Forces Qualification Test.<sup>4</sup> These quality measures are used because considerable research has shown that recruits possessing these characteristics are more likely to complete their initial enlistment obligation and are more productive in their jobs.

Recruit quality has fluctuated over the past two decades (Figure 1-1), rising at the start of the 1990s—a reflection of the end of the Cold War and lower recruiting goals as the size of the force was reduced. But during much of the 1990s quality trended downward, then rose in the early 2000s before dropping again after 2003 in all services except the Navy. The decline in high-quality recruits was especially precipitous for the Army after 2003.

Since the advent of the all-volunteer force in 1973, even in periods of difficult recruiting, the services have rarely failed to meet total recruiting targets. In some cases, targets have been met by enlisting more recruits who do not meet the high-quality standards. In other cases, higher financial incentives have been offered to encourage youth to join the military. But in recent years, with the civilian economy in recession, quality remains high and financial incentives have been used less intensively to achieve numerical recruiting targets.



**Figure 1-1. High-quality Enlistments versus Unemployment**

4. These benchmarks were established in 1993 and confirmed in 2000. See: U.S. Department of Defense. *Review of Active Enlisted Recruit Quality Benchmarks: Do They Remain Valid?* Report to Congress. Washington, DC: Office of the Assistant Secretary of Defense, Force Management Policy, 2000.



## Economic Conditions

The United States continues to face profound budget and economic challenges. The pace of the recovery has been slow, and the economy remains in a slump. The Congressional Budget Office estimates the economy will not return to a period of long-term growth until around 2015. The mortgage crisis has not yet resolved. Banks are reluctant to lend money and home equities have plunged roughly 30 percent from the market peak in 2007. The unemployment rate, at 8.1 percent in April 2012, is projected to fall slowly over the next several years—remaining above 8 percent for the next two years before falling to around 7 percent by the end of 2015.<sup>5</sup> These high levels of unemployment have led to an increase in high-quality recruits, as depicted in Figure 1-1, which illustrates the strong relationship between high-quality recruits and the civilian unemployment rate over time.

Studies indicate that a 10 percent decrease in civilian unemployment will reduce high-quality enlistments by 2 to 4 percent.<sup>6</sup> Retention also declines when unemployment decreases, but appears to be less sensitive to the state of the economy than recruiting. The recent economic downturn has improved recruiting and retention and has allowed the services to reduce the use of enlistment and reenlistment bonuses to attract youth to military service. Absent other policy changes, the expected slow decline in civilian unemployment means that recruiting and retention should be strong for the next several years. However, as civilian economic conditions improve, recruiting could again become more challenging.

Although there has been much cyclical variation in high-quality recruits during the past two decades, a longer-term downward trend is also evident, especially in the Army. Research has identified several factors that may be contributing to this downward trend, in addition to economic conditions. These factors include a rise in college attendance, a decline in the population of veteran influencers of youth enlistment decisions, a decline in the percentage of the youth population that meets military enlistment standards, and the ongoing overseas combat operations.<sup>7</sup>

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5. Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2012 to 2022*, Washington, DC: Congress of the United States, January 2012.

6. For further discussion of the relationship between economic conditions, military compensation, and recruiting and retention, see John T. Warner, *The Effect of the Civilian Economy on Recruiting and Retention*, in the second volume of this report.

7. Bicksler, Barbara A. and Lisa G. Nolan. *Recruiting an All-Volunteer Force: The Need for Sustained Investment in Recruiting Resources—An Update*. Arlington, VA: Strategic Analysis, Inc., 2009.

## Military Compensation

Military recruiting and retention are also responsive to the level of military pay relative to wage opportunities in the civilian sector. A 10 percent increase in overall military compensation—current and future compensation—is estimated to increase the supply of high-quality enlisted recruits by between 6 and 11 percent. Pay increases also affect retention—raising first-term enlisted retention (3–6 years of service) by 15–20 percent, second-term retention (7–10 years of service) by about 10–13 percent, and third-term retention (11–14 years of service) by about 5 percent.

Recruiting and retention are also positively influenced by other compensation-related enlistment incentives such as bonuses, college benefits, and college loan repayment programs. The Army substantially increased its enlistment bonuses in response to the recruiting challenges that arose after fiscal year (FY) 2003, with the percent of recruits receiving bonuses increasing from 40 to 70 percent between fiscal years 2003 and 2008. During that time, average bonuses increased from \$3,000 to \$14,000. The bonus expansion did in fact improve high-quality recruiting, with estimates suggesting that without the higher bonuses, the Army would have enlisted 20 percent fewer high-quality recruits.

Results for other services differ, with enlistment bonuses showing little effect on the number of high-quality first-term Navy recruits—though this could reflect the fact that the Navy uses bonuses to induce recruits to sign up for longer enlistments, rather than offering them to youth signing up for three- or four-year enlistments as does the Army. Similarly, the Air Force attempts to encourage longer enlistments by offering larger bonuses for six-year contracts than for four-year contracts. But even if such use of bonuses does not expand the number of high-quality enlistments, inducing some recruits to stay for longer terms can be cost effective. Reenlistment bonuses that are targeted to specific groups of personnel have also shown a positive effect on continuation, making them cost-effective tools for achieving manpower targets in hard-to-fill skills.

Educational benefits are the other main incentive drawing high-quality individuals to military service. Although these benefits may also induce members to leave service to use the benefits, they are generally viewed as positive incentives. In fact, throughout the 1980s and 1990s, the Army used educational incentives more intensively than enlistment bonuses to attract high-quality recruits through the Army College Fund program.<sup>8</sup> The Navy introduced its own college fund program in 1990. In 1997, about 30 percent of Army high-quality recruits and about 20 percent

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8. The benefits received under the college fund programs are in addition to the benefits available under the Montgomery GI Bill or the Post-9/11 GI Bill, but each of the services has limitations and restrictions on how college fund benefits are applied.

of Navy high-quality recruits were receiving college fund benefits. Research suggests that without these incentives, Army high-quality enlistments would have fallen by about 6 percent; Navy high-quality enlistments by about 4 percent.<sup>9</sup>

With the advent of the Post 9/11 GI Bill program in August 2009, educational benefits have substantially increased for all military recruits. In fact, the Post 9/11 GI Bill program has roughly doubled educational benefits in comparison to the Montgomery GI Bill program.<sup>10</sup> This program is expected to attract significantly more high-quality recruits into service, especially in the Army. Because the program is new, however, it will take time to quantify its effects on recruiting and retention.

### Recruiters and Advertising

Enlistment outcomes are also strongly influenced by investments made in recruiting resources—principally recruiters and advertising. Recent estimates show that a 10 percent increase in the stock of Army recruiters would expand Army enlistment by between 5.7 and 6.2 percent. Recruiting swings in the Army since FY 2000 can be explained in part by a decline of roughly 30 percent in the recruiter force between 2002 and 2004—a decline that, as could be predicted, would reduce Army high-quality enlistments by 18 percent. After 2004, the Army began dramatically increasing its recruiter force, which had grown to almost 7,700 by FY 2009, an increase of roughly 50 percent.

Other studies show smaller effects on Navy enlistments from changes in the size of the recruiter force—with a 10 percent increase in Navy recruiters increasing high-quality enlistments by only 2.2 percent.<sup>11</sup> But despite these differences, the size of the recruiting force is an important and effective resource for the military services.

Advertising is the other key input into the recruiting process. However, quantifying the effects of advertising has proven difficult due to a variety of data-related factors; and the effects also differ based on the type of advertising, whether radio, television, internet-based, or print media. Questions have also been raised as to whether the results of studies done prior to 2000 are still relevant today, as the character of advertising has changed considerably in recent years. But despite the challenges of quantifying how much influence advertising has on recruiting, a consistent conclusion prevails: the military services should not cut their advertising

9. Warner, John, Curtis Simon, and Deborah Payne, "The military recruiting productivity slowdown: the roles of resources, opportunity cost, and tastes of youth," *Defence and Peace Economics* 14, 2003: 329–342.

10. Simon, Curtis, S. Negrusa, and J. Warner, "Educational benefits and military service: An analysis of enlistment, reenlistment, and veterans' benefit usage 1991–2005," *Economic Inquiry* 48, 2010: 1008–1031.

11. Asch, Beth, P. Heaton, J. Hosek, F. Martorell, C. Simon, and J. Warner. *Cash Incentives and Military Enlistment, Attrition, and Reenlistment*, MG-950-OSD. Santa Monica, CA: RAND Corporation, 2010.

budgets too deeply during periods of low demand for recruits, or they risk losing the effectiveness of these investments altogether. Furthermore, when budgets are increased, it takes time to develop new advertising campaigns to reach the target youth population, so there will be a delay before the impact of those resources can be realized.

### Summary

It is clear that a wide variety of factors influence military recruiting and retention. Some factors, like the state of the U.S. economy, are beyond the control of the department. Other factors, such as military pay and benefits, the size of the recruiting force, and the level of investment in advertising are within the purview of the military services and can be used to counter the impact of external factors. All are important. But as this discussion shows, the importance of various elements of military compensation to recruiting and retaining an all-volunteer force cannot be overstated. Thus, it is essential to review the compensation system on a regular basis to ensure the system continues to support the goals and missions of the uniformed services as they change in response to an evolving national security environment.

### Scope of the Report

The work of the QRMC is presented in two volumes. The first volume, the main report, presents the findings and recommendations of the 11<sup>th</sup> QRMC. While the fundamental structure of the military compensation system is still sound, the QRMC found areas where improvements could be made to **better align compensation with how U.S. forces are being used to carry out national security missions** and with the changing nature of warfare in recent decades—improvements devised to ensure that the system remains sufficiently flexible to adapt to inevitable changes in the years ahead.

Part II of this report, Chapters 2 through 5, covers areas of compensation applicable to the total force—both active and reserve components. In Part III, Chapters 6 through 8 discuss compensation and benefits for the reserve components.

- ❖ **Chapter 2** provides an overview of the compensation system and presents a **comparison of military and civilian compensation**. An understanding of the relative standing of military compensation provides context within which to make decisions about regular military compensation and other elements of the compensation system.

- ❖ **Chapter 3** reports on **pay incentives for critical career fields**, with focus on four career fields: special operations personnel, remotely piloted vehicle operators, linguists/translators, and mental health professionals. The analysis identifies common traits and characteristics among them that are likely to emerge in and may inform other career fields.
- ❖ **Chapter 4** considers the topic of **combat compensation**, a subject of timely importance given the conflicts in Iraq and Afghanistan that have endured for much of the past decade. The QRMC evaluated whether combat compensation sufficiently recognizes the dangers of serving in combat or other hostile areas, and whether there is a need to change how such compensation is administered and awarded.
- ❖ **Chapter 5** examines the adequacy of compensation benefits for **wounded warriors, caregivers, and survivors of fallen service members**—a subject of increasing importance as combat tactics and equipment, and medical advances on the battlefield are saving the lives of more wounded service members.
- ❖ **Chapter 6** begins the QRMC’s review of compensation issues concerning the reserve components with an overview of **the reserve duty structure**. The chapter describes a proposal recommended by the QRMC to reduce and simplify the number of authorities under which a reserve component member performs duty and that provides the foundation for further changes to reserve compensation.
- ❖ **Chapter 7** considers sweeping changes in **the reserve pay and retirement system**—urging the department to adopt a “total force” pay structure—that better aligns the active and reserve compensation systems and facilitates the current and anticipated role of the reserve forces.
- ❖ **Chapter 8** examines **benefits for the reserve components**—another important element of compensation—with particular emphasis on health care and education benefits.

The final chapter, in Part IV, summarizes the principal findings and recommendations of the 11<sup>th</sup> QRMC.

The second volume of this report contains research papers prepared in support of the QRMC deliberations. These papers provide considerable detail on the analysis underlying the conclusions presented in this report.





Part II

**Compensation  
in the 21<sup>st</sup> Century**





## Chapter 2

# Military Compensation

Since eliminating the draft nearly 40 years ago, the United States has had a high-quality and skilled all-volunteer force to sustain its military. Each year, the services must recruit and retain sufficient numbers to maintain an active duty enlisted force of approximately 1.16 million service members who can effectively meet the complex and challenging responsibilities facing the modern military.<sup>12</sup> While young men and women join and remain in the military for a variety of reasons, one of the most critical factors affecting many enlistment and reenlistment decisions is military compensation. In order to attract, retain, and motivate the high-quality individuals needed to maintain a superior force, the services must offer a compensation package that is competitive with civilian compensation and acknowledges the unique standards, responsibilities, and demands of military life.

Without adequate compensation, the nation would be unable to maintain the all-volunteer force, in the size and with the skill sets needed to support the missions called for in the national security strategy. Indeed, the history of the all-volunteer force has shown that when compensation falls relative to the wages paid to comparable civilians, recruitment and retention becomes more challenging.<sup>13</sup> A drop in relative pay was a key contributor to the recruiting problems that threatened the viability of the all-volunteer force in the late 1970s. Those recruiting challenges eased after pay raises enacted in 1981 and 1982 restored comparability between civilian and military pay.

Being competitive with civilian wages, however, does not necessarily mean that military compensation should be equivalent to civilian earnings. Military personnel must meet a series of rigorous academic and physical enlistment criteria, and their work carries with it additional risks and hardships. Service members are often deployed away from home and family, face dangerous work environments, and work longer hours than most civilians.<sup>14</sup> In order to recruit and retain high-caliber men

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12. According to the January 2012, *Selected Military Compensation Tables* (Greenbook), the active duty force consists of 1.4 million service members, comprising 237,847 officers and 1,165,241 enlisted personnel.

13. Several empirical studies have confirmed the significant impact that relative military pay has on recruitment and retention. See Asch et al., *Cash Incentives and Military Enlistment, Attrition, and Reenlistment, 2010*; and Warner, John T., Curtis Simon, and Deborah Payne, *Enlistment Supply in the 1990s: A Study of the Navy College Fund and Other Enlistment Incentive Programs*, DMDC Report No. 2000-015. Arlington, VA: Defense Manpower Data Center, 2001.

14. Grefer, James. *Comparing Military and Civilian Compensation Packages*, CNA Memorandum D0016569. Alexandria, VA: CNA 2008; Hosek, James, Jennifer Kavanagh, and Laura Miller. *How Deployments Affect*

and women, military pay needs to compensate for the exacting eligibility standards and sometimes onerous demands of military service.

Other factors are also at play. For example, unemployment remains high, and is projected to fall slowly over the next several years, which suggests a strong recruiting environment in the near term. Although the United States ended its involvement in the decade-long conflict in Iraq, we remain a nation at war, with troops committed to the fight in Afghanistan through 2014. The wartime climate has tempered the desire of America's youth to join the military. The steady rise in college attendance rates has also had a negative impact on recruiting, as has the declining number of U.S. veterans—who are a positive influence on youth considering military service. Demographic changes, trends in the civilian economy, and the conditions of military service must be continuously monitored to guard against adverse recruiting and retention outcomes. And these factors may affect the level of military compensation necessary to recruit and retain the high-quality personnel needed to maintain the all-volunteer force.

As part of its review, the 11<sup>th</sup> QRMC evaluated how military compensation today compares to compensation of comparable civilian workers. Typically, such comparisons use Regular Military Compensation (RMC) as the appropriate measure of military compensation. Because this measure essentially reflects the “gross pay” that service members receive in their paychecks, it provides an appropriate and easily understood comparison of military and civilian wages.

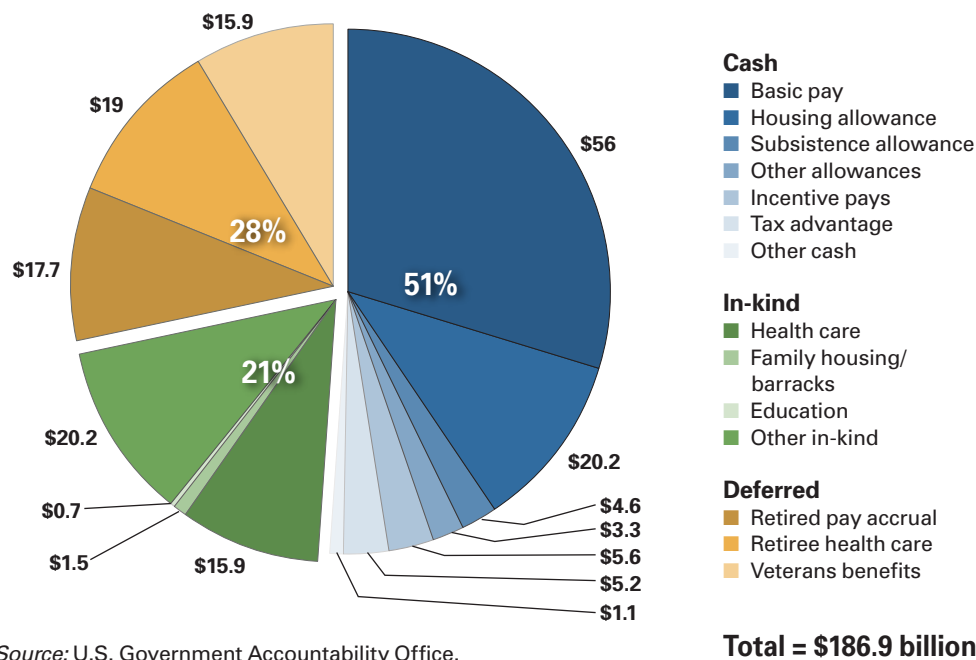
This chapter describes the major elements of military compensation, and examines how military and civilian wages compare.

### Elements of Compensation

Military personnel receive a compensation package that includes cash payments, as well as a range of in-kind and deferred benefits. Compensation varies by pay grade, years of service, geographic location, and dependency status. For active duty personnel, cash payments comprise approximately 51 percent of average military compensation; in-kind benefits 21 percent; and deferred compensation for retirees, veterans, and survivors another 28 percent (Figure 2-1). The percentage of military compensation made up of in-kind and deferred benefits is considerably higher than the noncash portion of civilian compensation.

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*Servicemembers*, MG-432-RC. Santa Monica, CA: RAND Corporation, 2006; and results from the 2006 Status of Forces Survey.



Source: U.S. Government Accountability Office.

**Figure 2-1. Major Components of Military Compensation for Active Duty Personnel, Fiscal Year 2010**

### Cash Compensation

Cash compensation comprises just over 50 percent of military compensation, the major elements of which are basic pay and allowances for housing and subsistence. In combination with the tax advantage resulting from the allowances not being subject to federal income tax, these elements are referred to as RMC. Other cash pays available to some members include special and incentive (S&I) pays and other allowances. Each of these elements is described in further detail below.

- ❖ **Basic Pay.** Paid to all service members, basic pay accounts for 65 percent of RMC. Pay rates are based on grade and years of service, with pay rising as personnel are promoted to higher grades and continue to serve. Monthly pay amounts for each grade and year of service are outlined in the basic pay table.<sup>15</sup> Pay grades for enlisted service members range from E-1 for entry-level positions, such as a private, to E-9 for the most senior

15. For more information on the basic pay table, see: <http://www.dfas.mil/militarymembers/payentitlements/militarypaytables.html> (accessed May 1, 2012).

- enlisted personnel. Basic pay is typically adjusted annually (usually in January) to reflect changes in civilian sector wages. By law, the annual adjustment is to equal the Employment Cost Index, but over the last decade, Congress often approved larger increases in response to concerns about military pay levels.<sup>16</sup>
- ❖ **Housing Allowance.** The second largest element of RMC is the Basic Allowance for Housing (BAH), a tax-exempt cash payment intended to cover housing expenses of the approximately two-thirds of personnel not residing in military housing. BAH rates vary by geographic region to accommodate the wide variations in housing costs across the country. Like basic pay, the BAH is based on pay grade, with allowances increasing as members advance to higher grades. Unlike basic pay, BAH rates also vary by family status. The department established the BAH rate for members without dependents to be no less than 75 percent of the rate for members with dependents. In 2011, on average, the without dependents rate was just slightly less than 81 percent of the with dependents rate.
  - ❖ **Subsistence Allowance.** The Basic Allowance for Subsistence (BAS) is a cash payment intended to defray members' meal costs, comprising 11 percent of enlisted RMC, and 3 percent of officer RMC, on average. Unlike BAH, BAS payments do not vary by individual pay grade, but by whether a member is an officer or enlisted. Moreover, because the allowance is designed to cover meal costs of members only (and not their dependents), BAS payments do not vary by dependency status.<sup>17</sup> In 2011, the monthly BAS was \$323.87 for enlisted personnel and \$223.04 for officers.
  - ❖ **Tax Advantage.** The housing and subsistence allowances are exempt from federal income tax. The value of the federal income tax exemption—which varies depending on a member's tax bracket and number of dependents—is estimated to make up 6 percent of RMC, on average. Although not included in the tax advantage, it is worth noting that the housing and subsistence allowances (as well as S&I pays) are also not subject to Social Security and Medicare taxes, which are better known as FICA (Federal Insurance Contributions Act).
  - ❖ **Special and Incentive Pays.** In addition to the components of RMC, some service members receive S&I pays (discussed in greater detail in

16. Office of the Secretary of Defense, Military Compensation, *Annual Pay Adjustment*, <http://militarypay.defense.gov/pay/annualpay.html> (accessed August 1, 2011).

17. Office of the Secretary of Defense, Military Compensation, *Basic Allowance for Subsistence (BAS)*, <http://militarypay.defense.gov/pay/bas/index.html> (accessed August 1, 2011).

the following chapter). Unlike basic pay, which is paid to all members at statutorily established levels, S&I pay is targeted compensation that the services use to address staffing shortfalls in specific career fields, ensure comparability with high-wage civilian sector occupations, compensate members for onerous assignments, and reward members who train for and remain current in a critical skill. Whether personnel receive S&I pays depends on a member's occupation, assignment, and service—and the amount awarded can vary considerably. Because most personnel do not receive an S&I pay, or only receive these pays for a limited time, they are not included as part of RMC.

- ❖ **Other Cash.** Some members qualify for additional cash compensation, such as a one-time payment upon being separated from the service or for suffering a severe injury, or compensation when retained on active duty after completion of an active duty service obligation in order to complete a combat deployment.

### Noncash Compensation

In addition to the various cash pays provided to military personnel, service members receive in-kind benefits such as health care, education assistance, and housing, which total 21 percent of the compensation budget.

- ❖ **Health Care.** All military personnel and their dependents are eligible for comprehensive health care services through TRICARE. Most services are provided at military treatment facilities, but are also available through a network of civilian providers. Health care is provided to service members on active duty at no charge and at no charge to their dependents if their dependents are enrolled in TRICARE Prime. Dependents who elect other TRICARE options, TRICARE Standard or TRICARE Extra, have modest out-of-pocket expenses for deductibles and copays. Members of the Selected Reserve not on extended active duty and reserve retirees are also eligible for a TRICARE benefit, as are their eligible dependents, unless the member or retiree is eligible for health care under the Federal Employee Health Benefit Program.
- ❖ **Education.** Personnel have access to an array of educational benefits that can be used to continue their education before, during, and after military service. These include: federal tuition assistance; the Montgomery GI Bill; the Reserve Educational Assistance Program; the Army, Navy, and Marine Corps College Funds; loan repayment programs; and most recently, the Post-9/11 GI Bill.

- ❖ **Housing.** Approximately one-third of service members live in military housing. The value of government living quarters varies significantly, depending on grade; assignment; and number, age, and gender of dependents. Over 60 percent of personnel living on base, for example, are single, junior personnel, many of whom live in barracks-style housing on base or aboard ships. In contrast, more senior members with dependents generally live in larger housing units.<sup>18</sup>
- ❖ **Other Noncash Benefits.** Additional noncash benefits available to military personnel and their families include annual leave<sup>19</sup> and a wide range of installation-based services, including commissaries and exchanges, golf courses, libraries, bowling centers, arts and crafts centers, fitness facilities, and many others.

### Deferred Benefits

Twenty-eight percent of the military personnel budget is used to finance future, or deferred benefits, mostly military retirement and retiree health benefits. Although such benefits are not immediately available to active duty personnel, the accrual costs of financing these deferred benefits are part of the personnel budget.

- ❖ **Retirement Pay Accrual.** Retired personnel with at least 20 years of service receive an inflation-adjusted annuity. Eligible retirees receive 2.5 percent of the average of their “high-3” years of basic pay for each year of service.<sup>20</sup> Although military retirement may be generous compared to most private sector pensions, few members actually serve the 20 years necessary to qualify for the benefit. In fact, only about 19 percent of active duty service members will retire from the military; less than 17 percent of enlisted personnel and 49 percent of officers. To finance future military costs, funds are deposited annually into the Military Retirement Fund.

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18. Military quarters for junior personnel (pay grades E-4 and below) are sometimes less valuable than the BAH payments they would receive if they lived in private housing. The Military Housing Privatization Initiative is designed to improve the quality of on-base housing by allowing private firms to construct and manage some on-base units, and basing their profits on the number of service members who choose to live on base.

19. Reserve component members must be on active duty (or full-time National Guard duty) for more than 30 days to accrue leave.

20. While the majority of retirement-eligible service members receive an annuity based on “high-3,” there are other retirement plans in effect, depending on when personnel entered the military. For members who entered prior to September 8, 1980, retirement is based upon their final month’s basic pay. For those who entered between September 8, 1980 and July 31, 1986, retirement is based on “high-3.” Personnel who entered on or after August 1, 1986 choose between (1) “high-3” or (2) REDUX, under which they receive a \$30,000 retention bonus at their 15th year of service; a reduced annuity upon retirement through age 62; and after age 62, an annuity based on “high-3.”

Military service members can also contribute to the Thrift Savings Plan (TSP) that is available to civilian employees of the federal government—a potentially attractive option for personnel who do not plan to stay in service for the 20 years necessary to qualify for military retirement. Unlike the civilian TSP benefit, which offers a level of matching contributions, DOD does not match TSP contributions for military personnel.<sup>21</sup> However, TSP does allow personnel to place more money in a tax-deferred account than is allowed in other individual retirement accounts.

- ❖ **Retiree Health Care.** Military retirees and their dependents remain eligible for health care services through TRICARE. While only a small portion of personnel ultimately qualifies for military retirement and the associated health care benefit, the cost of providing health care to retirees and their families is substantial. In fact, the estimated annual cost of funding the future liability of retiree health care (over age 65) was \$9.0 billion in fiscal year (FY) 2010. This amount is in addition to the \$10.5 billion spent on health care services for retirees under the age of 65 and their dependents.
- ❖ **Veterans' Benefits.** The Department of Veterans Affairs (VA) administers programs that provide assistance to eligible veterans, including educational assistance, home loans, disability compensation, and vocational assistance. Moreover, some veterans are eligible for payment of both VA disability compensation and some or all of their military retired pay, which is typically reduced by the amount of the VA disability pay.

## Comparison Considerations

When comparing military and civilian compensation, two questions need to be addressed: 1) Which components of military compensation will be included in the comparison? and 2) Which civilian workers are the most comparable to military personnel? The answers to these questions are not as straightforward as they might appear, and have evolved over time. (See accompanying sidebar for further discussion of military-civilian pay comparisons.)

### Relevant Components of Compensation

Early reviews of military and civilian compensation compared civilian wages to basic pay. But with basic pay accounting for only a portion of total cash compensation, RMC has become recognized as a better measurement for comparing military and civilian compensation.

21. The military services have the option of matching contributions for members who have a critical skill and agree to serve on active duty for six years, and for individuals who enlist for the first time for at least two years.

### Military and Civilian Pay Comparisons

Compensation is an essential element in recruiting and retaining the all-volunteer force. Because of its importance as a tool for managing the force, and ensuring that military compensation remains competitive with alternative sources of employment for military service members, DOD must continually track the relationship between military compensation and the earnings of civilian workers who have comparable skills, experience, and education.

Although not part of its charter, the 11<sup>th</sup> QRMC determined that understanding how military and civilian compensation currently compare would be an important foundation for the rest of its study. And so the QRMC conducted a high-level analysis, the results of which showed that military pay compares favorably to civilian earnings, for officers and enlisted personnel at all years of experience. In considering the results of this analysis, the QRMC concluded the following:

**First, each QRMC should conduct a military-civilian pay comparison.** This assessment needs to be performed on a periodic basis to help determine whether military pay appears competitive and sufficient to sustain recruitment and retention. In turbulent economic times, or if a noteworthy shift occurs in a particular civilian occupational sector, such assessments may need to be conducted more frequently to forestall any negative impact on recruiting and retention and to ensure that manning requirements are met.

**Second, these assessments should be conducted so that results can be compared over time.** While the 9<sup>th</sup>, 10<sup>th</sup>, and 11<sup>th</sup> QRMCs all undertook a military-civilian pay comparison, the approach used by each study differed, and thus the results cannot be easily compared. For comparability across QRMCs, each QRMC should undertake common comparisons, and these comparisons should be defined. For example, one comparison might involve RMC versus the Employment Cost Index. Others might partition the enlisted and officer populations into age/experience subsets and compare RMC to civilian wage percentiles by subset. Both types of comparisons have been done in the past and could be done in the future. In addition, QRMCs might pursue pay comparisons targeted on certain occupations, junior/senior groups, and so forth that are particularly relevant to each QRMC's charter. Establishing an approach such that results can be compared over time would provide great utility to DOD and the military departments.

**Third, each QRMC should revalidate the benchmark used to determine the adequacy of military pay**—something that has not been done for more than a decade. The 9<sup>th</sup> QRMC established that military pay should not fall below the 70<sup>th</sup> percentile of civilian earnings, but such an assessment has not been conducted since. Because of the demands of military life and the desire for a high-quality force, it has been readily accepted that military pay should be higher than the average pay of comparable civilians. The question then, is how much higher? For now, the 70<sup>th</sup> percentile serves as that marker. But this benchmark should be revalidated on a periodic basis to ensure that the department is not paying too much or too little to sustain a high-quality, all-volunteer force.



In 1962, the Gorham Commission observed that every member of the uniformed services is entitled to receive basic pay, BAH, and BAS, which led the commission to develop the construct of RMC as a rough yardstick to be used in comparing compensation of military personnel and civilian sector employees. At the recommendation of the 1<sup>st</sup> QRMC, the definition of RMC was expanded in 1967 to include the nontaxability of allowances, and in 1974 Congress codified the concept when it added the definition of RMC to the United States Code. Nearly 25 years later, the 9<sup>th</sup> QRMC reestablished the need for comparability between RMC and civilian wages, and quantified an earnings gap that had developed between military and civilian compensation. Thus, RMC has been the standard measure for comparing military and civilian pay for more than four decades.

While the components of RMC have remained stable for some time, the 10<sup>th</sup> QRMC recommended expanding the definition of military compensation to include some of the substantial in-kind and deferred benefits provided to military personnel, which, in total, comprise roughly half of military compensation. Noting that noncash military benefits are typically more generous than civilian benefit packages, the 10<sup>th</sup> QRMC argued that excluding military benefits understates the differential between military and civilian compensation. It recommended that any comparison between military compensation and civilian wages include benefits that are “tangible, traditionally considered as part of a compensation package, and widely offered within the private sector.”<sup>22</sup>

To that end, the 10<sup>th</sup> QRMC proposed Military Annual Compensation as the appropriate measure for future pay comparisons. In addition to the cash components of RMC, Military Annual Compensation would include the out-of-pocket health care costs that civilian workers typically face, but that military personnel avoid; state and FICA tax advantages based on the nontaxability of allowances; and the estimated value of future military retirement benefits (adjusted to reflect the likelihood that a member will become eligible for retirement).<sup>23</sup>

By expanding the definition of compensation to include these noncash benefits, the difference in discretionary income, or take-home pay, between military members and their civilian counterparts changes substantially. For example, the average

22. U.S. Department of Defense. *Report of the Tenth Quadrennial Review of Military Compensation: Volume I: Cash Compensation*. Washington, DC: Office of the Under Secretary of Defense for Personnel and Readiness, 2008: 26–27.

23. Many other noncash benefits—such as education, child care, commissaries and exchanges, and other morale and welfare benefits—were not included in Military Annual Compensation, as few civilian employers offer similar benefits to all their workers. Moreover, service members’ utilization of these benefits varies considerably, as does the value that personnel assign to such services, making their worth difficult to estimate.

enlisted-equivalent civilian worker pays between \$3,000 and \$7,000 per year for out-of-pocket health expenses, depending on family size. Annual out-of-pocket costs for officer-equivalent civilians range between \$2,000 and \$4,800—lower than the out-of-pocket costs of enlisted-equivalent civilian costs, as officer-equivalents are more likely to have employer health coverage. Most military personnel, in contrast, do not incur out-of-pocket expenses for health care, so these avoided costs represent a measurable difference between the military and civilian health benefit, and a “benefit” to service members. Put another way, the military health benefit boosts service members’ discretionary income compared to that of their civilian counterparts, who have less discretionary income after paying their out-of-pocket health care costs.

Moreover, because civilian workers’ out-of-pocket health care costs have grown by 60–75 percent (in real terms) over the last decade, the value of the health benefit to military personnel—in terms of avoided costs—has increased substantially. To the extent that out-of-pocket health care costs continue to rise faster than wages, civilian workers will continue to see their discretionary income reduced because of growing health care expenses.

Including retirement benefits in the mix also affected the 10<sup>th</sup> QRMC’s comparison of military and civilian compensation. Military retirement provides a generous annuity to personnel who remain in service for at least 20 years. Moreover, because the benefit is available to personnel immediately upon retirement, military retirees can begin receiving annuity payments when still in their late thirties or early forties. In the civilian sector, in contrast, employees typically have to work for longer periods and until an older age before they begin receiving full retirement benefits.

Yet while the retirement benefits provided to military retirees are more generous than annuities available to civilian employees, a much higher percentage of civilian workers actually receive a retirement benefit than do military personnel. In the private sector, federal law requires that most employees eligible for retirement plans be fully vested in those plans within seven years. Military personnel, in contrast, must serve at least 20 years to become eligible for military retirement, a hurdle which results in only 19 percent of active duty personnel ultimately receiving a military retirement annuity.

The package of benefits offered to military personnel is extensive, and its components are important incentives for recruiting and retaining service members. As such, force managers should continue to actively promote and educate potential recruits and service members about the array of in-kind and deferred benefits available to military personnel and their families. But while noncash military benefits such as health care and retirement are valuable, drawing comparisons to the benefits available to civilian employees is not a straightforward analysis.

For instance, nearly 20 percent of civilian workers do not receive an employer health benefit. Likewise, retirement benefits are not available to all civilian workers, and many pension plans require voluntary employee contributions to access the benefit.

Therefore, until health care and other benefits are more universally available to civilian workers, the QRMC does not recommend including such benefits in comparisons of military and civilian compensation. One noteworthy exception is the FICA tax exemption, which could be considered for inclusion in RMC or in future comparisons between military compensation and civilian wages. The basis for this recommendation is that it functions exactly like the income tax advantage; it is a cost incurred by nearly all civilian workers, but one that military personnel avoid.

In summary, RMC represents the “gross pay” that service members receive in their paychecks, making it easy to understand. It includes those compensation elements that are available in some form to all service members. Therefore, RMC is currently the most appropriate measure for civilian and military wage evaluations, allowing for a clear and understandable comparison between the “paychecks” of military personnel and civilian workers.

### **Appropriate Civilian Comparisons**

Traditionally, assessments of military and civilian wages have compared the compensation of enlisted personnel with that of high school graduates in the civilian sector, who were considered to be comparably educated. But education levels of enlisted personnel have increased considerably since the inception of the all-volunteer force, much like education levels of the population in general.<sup>24</sup> In addition, the increasingly technological nature of many military occupations—as well as the advanced and specialized training that military personnel now receive—has also led to a more highly educated force. Indeed, a 2006 survey of the force found that the majority of enlisted personnel have at least some college. And while a high school graduate may be the appropriate civilian comparison for the military’s most junior enlisted personnel, mid-grade and senior enlisted personnel typically have some college or a college degree. Officers typically have college or graduate-level degrees.

Given the varying education levels among enlisted service members, the 9<sup>th</sup> QRMC recommended that the comparable civilian used in pay comparisons be more highly educated than the high school graduate, and that the comparable civilian education level vary to reflect the different education levels within the enlisted force. The 11<sup>th</sup> QRMC uses a somewhat similar approach in its analyses of civilian and military compensation, comparing military personnel to civilians with varying

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24. U.S. Department of Defense, *December 2010 Youth Poll*. Arlington, VA: Joint Advertising and Marketing Research and Studies Program, 2011. [http://www.jamrs.org/reports/Youth\\_Poll\\_20.pdf](http://www.jamrs.org/reports/Youth_Poll_20.pdf).

degrees of education. Enlisted personnel are compared to high school graduates, those with some college, and those with associate degrees. Officers are compared to civilians with bachelor's and graduate-level degrees.<sup>25</sup>

## Comparing Military and Civilian Earnings

### Career Compensation Comparisons

Only about 25 percent of the youth population meets the department's rigorous enlistment standards, which target high school graduates with above-average aptitude, who are also physically fit, do not have problems with drug dependency, and have not been involved in criminal activity.<sup>26</sup> Such high-caliber individuals often have attractive civilian career opportunities available to them, which do not involve the requirements and arduous conditions of military service. In order to successfully compete for personnel, military compensation must take into account—and compensate for—the high eligibility standards demanded of military personnel, as well as the responsibilities and sacrifices associated with military service.<sup>27</sup>

In 2009, average RMC for enlisted personnel exceeded the median wage for civilians in each relevant comparison group—those with a high school diploma, those with some college, and those with an associate's degree.<sup>28</sup> Average RMC was \$50,747, which was about \$21,800 more than the median earnings for civilians from the combined comparison groups, or about the 90<sup>th</sup> percentile of equivalent civilian wages—that is, RMC is higher than the wages of 90 percent of comparable civilians.<sup>29,30</sup>

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25. The results in the following section are drawn from: James E. Grefer, with David Gregory and Erin M. Rebhan, *Military and Civilian Compensation: How Do They Compare?* in the second volume of this report. This paper provides further detail on the process used to adjust for age and gender differences between the civilian and military populations,

26. Seifert, Rita F., Paul F. Hogan, and Carol Moore. *Estimating the Qualified Military Available*. Falls Church, VA: The Lewin Group, 2007.

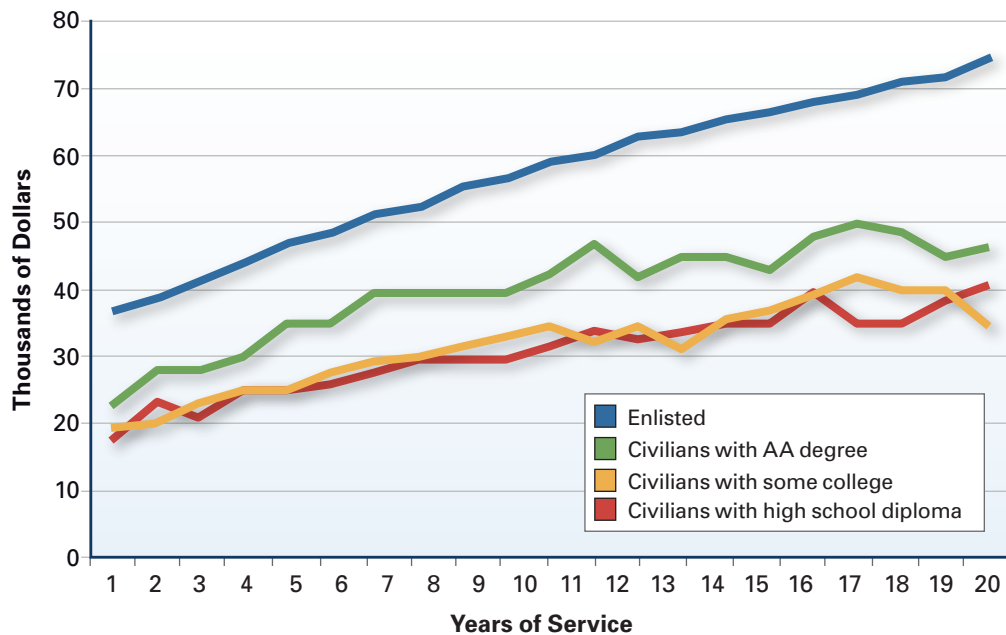
27. U.S. Department of Defense. *Report of the Ninth Quadrennial Review of Military Compensation*. Washington, DC: Office of the Under Secretary of Defense for Personnel and Readiness, 2002.

28. RMC figures used in this chapter represent average RMC of personnel with and without dependents. Although average RMC for service members with dependents is higher than RMC for those without dependents, the difference has a relatively small effect on military and civilian wage comparisons, with RMC for both groups higher than civilian compensation. For more information about how dependency status affects RMC see James E. Grefer, with David Gregory and Erin M. Rebhan, *Military and Civilian Compensation: How Do They Compare?*

29. Figures 2-2 through 2-5 display the enlisted- and officer-equivalent civilian education groups separately. Percentile comparisons combine the various educational cohorts into one composite civilian-equivalent group for enlisted personnel, and one for officers.

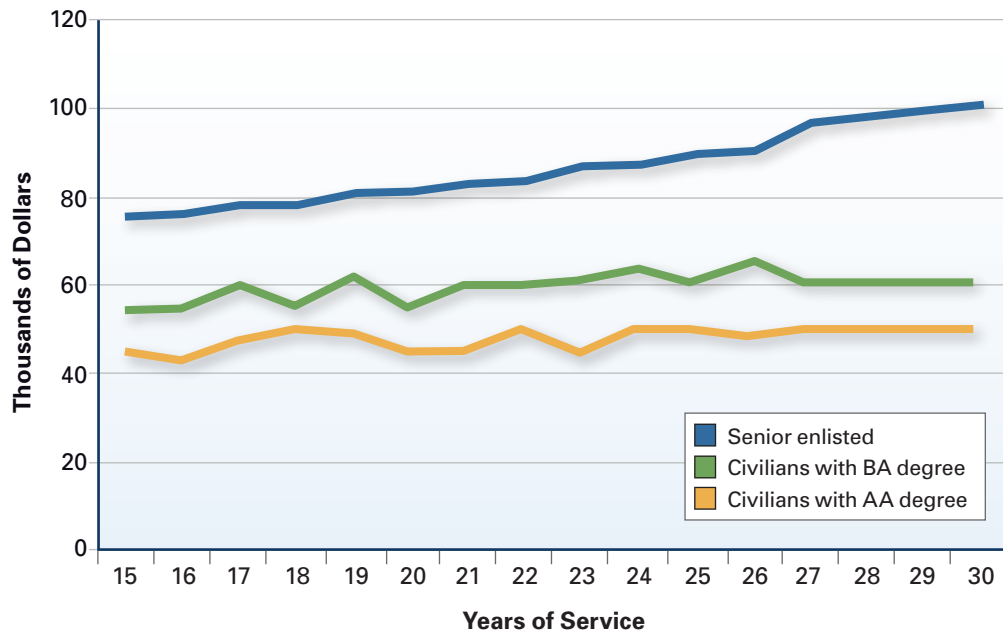
30. All civilian wage figures in this chapter use median civilian wages, rather than mean wages, as mean civilian wages are skewed due to a small percentage of the population making extremely high wages. Because no military personnel earn an inordinately high wage when special and incentive pays are excluded, military compensation is represented by mean RMC.

Figure 2-2 compares annual earnings of enlisted service members and comparable civilians over a 20-year career. Average annual RMC for enlisted personnel rises steadily over the 20-year period, growing from about \$37,000 in the first year of service to approximately \$75,000 by the 20<sup>th</sup> year. Civilian wages increase as well, rising from about \$18,000 for high school graduates first entering the workforce, to about \$50,000 for those with two-year degrees and 18 years of work experience. Military compensation exceeds civilian earnings at every point along the 20-year career period, with the greatest wage differences occurring between military personnel and civilians with high school diplomas. Among all three civilian groups, the gap with military compensation increases after the 15-year mark, as the growth in civilian earnings begins to slow and military compensation continues to rise.



**Figure 2-2. Enlisted Regular Military Compensation versus Civilian Earnings, 2009**

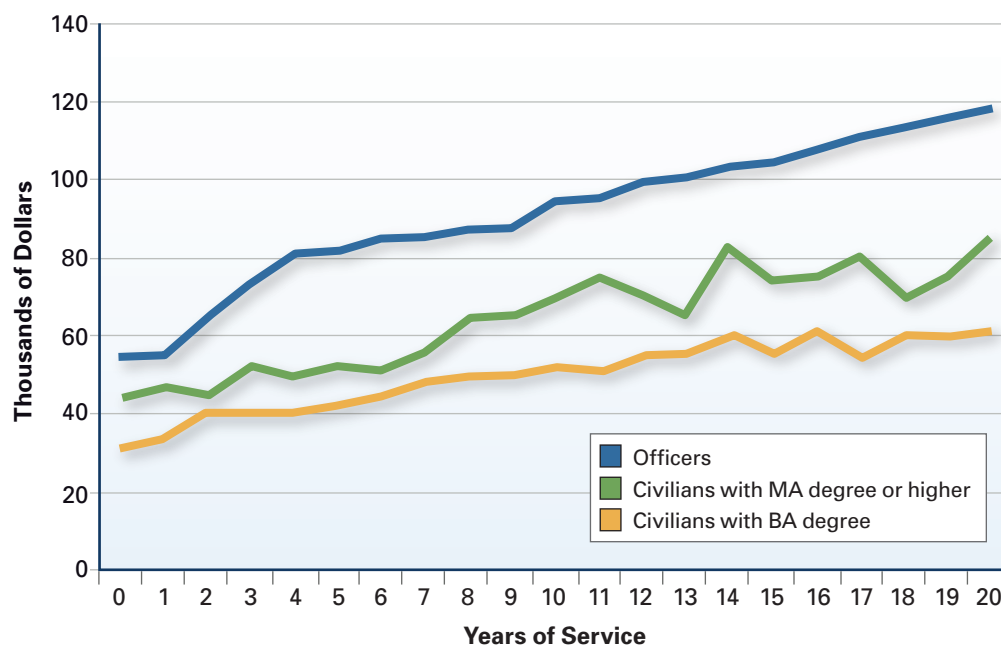
As discussed earlier, the experience and training that service members receive while in the military suggests that senior enlisted personnel should be compared to more highly educated civilians than junior enlisted members—that is, college graduates rather than high school graduates. Figure 2-3 compares compensation of senior enlisted personnel (E-8s and E-9s) with civilians who have associate’s and bachelor’s degrees. During the 15<sup>th</sup> through 30<sup>th</sup> years of service, military



**Figure 2-3. Senior Enlisted Regular Military Compensation versus Civilian Earnings, 2009**

compensation is consistently higher than compensation earned by civilian college graduates. Over time, civilian earnings tend to flatten, while the RMC of senior enlisted personnel continues to rise, due in large part to the fact that service members are typically promoted from E-8 to E-9 during this period. With civilian earnings stagnant and military compensation continuing to rise, the difference between the RMC of senior enlisted personnel and median wages of equivalent civilians grows over time, from roughly \$25,000 in the 15<sup>th</sup> year of service, to \$45,000 by the 30<sup>th</sup> year.

For officers, average RMC exceeds wages for civilians with a bachelor's or graduate-level degree (Figure 2-4). With RMC of \$94,735, average officer earnings correspond to about the 83<sup>rd</sup> percentile wages for the combined civilian comparison groups. Officer earnings are about 88 percent higher than earnings of civilians with bachelor's degrees, and 47 percent higher than earnings of those with graduate-level degrees. The career trajectory for officers begins with a steep jump in earnings, from \$54,600 in the first year of service, to over \$74,000 by the fourth year. Wage growth stabilizes after that, increasing steadily to nearly \$118,000 by the 20<sup>th</sup> year of service. Earnings of comparable civilians also increase over the 20-year period—from about \$32,500 to \$63,700—but remain lower than officer earnings at each point.



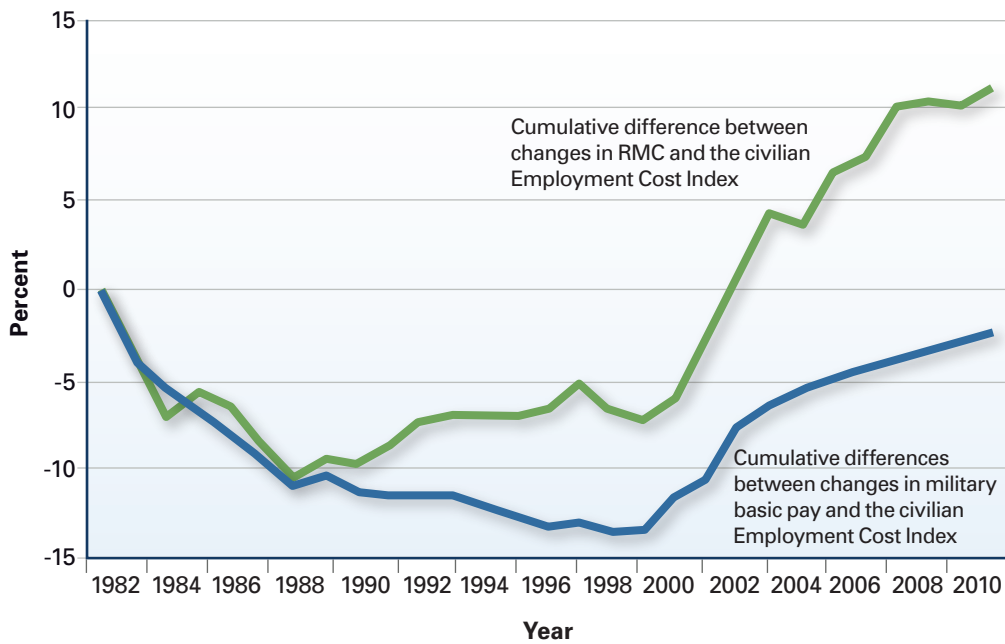
**Figure 2-4. Officer Regular Military Compensation versus Civilian Earnings, 2009**

### Trends in Military and Civilian Compensation

The favorable wage comparisons detailed above resulted from a decade-long effort to raise various components of RMC, and make military compensation more competitive with civilian pay. In fact, growth in RMC has outpaced civilian wages and salary growth since 2002 (Figure 2-5).

Two primary factors influenced the growth in military pay. The first was a steady increase in basic pay. After a period of recruiting and retention difficulties in the late 1970s, Congress enacted an 11.7 percent military pay increase in 1981, and in 1982, a military pay increase ranging from 10 to 17 percent depending on pay grade. These increases restored comparability between civilian and military pay to the levels established at the beginning of the all-volunteer force. However, during the 1980s and 1990s military pay again eroded relative to civilian earnings, with basic pay increasing 13 percent less than the Employment Cost Index (the benchmark for civilian pay growth) between 1982 and 1998. As was the case in the late 1970s, the drop in relative military pay created recruiting and retention problems for the services.

In its 2002 report, the 9<sup>th</sup> QRMC concluded that military compensation was not competitive with the earnings of similarly educated civilians, and recommended a series of increases to basic pay to bring military compensation more



Source: Congressional Budget Office, April 2011.

**Figure 2-5. Changes in Military and Civilian Compensation**

in line with civilian wages. In response to the recruiting and retention problems that emerged in the late 1990s, Congress enacted legislation in FY 2000 that mandated annual increases in basic pay equal to the Employment Cost Index plus ½ percent.<sup>31</sup> These raises were in place from 2000 through 2006, and ultimately extended through 2010.

Over the same period, another major component of RMC was also rising—BAH. This increase stemmed from the department’s decision to increase BAH payments to cover all of a service member’s out-of-pocket housing costs.<sup>32</sup> That policy has resulted in a roughly 40 percent increase in BAH payments for enlisted personnel between 2001 and 2009.

The policy decisions to increase basic pay and BAH in turn increased RMC. In real terms, RMC for enlisted personnel increased by 20.5 percent between 2001 and 2009, from \$42,110 to \$50,747.<sup>33</sup> Comparable civilian workers, in contrast,

31. Title 37, Chapter 19, section 1009 requires that basic pay be increased annually using the change in the Employment Cost Index.

32. Specifically, the policy called for service members to have no out-of-pocket housing costs for the median rental price in each military housing area.

33. Real earnings are adjusted to take into account the effects of inflation, and hence reflect change in purchasing power. Nominal earnings, in contrast, are actual dollar amounts paid.



experienced no real growth in wages during this period—in part, reflecting a recessionary economy. RMC for officers also grew over the 2001–2009 period, rising from \$86,800 to approximately \$94,700—or about 9.1 percent. During the same period, civilians with bachelor’s degrees experienced only a 1 percent growth in real wages, while earnings of those with graduate-level degrees increased by a modest 3 percent. But although the earnings difference between officers and comparable civilians increased over this period, it did not grow as much as for enlisted personnel and their civilian counterparts, in part because real earnings of officer-equivalent civilians fared marginally better than wages of enlisted-equivalent civilians over the decade.

## Conclusion

Military compensation has grown relative to civilian wages over the last decade, now corresponding to the 90<sup>th</sup> percentile of civilian wages for enlisted personnel, and the 83<sup>rd</sup> percentile for officers. The relative standing of military compensation provides context to help make decisions about RMC and other elements of the compensation system.

But a comparison of military and civilian wages does not, by itself, determine whether military pay is at the optimal level. As previously noted, other factors are also at play, including recruiting and retention experiences and outlook; rigorous eligibility standards; unemployment in the civilian economy; political factors such as wartime environment or risk of war; and the expected frequency and duration of overseas deployments. Higher military earnings are necessary to compensate service personnel for the additional risks, hardships, and long work hours associated with military service. Setting military compensation above average civilian earnings also acknowledges the higher aptitude and achievements of military personnel.

And while military earnings have grown in relation to civilian wages over the past decade, so too have the demands placed on service members. Since the September 11, 2001 attacks, U.S. forces have been involved in lengthy combat operations in Iraq and Afghanistan. For military personnel, these missions have resulted in multiple and extended deployments into dangerous environments. Such increased risks and hardships have made military service less attractive to many young men and women considering enlistment. In fact, several studies of the impact of the wars suggest that they have had a substantial and negative impact on enlistments, particularly in the Army and Marine Corps, which have suffered most of the casualties.<sup>34</sup>

34. Asch et al. *Cash Incentives and Military Enlistment, Attrition, and Reenlistment, 2010*; Simon, Curtis J. and John T. Warner, “Managing the All-Volunteer Force in a Time of War,” *The Economics of Peace and Security Journal* 2, 2007.

Hence, analyses of military compensation must take into account many factors that affect the attractiveness of military service, and the services' ability to recruit and retain sufficient numbers of high-quality individuals to maintain the all-volunteer force. An understanding of the relative standing of military compensation compared to wages in the civilian sector is but one component of that analysis.

## Chapter 3

# Pay Incentives for Critical Career Fields

Special and incentive (S&I) pays, which include both monthly pays and bonuses, are flexible compensation resources used by force managers to address staffing requirements that cannot be efficiently handled through across-the-board increases in basic pay. Unlike basic pay, which all service members receive, S&I pays can be targeted to specific segments of the force in order to attract and retain qualified personnel in hard-to-fill areas. Some S&I pays are stable pays used to supplement military earnings on an ongoing basis to keep compensation competitive in certain high-wage careers, to compensate for onerous or hazardous careers or assignments, or to encourage personnel to acquire priority competencies critical to a mission. Other pays, such as bonuses, are typically limited payments that reward enlistment, reenlistment, or continuation decisions. The services can turn bonuses on and off depending on need, and adjust eligibility criteria or payment amounts to reflect changes in the supply of or demand for personnel. They are flexible tools that force managers can use to quickly respond to critical or emerging shortages.

## Background

The services have relied on S&I pays to provide them with much needed flexibility to increase pay to those service members whose occupations, assignments, or expertise demand additional compensation. S&I pays have traditionally been used to supplement pay under the following circumstances:

- ❖ **High civilian wages for similar skills.** While military compensation is generally competitive with civilian earnings of comparable individuals, there are some occupational areas—such as health care and nuclear power—where civilian wages are significantly higher than military compensation, creating retention challenges. In those instances, S&I pays can help make military compensation competitive and improve retention.
- ❖ **Rapid growth in demand.** Changing operational needs can rapidly increase demand for certain occupations or skills. Since the September 11 attacks, demand has increased for numerous occupational specialties, such as those discussed in this chapter. In such circumstances, the services often rely on a combination of accession and retention incentives to quickly increase inventory. Retention incentives are particularly helpful, as they

increase the supply of experienced personnel who do not require additional training in order to perform their duties—especially important if the increased demand is for skilled or senior personnel. Incentives designed to fill an increase in demand are often temporary and may be reduced once staffing stabilizes.

- ❖ **Onerous or dangerous working conditions.** The working conditions and hazards facing service members vary, with some personnel required to serve in unpleasant or dangerous working environments. The services often use S&I pays to attract sufficient numbers of personnel to serve in these less desirable or hazardous assignments. They have been essential over the last decade, when operations in Iraq and Afghanistan have substantially increased the number of personnel serving in combat zones and other hazardous environments.
- ❖ **High training investment costs.** In occupational fields with costly or extensive training, it is often more cost effective to use S&I pays to increase retention of experienced personnel than to enlist new service members who will need to complete expensive and lengthy training.
- ❖ **Special skills and proficiency.** S&I pays are also used to provide incentives for members to acquire, maintain, or improve proficiency in a critical skill, such as proficiency in a foreign language. Recipients of proficiency compensation do not necessarily need to be using the skill in their current assignment, as the pay is sometimes used to encourage members to acquire valuable skills that may be needed for future assignments—a less expensive investment than retraining or training someone new.

S&I pays are a relatively small part of military pay, accounting in aggregate for about 4.3 percent of total compensation in FY 2010. That year, S&I pays totaled \$5.6 billion, compared to \$129.7 billion for total military personnel appropriations for the active duty force. The value of the S&I pay program lies in its ability to significantly, yet cost effectively, influence behavior. A \$341 million investment in the S&I pay program, for example, would allow the DOD to offer more than 11,000 members with specialized skills or training a bonus of \$30,000. An alternative would be to use that same \$341 million to generate a ½ percent across-the-board increase in basic pay.

Although a substantial amount in aggregate, the impact of such an across-the-board increase on individual members would be quite modest, and unlikely to have a significant effect on recruitment or retention decisions. A corporal at four years of service, for example, would see his basic pay rise by about \$11 per month before taxes from a ½ percent increase in basic pay, while a captain with six years of service

would experience a pay raise of about \$26 per month. S&I pays, in contrast, provide meaningful pay increases that can influence accession and retention decisions in critical fields, making them a cost-effective way of managing the all-volunteer force.

The types of S&I pays offered to service members, as well as usage rates, vary by service, with the differences resulting largely from the unique occupational and skill mix that each must maintain in order to meet its mission (Table 3-1). The relatively greater role that S&I pays play in Navy compensation, for example, is due to the fact that many sailors (approximately 40 percent of enlisted personnel) receive supplemental pay to compensate for the burdens of sea duty. The Navy also relies on S&I pays to provide competitive wages to health care providers, personnel working in the nuclear field, and others who could earn higher salaries in the civilian sector.

While the military has relied on S&I pays for many years—indeed, they predate the all-volunteer force—these pays have become increasingly important in the years since September 11, 2001. The ongoing operations in Iraq and Afghanistan necessitated substantial increases in end strength to meet ground force requirements, and created new staffing needs related to combat operations. At the same time, the risks and burdens associated with military operations have reduced the willingness of some young men and women to serve in the military. As a result, the services have used S&I pays, in the form of recruiting and retention bonuses, to help counter these negative impacts and to continue meeting escalating staffing requirements. To support these additional efforts, S&I pay budgets have increased over the last decade, growing from \$2.3 billion in 1999, to \$5.6 billion in 2010.

The department has at times been criticized for excessive use of S&I pays, particularly during tight budgetary periods when discretionary funds are subject to

**Table 3-1. Utilization of Special and Incentive Pays, Fiscal Year 2010**

	Army	Navy	Marine Corps	Air Force	Total DOD
<b>Total S&amp;I pay (dollars in thousands)</b>					
Officers	\$ 561,948	\$559,503	\$ 72,907	\$571,480	\$1,765,838
Enlisted	1,935,823	979,984	391,498	508,101	3,815,406
<b>Average S&amp;I pay (dollars)</b>					
Officers	\$5,927	\$8,399	\$4,905	\$8,781	\$7,316
Enlisted	3,298	3,299	4,810	3,319	3,417
<b>Average S&amp;I pay (% of cash compensation)</b>					
Officers	1.0%	1.9%	0.5%	1.9%	1.4%
Enlisted	3.5	3.4	2.7	1.7	2.9

*Note:* Data are for active duty only and include base budget and overseas contingency actual expenditures.

even closer review. This perception may well be driven by the fact that, individually, some pays are quite large. But even with the increased use of these pays during the past decade, they still make up only a small portion of the military personnel budget.

### **S&I Pay Consolidation**

Although S&I pays are a more flexible type of compensation than basic pay, some aspects of the S&I pay structure limited its effectiveness and potential as a force management tool. One problem identified by the 10<sup>th</sup> QRMC and other review panels was the large number of pays.<sup>35</sup> Over the years, additional pays were often added to address new staffing issues—pays directed at meeting a particular mission requirement or to a specific occupational community. Once an S&I pay was established, it was rare for the legislative authority underlying the pay to be repealed—even if the staffing problem it was designed to address no longer existed. By the time the 10<sup>th</sup> QRMC undertook its review, the number of S&I pays had grown to over 60, making the system unwieldy and difficult to administer and oversee.

Another concern with the system has been the varying degrees of flexibility among the different pays. Some pays could be used to address personnel issues across a range of occupational or assignment categories, which would allow force managers to modify funding allocations and eligibility criteria to reflect the latest staffing needs and mission priorities. But until recently, more than half of all S&I pays were more narrowly focused, with strict statutory limits on which occupational categories were eligible, and at what amounts. For these pays, force managers could not quickly adjust eligibility criteria or payment levels to address changing staffing requirements or market conditions.

Recommendations by the 10<sup>th</sup> QRMC addressed these concerns by proposing consolidation of the more than 60 S&I pays into eight broad categories, with the services having flexibility to allocate funds within each category to best meet their most critical staffing needs (Table 3-2). Authorized by Congress in FY 2008,<sup>36</sup> the new S&I pay structure is currently being phased in by the department. Most of the new categories have been implemented, with the remaining scheduled for implementation no later than 2014.

With these new authorities, the services can more effectively manage their S&I resources. But with that flexibility comes the need for a more systematic evaluation of the impact of different S&I pay strategies on staffing needs, and for estimating

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35. For more on the 10<sup>th</sup> QRMC, see U.S. Department of Defense. *Report of the Tenth Quadrennial Review of Military Compensation*, Washington, DC: Office of the Under Secretary of Defense for Personnel and Readiness, 2008.

36. National Defense Authorization Act of 2008, Public Law 110-181, Jan 28, 2008.

**Table 3-2. Consolidation Schedule for Special and Incentive Pays**

Pay	Section in 37 USC	Implementation Schedule
General Bonus Authority for Enlisted Members	331	2011
General Bonus Authority for Officers	332	2012
Special Bonus and Incentive Pay Authorities for Nuclear Officers	333	2011
Special Aviation Incentive Pay and Bonus Authorities for Officers	334	2011
Special Bonus and Incentive Pay Authorities for Health Professions Officers	335	2011
Hazardous Duty Pay	351	2011
Assignment Pay or Special Duty Pay	352	2014
Skill Incentive Pay or Proficiency Bonus	353	2012

the associated costs. Given the modest amount of resources allocated to S&I pays, current uses—as well as proposed changes in utilization—should be rigorously analyzed to quantify their effect on the force and ensure that they are being put to optimal use. The additional flexibility provided to the services should yield more timely and cost-effective application of incentive resources, but such results depend on robust analyses of how different strategies will affect staffing requirements and objectives—a topic addressed more fully in the sections to follow.

### Focus Areas for the 11<sup>th</sup> QRMC

Against this backdrop, the QRMC focused its work on the following areas, each of which are discussed in the remainder of this chapter:

- ❖ **The need for systematic analysis** to evaluate the impact of S&I pays on staffing the force. The results of a systematic approach that evaluates a standard set of criteria can assist personnel managers in determining the cost-effectiveness of incentive pay strategies and help prioritize the allocation of limited funding. Some factors lend themselves to a quantitative analysis that can be programmed into various modeling tools, while other factors rely on the experience of community managers.
- ❖ **Evaluation of four critical career fields** called for in the QRMC charter: special operations forces, remotely piloted vehicle operators, linguists/translators, and mental health professionals. The QRMC's approach to evaluating the four career fields was to identify key issues specific to the career field, as well as issues common among these and other career fields.

- ❖ The utility of **developing a broad-based career pay** as an incentive to help address long-term staffing needs. The QRMC explored the concept of developing a single career pay structure with application to multiple occupations instead of furthering the trend of creating career-specific pays.

The chapter concludes with a brief assessment of some overarching characteristics found among the four critical career fields studied—characteristics that will undoubtedly apply to other career fields and serve as a useful springboard for future S&I pay evaluations.

### The Need for Systematic Analysis

If accessions and retention are below—or projected to be below—target levels, or the demand for personnel is growing faster than projected, force managers may want to consider the use of an incentive pay to address the resulting shortfall. If the decision is made that incentives are warranted, the next step is establishing the appropriate incentive structure to achieve force management objectives, in terms of both quantity and quality. A systematic and robust analysis of personnel and market data can help personnel managers evaluate the potential impact of different incentive proposals.

Taking a structured approach to determining both incentive pay eligibility criteria and amounts helps force managers optimize their limited S&I budgets. It also provides a mechanism to periodically conduct a rigorous assessment of S&I pays to ensure that they keep pace with changing conditions. All of the services currently have processes in place to evaluate their S&I pay systems. These processes typically include: reviewing the number of authorized positions and the current staffing level; examining historic loss rates to project retention trends; forecasting the number of accessions; and, if an incentive has been offered in the past, assessing its effectiveness in meeting staffing objectives. While the methods used by the services vary somewhat, each uses similar analytical techniques that are critical to making informed decisions about the use of limited funding for S&I pays.

In order to help determine the most cost-effective S&I pay strategies, the QRMC suggests that the following elements be a core part of a systematic approach to assessing the application of a special or incentive pay:

- ❖ Collect and review historical staffing data
- ❖ Review current and historical data on recruiting and retention
- ❖ Determine projected requirements
- ❖ Evaluate unique staffing issues identified by community managers



- ❖ Assess civilian supply and demand, and civilian wages
- ❖ Identify training costs, in terms of both time and money
- ❖ Collect available empirical evidence on responsiveness to pay incentives and economic conditions
- ❖ Identify opportunities for improvement using analytical tools to model how changes in compensation might alter the force or career profile

Using an analytical tool as part of this assessment will help the services estimate how staffing and experience levels will respond to various S&I pay options, as well as the associated costs.<sup>37</sup> While this information is critical to making informed decisions about the application of S&I pays, an analytic tool is just that—a tool. Personnel managers must consider its results in the context of their experience and judgment to determine whether the estimated impact of special pays is worth the cost. The answer to that question will vary, depending on the urgency of the staffing problem, training costs, the availability of alternative strategies, and myriad other factors. However, a model can provide the services with analytically sound estimates of how S&I pay options could affect supply in a given skill or occupational area, and at what cost. In particular, it can help identify at what point higher pays will yield very little return in terms of enlistments or continuation. Modeling results can provide essential input to support a service's decision to establish or adjust S&I pays and eligibility criteria.

In some instances, the inputs needed to accurately estimate the need for, or impact of, S&I pays may not be readily available. For example, an emerging career field may be too new to have generated any reliable retention data or to accurately assess civilian sector wage comparisons, making the decision about the use of a bonus or incentive pay less clear. In such cases, personnel managers must rely on other conditions that could potentially warrant establishment of an incentive pay, such as high training costs or rapidly increasing personnel requirements. If such conditions exist, managers must balance the need to meet staffing requirements against the risk of making unnecessary incentive payments.

Until more definitive data are available, a more cautious approach may be called for. For example, personnel managers could initially offer a flexible set of bonuses, or other one-time incentives, rather than establishing a career-type pay that is more difficult to subsequently adjust or discontinue if data later reveal incentives are not necessary or are set too high. However, monthly incentive pays can provide flexibility similar to bonuses if utilized as a temporary measure—rather than as a career

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37. For further discussion of the modeling approach, see Kim Darling, Patrick Mackin, and Joseph Mundy, *The Officer and Enlisted Special and Incentive Pay Analysis Model*, in the second volume of this report.

incentive—until long-term retention patterns emerge and comparable civilian pay rates are determined.

In addition to evaluating new S&I pay strategies, an analytic framework should also be used to review existing pays to ensure their continued relevance and value to personnel management. In some occupations and skills, relatively stable pays may be appropriate, while incentives for others warrant adjustment. For example, professions that consistently command higher pay in the civilian sector, such as the medical professions, may merit predictable pays over the long term. Yet in other areas, evolving mission needs, changing conditions in the civilian market, and other factors may call for increasing an incentive or, in some cases, may show that additional pay can be reduced or eliminated. Periodic reviews, which should include the use of an analytical tool or model, will ensure that resources are directed at the most pressing staffing needs.

To reinforce these periodic reviews, the 11<sup>th</sup> QRMC supports the recommendation of the 10<sup>th</sup> QRMC to create an oversight committee to review the services' S&I pay programs—ensuring sufficient oversight, guidance, and coordination within the new, more flexible structure. As stated by the 10<sup>th</sup> QRMC, such a committee “would be responsible for providing clear program parameters and a consistent, rigorous, and defensible review process, while still allowing the services greater autonomy in setting S&I pay levels and eligibility.”<sup>38</sup> An analytic model would be useful in providing defensible justifications for S&I pay during this review process.

**RECOMMENDATION: EVALUATING SPECIAL AND INCENTIVE PAYS**

Establish and utilize an evaluation tool that will model the effect of incentive pay options on staffing objectives to aid in determining the most effective and efficient incentive pay strategies.

## Evaluating the Use of S&I Pays in Four Critical Career Fields

As part of its review, the QRMC was tasked to evaluate the pay incentives for four critical career fields—special operations forces, remotely piloted vehicle operators, linguists/translators, and mental health professionals.<sup>39</sup> Each of the four career fields has become increasingly important due to its relevance to operations in Iraq and

38. U.S. Department of Defense, *Report of the Tenth Quadrennial Review of Military Compensation: Volume I: Cash Compensation*, 2008, 56.

39. For more in-depth discussion of these four career fields, see Paul F. Hogan et al., *Analysis of Staffing and Special and Incentive Pays in Selected Communities*, in the second volume of this report.

Afghanistan. Thus, developing strategies to ensure a sufficient inventory of personnel, and determining how S&I pays will factor into such strategies, is a priority. The QRMC used the process described in the previous section to evaluate each of these career fields. This evaluation offers insight into staffing challenges the services are experiencing and potential solutions, and also resulted in a recommendation with applicability to these and other career fields—the establishment of a broad career incentive pay.

### Special Operations Forces

The military operations in Iraq and Afghanistan have increased requirements in many occupational areas key to those missions,<sup>40</sup> including special operations forces (SOF). The services project that the past decade of growth will continue over the next several years, particularly for the Navy, where the requirement for some SOF specialties is projected to increase by between 25 and 50 percent by 2015, and in the Marine Corps where the requirement for Explosive Ordnance Disposal technicians is expected to grow by over 25 percent.

**Staffing.** SOF personnel undergo rigorous training and operate in some of the most hazardous and harshest of conditions. Combined with the lucrative civilian employment opportunities that are available to trained SOF personnel, these demanding work conditions make sustaining the SOF community a challenge. Despite these challenges, as of 2010, most SOF occupational categories were relatively well staffed—at or above 80 percent of requirements (Table 3-3). And retention generally exceeds service-wide averages (Table 3-4). The one exception is the Air Force, where retention among SOF personnel falls below the service-wide average. But the demand for SOF personnel is expected to grow in nearly every specialty, putting continued pressures on force managers to strengthen inventories.

**Incentive Pays.** S&I pays have played a critical role in maintaining and, in fact, increasing the number of personnel entering the SOF career field. During the past decade, incentive pay levels for SOF personnel have been increased and additional pays introduced. The current array of accession and retention pays that the services use in this career field include the Selective Reenlistment Bonus (SRB), the Critical Skills Accession Bonus (CSAB), the Critical Skills Retention Bonus (CSR), Assignment Incentive Pay (AIP), and Special Duty Assignment Pay (SDAP).

Of the various incentive pays, retention bonuses have proven to be effective tools for improving retention. Retention bonuses provide flexibility and can be implemented quickly to address pending or emerging personnel shortfalls. Compared to enlistment

40. This report uses the term “requirements” to mean those requirements that have been funded. The services often use the term “authorizations” when referring to funded requirements.

**Table 3-3. Special Operations Forces Staffing**

	FY 2010 Requirement	FY 2015 Requirement	Requirement Growth (%)	FY 2010 Inventory	Ratio
<b>Army</b>					
Special Forces Officer	1,070	1,123	5%	1,362	1.27
SOF Technical Warrant Officer	566	647	14%	458	0.81
Special Forces Sergeant	4,656	5,206	12%	4,877	1.05
Special Forces Senior Sergeant	1,199	1,303	9%	1,164	0.97
<b>Navy</b>					
Special Operations Officer	543	679	25%	509	0.94
Special Warfare Officer	237	329	39%	214	0.90
Special Operations Enlisted	1,035	1,553	50%	905	0.87
Navy Diver (First Class)	1,231	1,383	12%	1,193	0.97
Special Warfare Combatant Craft Crew	770	822	7%	757	0.98
Special Operator	1,699	2,173	28%	1,580	0.93
<b>Marine Corps</b>					
CI/HUMINT Operations Officer	108	104	-4%	70	0.65
CI/HUMINT Specialist	695	701	1%	507	0.73
Intelligence Chief	26	26	0%	25	0.96
Reconnaissance Man	1,424	1,602	13%	1,420	1.00
Explosive Ordnance Disposal Technician	605	773	28%	540	0.89
<b>Air Force</b>					
Special Operations Pilot	1,117	1,281	15%	951	0.85
Special Operations Combat System Officer	633	648	2%	558	0.88
Control and Recovery Officer	209	221	6%	182	0.87
Combat Control	521	553	6%	508	0.98
Pararescue	517	532	3%	463	0.90
Special Operations Weather	112	124	11%	81	0.72

Note: CI/HUMINT – Counter intelligence/human intelligence.

**Table 3-4. Special Operations Forces and Service-wide Retention Rates**

	Army	Navy	Air Force	Marine Corps
<b>Officers</b>				
All	92.9	93.3	93.8	93.2
Special Operations Forces	94.2	95.1	91.0	a
<b>Enlisted</b>				
All	87.4	83.6	88.5	86.3
Special Operations Forces	91.4	93.6	80.2	88.6

a. The number of officers in this category was too small to compute a reliable retention rate.

bonuses, which draw new entrants into a SOF career field, retention incentives have been effective in increasing the experience level within the community—an important outcome when the services need to maintain highly skilled professionals, as is the case for special operations forces.

Several analyses of the SRB have concluded that it has a positive and significant effect on retention among its target population—service members with 2–14 years of service. In fact, one DOD study estimates that from 2001 to 2009, over 586,000 service members opted to remain in service as a result of a SRB. Moreover, the SRB is not overly expensive relative to other pay incentives. Among Army SOF personnel, the extra cost for each additional year of service added through the SRB is approximately \$18,000.<sup>41</sup>

When the Army faced a potential shortage among more experienced senior SOF personnel, it successfully used the CSR to increase retention among retirement-eligible personnel. Established in 2001, the CSR is available to personnel in a skill area designated as critical and is the only bonus available to personnel with more than 14 years of service. CSR awards for SOF personnel range from \$18,000 for a two-year commitment to \$150,000 for a six-year commitment.

A review of the Army's experience with the CSR and retirement-eligible SOF personnel found that it had a substantial effect on retention among that group.<sup>42</sup> Specifically, SOF personnel who receive the CSR remain in service an additional 4.5 years, on average. But while the bonus program has had a significant and positive impact on retention, it is not an inexpensive option, with an estimated additional

41. This estimate is based on a four-year reenlistment bonus of \$72,000, and is consistent with other estimates of the SRB's cost and impact on retention.

42. Further analysis of the CSR's impact on special operations forces personnel can be found in John T. Warner, *Evaluation of the Effect of CSR Offered to Retirement-Eligible Special Forces Personnel*, in the second volume of this report.

cost of between \$85,500 and \$116,800 per person for each year gained.<sup>43</sup> Yet if personnel managers need to increase retention—particularly among more experienced personnel who cannot be quickly or inexpensively replaced—the CSRB is an effective tool to achieve that goal.

In addition to SRB and CSRB payments, many SOF personnel also receive longer-term incentive pays—AIP and SDAP. AIP is typically limited to personnel assigned to Special Missions Unit operator billets or those with at least 25 years of service. SDAP is paid to personnel in assignments involving substantial responsibility or difficulty. Eligibility and dollar amounts for these pays vary by service, and also within a service, where eligibility is based on grade, years of service, and skill. Concerns have been raised about the lack of consistency among the services, and the fact that these pays are not necessarily predictable over the course of a career in special operations—an issue discussed later in this section.

**Civilian Market.** S&I pays have helped keep SOF compensation competitive with civilian wages—particularly the CSRB, which has helped counter lucrative salaries available to highly experienced SOF personnel willing to deploy overseas. The SOF community does not lend itself to a direct comparison of wages in any civilian sector industry because most SOF occupations are combat-related. But some private security companies recruit individuals with the training and skills of SOF personnel. For those willing to deploy to the Middle East, annual salaries can range from \$100,000 to over \$200,000. Pay as an operations security specialist in the United States is as high as \$600 per day, which, if working full-time, would provide an annual income of approximately \$150,000.

**Findings.** Despite the increased demand for special operations forces over the past decade, the services have generally succeeded in meeting that demand, in part due to the effective use of S&I pays. Continued use of the incentives in place today should be sufficient to maintain the continuation rates attained over the past several years—particularly among more senior personnel eligible for the CSRB, thus maintaining experience levels within the SOF community. However, further efforts to improve retention will likely be expensive. This is mainly because retention incentives have larger impacts when the underlying reenlistment rates are lower than average.<sup>44</sup>

43. The estimated cost includes not only the cost of the bonus, but also the value of the higher retirement payments that bonus recipients will receive due to their additional years of service.

44. There are two primary reasons why retention incentives are more expensive when reenlistment rates are already high. One is that any new incentive will be paid to all reenlistees in the targeted occupational category, even those who would have stayed without the incentive. When reenlistment rates are high, this group of personnel who are paid unnecessary bonuses is large. Second, the willingness of personnel to reenlist varies, and once a sizeable portion of available personnel has reenlisted, those remaining require higher incentives to remain in service.

Because retention rates among SOF personnel are already higher than average, a more cost-effective approach to increasing the number of SOF personnel is likely through growth in new entrants and lateral transfers. However, if the services' training capacities limit their ability to quickly generate sufficient numbers of skilled personnel to meet mission objectives, personnel managers may conclude that increasing retention of experienced personnel might be needed to compliment an increase in the number of new entrants into the community, even at the higher additional cost.

**SOF Career Incentive Pay Concept.** In addition to bonuses, SOF personnel receive monthly incentive pays—AIP and SDAP. As part of its compensation strategy, the U.S. Special Operations Command (USSOCOM) has proposed combining AIP and SDAP into a single monthly incentive—SOF Career Incentive Pay—with pay levels based on occupational classification and experience level. Critical billets would receive an additional supplement. The career pay amounts available to personnel would range from \$75 to \$1,300 per month, with personnel assigned to certain critical billets receiving an additional \$150 a month. The rationale for converting to a consolidated incentive pay is to provide a more consistent and predictable pay over the course of a career and promote skill development.

The proposal is consistent with the simplification of incentive pays in the recent S&I pay consolidation. And while there is no evidence that the conversion would have any significant impact on retention—largely because the pay amounts under the proposed authority are very similar to what is currently being paid under AIP and SDAP—other force management objectives could be achieved. The consolidation proposed by USSOCOM results in a modest 6 percent increase in overall cost, primarily due to a standardized payment schedule across services. This would result in a cost increase for the Army (almost \$5 million), the Marine Corps (nearly \$600,000), and the Air Force (just over \$700,000). The Navy, on the other hand, would experience an annual savings of nearly \$1.5 million.

The USSOCOM proposal has raised concerns among the services because of its standard payment schedule, which appears to run counter to an important tenet of the recent S&I pay consolidation. Under the consolidation, for example, mandated uniform payment schedules for officer and enlisted aviation personnel were eliminated, allowing each service to set pay at the level that best meets its needs and objectives. The SOF career incentive pay concept, in contrast, would require that all members who are similarly situated based on occupational classification and experience be paid the same amount, regardless of service. This standardized pay schedule would limit a service's ability to tailor the pay to meet its own unique staffing requirements, or to adjust pay amounts as its staffing needs and supply change.

Given the long history of monthly incentives in the SOF community, the significant investment in SOF training, and the lucrative civilian employment opportunities available to these personnel, a SOF career pay seems appropriate. Moreover, the concept is consistent with careers pays in the aviation, nuclear power, and health professions, where training costs are also high and lucrative civilian job opportunities provide competition for the military. A similar approach of monthly career incentives and accession and retention bonuses could easily be applied to the SOF community.

To address concerns about USSOCOM's proposal to standardize payment levels, payment bands could be established. Under such an approach, the minimum pay rate would be set no lower than the rate historically needed to meet manning objectives, but each service would have the flexibility to increase the pay above that level. This scheme would maintain a level of consistency and predictability for SOF personnel, while providing the services with flexibility to adjust the pay as conditions change. Accession and retention bonuses would remain available to complement the career pay if needed.

This strategy attempts to accommodate two competing objectives: maintaining pay consistency across the force and providing each of the services with flexibility to meet staffing needs. The QRMC believes that, where appropriate, personnel in similar occupations should be treated consistently across the services. Yet there are many circumstances where differences among the services justify different S&I pay levels and eligibility criteria. Personnel within the same field but in different services may face different deployment schedules, operational tempos, or exposure to hazardous environments. In addition, service staffing requirements—and the ability to meet such requirements—may differ as well. The approach recommended by the QRMC balances competing imperatives by assuring SOF personnel an appropriate level of compensation consistent with their skill and experience over the course of a career, while providing the services with sufficient flexibility to tailor incentives to their particular staffing circumstances, needs, and objectives.

However, the department took a different course when implementing the new health professions and aviation pays. While the S&I pay consolidation statute provided flexibility for each service to set its own rates, the department established standardized pay rates for all of the services, essentially eliminating the flexibility authorized in the statute.<sup>45</sup> Although pay bands are an alternative, the standardized pay approach employed for the new health professions and aviation pays suggests that

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45. Issued in December 2011, the DOD instruction on aviation career pays sets the monthly incentive payments for officers and enlisted flyers at the same levels across all services, maintaining the same criteria used in the previous law. Pay rates for health professions are also standardized across the services.



pay standardization is acceptable to the services and the department. Therefore, the QRMC judges that a similar approach can be taken with SOF career incentive pay. However—unlike aviation incentive pay rates, which had been specified in an earlier statute—there is no precedent upon which to base the specific SOF career incentive pay amounts. Hence, determining the appropriate pay structure for an SOF career pay could present a challenge.

Although a standardized pay strategy is workable and the concept of a career pay for the SOF community viable, the QRMC does not support establishing another pay category specific to a single career field, as is being proposed by USSOCOM. Rather, the QRMC recommends creation of a generic career pay that could be used by the special operations community as well as any other career field for which a career incentive pay is warranted. This proposal is described in greater detail later in this chapter.

### Remotely Piloted Vehicle Operators

The United States has made extensive and effective use of remotely piloted vehicles (RPVs), most recently in Iraq and Afghanistan. The demand for RPVs has grown dramatically over the last decade, and the services envision the use of RPVs will increase significantly over the next several years. Further, RPV technology is a cost-effective resource that can potentially help other federal, state, and local government agencies accomplish their missions. Private sector applications are also possible, although the civilian market will take some time to mature.

**Staffing.** This new approach to gathering intelligence, patrolling the battlefield, and delivering weapons has resulted in a new career field. The services have developed different staffing strategies to support RPV operations. The Army and Marine Corps utilize enlisted personnel to fill RPV operator positions, while the Air Force and Navy rely on commissioned officers. Some of these differences may reflect differences in the types of vehicle and the method used to control the vehicle.

Staffing requirements for RPV operators—particularly for enlisted positions—are forecasted to increase substantially in the next several years (Table 3-5).<sup>46</sup> Current inventory levels fall well short of the projected requirements, and will have to be increased in order to meet the growing demand.

Among the services, the Air Force has the lowest ratio of operators to requirements. To better position itself for the future, the Air Force has developed a separate career field (18X) for officers who only operate RPVs. Because the training needed

46. Navy data are not included in the table, as the Navy assigns aviators and naval flight officers to perform RPV operations. Navy force managers believe the service has sufficient inventory in these occupational fields to meet mission requirements.

**Table 3-5. Remotely Piloted Vehicle Operators Staffing**

	FY 2010 Requirement	FY 2015 Requirement	Requirement Growth (%)	FY 2010 Inventory	Ratio
<b>Air Force officers</b>					
Pilot	1,005	637	-36.6%	230	0.23
Combat systems operator	25	21	-16.0	17	0.68
Remotely piloted aircraft pilot	0	696	—	0	0.0
Total	1,030	1,354	31.5	247	0.24
<b>Air Force enlisted</b>					
Unmanned aerospace system sensor operator	242	1,086	348.8	219	0.90
<b>Army enlisted</b>					
Unmanned aerial vehicle operator	1,059	1,485	40.2	1,158	1.09
<b>Marine Corps enlisted</b>					
Unmanned aerial vehicle operator	135	226	48.9	107	0.79

to qualify as an RPV operator is shorter (and less costly) than the training required to pilot manned aircraft, the new career field will help the Air Force more quickly close current and projected staffing shortfalls. The Air Force has a ramp-up plan that called for training 60 RPV pilots in FY 2011, and an additional 146 and 168 in FY 2012 and 2013, respectively. After this ramp-up period, the Air Force anticipates training approximately 95 RPV pilots annually. By FY 2021, nearly all of the Air Force RPV operator inventory will be supplied from the 18X career field.

The Air Force has taken a similar approach with RPV sensor operators, establishing the 1U0X career field for enlisted personnel. The plan for sensor operators was to train 353 sensor operators in FY 2011, with 327 more operators added during both FY 2012 and 2013. Training levels will stabilize at 95 sensor operators per year after that.

**Incentive Pays.** Just as the services have taken different approaches to who will fly RPVs, they have also developed different compensation strategies—driven in part by the differences in personnel. RPV operators in the Army and Marine Corps are eligible for SRBs. Navy and Air Force personnel, who are drawn from the pilot and flight officer/navigator fields, continue to receive Aviator Pay (AP)<sup>47</sup> while in

47. Aviation Pay is the new term for what was Aviation Career Incentive Pay (ACIP).

an RPV assignment. The Air Force also used the AIP authority to establish a new career incentive pay for officers and enlisted personnel serving in the separate RPV career fields—Remotely Piloted Aircraft Incentive Pay (RPAIP). AP for officers and Enlisted Aviator Pay (EAP)<sup>48</sup> for enlisted personnel were used as models for the new pay, with eligibility criteria and payment amounts identical to those for AP and EAP.

**Civilian Market.** Although the civilian market for RPV operators is still in its infancy, a recent study found that civilian salaries for remotely piloted aircraft pilots willing to work overseas range from \$60,000 to \$225,000; salaries stateside range from \$50,000 to \$125,000.<sup>49</sup> Some federal agencies are also using unmanned aerial vehicles, with salaries for pilot positions typically starting at the GS-11 level (approximately \$57,000) and eventually reaching the GS-13 level (up to about \$106,000). While salaries for deploying overseas can exceed military compensation (including incentive pay), military compensation is very competitive compared to stateside civilian opportunities.

Salaries for sensor operators working overseas range from \$83,000 to \$185,000, compared to \$58,000 to \$95,000 for civilian positions in the continental United States. For a staff sergeant, even the minimum stateside salary is higher than RMC and RPAIP. For a master sergeant, military compensation with incentive pay falls in the middle of stateside wages and is below compensation available for sensor operators deployed overseas.

**Findings.** As with any new career field, data on RPV operator accessions and retention will emerge over time. But because of the rapidly growing demand for this new capability, using incentives to increase personnel levels in the short term is appropriate, particularly for RPV sensor operators, who have attractive civilian employment opportunities, especially if they are willing to work overseas. However, because the dearth of data makes a comprehensive needs assessment impossible, the Air Force decided to mirror the incentive pay provided to other rated personnel—Aviator Pay for officers and Enlisted Aviator Pay for enlisted personnel.

Over time, recruitment and retention trends will emerge and the nascent civilian market will mature. The services will then be able to conduct a more robust assessment of the need for incentives to achieve long-term staffing objectives. But it is clear that the services have fewer RPV operators than needed to meet current and projected demand, and incentive pays can play a role in addressing the shortfall.

48. Enlisted Aviator Pay is the new term for what was Career Enlisted Flyer Incentive Pay (CEFIP).

49. Hardison, Chaitra M., Michael G. Mattock, and Maria C. Lytell. *Incentive Pay for Remotely Piloted Aircraft Career Fields*, MG-1174-Project Air Force. Santa Monica, CA: RAND Corporation, 2012.

Given that the services currently have only limited information about retention behavior, the use of bonuses would be a more appropriate strategy until long-term reenlistment patterns emerge, as bonuses are relatively more cost effective and typically easier than incentive pays to adjust or discontinue if staffing assumptions or requirements change. Using AIP can be an effective alternative if it is used as originally designed and not just as a substitute for a career pay. If used as a career incentive pay, it commits the service to a long-term financial obligation before a robust cost-benefit analysis can be performed. Moreover, basing RPV pay on the incentive structure for pilots of manned aircraft overlooks important differences between the two career fields, such as the significantly higher training cost for pilots, as well as the underlying purpose of pilot pay, which is to partially compensate for the hazardous nature of flying duty—a hazard that does not exist for personnel operating an RPV.<sup>50</sup>

### Linguists/Translators

While DOD considers all languages important, certain languages have priority for recruiting, retention, and training. Those languages are classified as “immediate,” as they are needed to meet urgent critical demands. The QRMC focused its review primarily on cryptologic linguists, who are among the most highly trained linguists in the military. In addition to being proficient in a foreign language, cryptologic linguists must also provide analysis of intelligence derived from communication, which requires a much deeper understanding of the language and how it is used. In fact, linguists require more than a year of additional training to qualify as cryptologic linguists. While this elite segment of the linguist field does not represent the full spectrum of languages that the services need to accomplish their missions, it does provide useful insight into the challenges of maintaining an inventory of the most critical and highly trained linguists.

**Staffing.** In 2010, the Air Force filled nearly 100 percent of its cryptologic linguist requirements, while the Army and Marine Corps both met about 75 percent of their needs (Table 3-6). Since that time, Marine Corps staffing has improved significantly, with three of the four cryptologic linguist occupational specialties now at 100 percent. The Navy filled nearly all of its authorized positions in 2010; however, it faces a projected 17 percent growth in demand by 2015, which cannot be met with current inventories.

To address shortfalls in this area, the services must closely manage both the current inventory and the training pipeline in order to have a sufficient number of linguists—particularly given the difficult and lengthy training required to become

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50. See *Military Compensation Background Papers* for additional information on ACIP.

**Table 3-6. Linguists Staffing**

	FY 2010 Requirement	FY 2015 Requirement	Requirement Growth (%)	FY 2010 Inventory	Ratio
<b>Army</b>					
09L Interpreter/Translator	298	309	3.7%	292	0.98
35 Cryptologic Linguist	2,274	2,271	-0.1	1,649	0.73
<b>Total Army</b>	<b>2,572</b>	<b>2,580</b>	<b>0.3</b>	<b>1,941</b>	<b>0.75</b>
<b>Navy</b>					
CTI Non Language Specialist	112	142	26.8	135	1.21
CTI Arabic	557	598	7.4	464	0.83
CTI Persian	308	344	11.7	240	0.78
CTI Chinese	356	438	23.0	397	1.12
CTI Korean	99	115	16.2	160	1.62
CTI Spanish	278	309	11.2	324	1.17
CTI Russian	184	273	48.4	225	1.22
<b>Total Navy CTI</b>	<b>1,894</b>	<b>2,219</b>	<b>17.2</b>	<b>1,849</b>	<b>0.98</b>
<b>Air Force</b>					
1A8X1 Airborne Cryptologic Analyst	1,089	1,084	0.0	1,053	0.97
1N3X1 Cryptologic Language Analyst	2,015	2,382	18.2	2,053	1.02
9L0X0 Interpreter/Translator	70	127	81.4	67	0.96
<b>Total Air Force</b>	<b>3,174</b>	<b>3,593</b>	<b>13.2</b>	<b>3,173</b>	<b>1.00</b>
<b>Marine Corps</b>					
2671 Cryptologic Linguist, Middle East	282	286	1.4	219	0.78
2673 Cryptologic Linguist, Asia-Pacific	170	170	0.0	128	0.75
2674 Cryptologic Linguist, Western Europe	133	131	1.5	112	0.84
2676 Cryptologic Linguist, Eastern Europe	129	122	5.4	86	0.67
<b>Total Marine Corps</b>	<b>714</b>	<b>709</b>	<b>0.0</b>	<b>545</b>	<b>0.76</b>

Source: Defense Manpower Data Center, Military Departments.

qualified.<sup>51</sup> The department employs a total force manpower solution to meet personnel requirements in this career field, which is designed to achieve the most efficient and effective mixture of military (active, guard, and reserve), civilian, and contract personnel. At the height of recent overseas contingency operations, for example, thousands of contract linguists, proficient in Dari, Pashto, Urdu, and Farsi, were deployed to Iraq and Afghanistan.

In addition to incentive pays, two relatively new programs provide the services with additional tools to expand their foreign language capacity. The Military Accessions Vital to the National Interest (MAVNI) program allows recruitment of foreign citizens legally in the United States who have critical medical skills or who are fluent in languages designated as critical to the needs of the DOD.<sup>52</sup> Since the MAVNI program was established in 2009, the Army has enlisted approximately 1,300 foreign citizens. At this time, however, the MAVNI program is on hold due to security screening concerns. Moreover, due to security requirements, MAVNI recruits are only eligible for the small subset of military occupations that do not require security clearances.

Established in 2003 by the Army, the 09L program is designed to recruit native speakers of critical languages.<sup>53</sup> Thus far, the focus has been on Arabic, Dari, Pashtu, Kurdish, and Farsi speakers. The program was initially limited to enlistment in the Individual Ready Reserve, but has since expanded to allow enlistment in the active component. The native speakers in this community are primarily used as interpreters, but may also be used as translators. These linguists are eligible for both enlistment bonuses and the Foreign Language Proficiency Bonus (FLPB).

**Proficiency.** To understand the incentive pay structure for linguists, it is useful to have a basic understanding of both the breadth of their language ability and their level of proficiency. First, language skills involve the ability to read (R), listen (L), and speak (S) a particular language. Proficiency levels are measured on a federal government Interagency Language Roundtable (ILR) scale of 0 through 5 (Table 3-7). The maximum foreign language proficiency bonus of \$500 per month is paid to members who are able to read, listen, and speak at the 3 level, or who are at the 4 level in any two of the language modalities in a language identified as an “immediate investment.” (The monthly maximum rises to \$1,000 for two or more languages.) At the other end of the spectrum, members who have elementary proficiency in a language

51. The data in Table 3-6 do not include linguists who are in the training pipeline, since they are not yet available for mission assignment.

52. Legal aliens with certain health care credentials or proficiency in specific DOD strategic languages are eligible for enlistment under MAVNI. For more information about the MAVNI program, see <http://www.defense.gov/news/MAVNI-Fact-Sheet.pdf>.

53. In the Army, 09L is a personnel specialty reporting code for interpreter/translator.

**Table 3-7. Federal Government Interagency Language Roundtable Proficiency Scale**

Level	Description
0	No proficiency
1	Elementary proficiency
2	Limited working proficiency
3	General professional proficiency
4	Advanced professional proficiency
5	Functionally native proficiency

*Note:* Intermediate ILR proficiencies are recognized by adding a “+” sign.

*Source:* Interagency Language Roundtable.

identified as “enduring”—which means the department sees a continuing need for that language during the next 10 to 15 years—receive \$25 per month. The Army is currently evaluating the use of non-monetary incentives (such as promotion points, time off, and achievement badges) for soldiers between proficiency levels 0+ and 1+.

**Incentive Pays.** The FLPB is intended to encourage members with foreign language proficiency to self identify and maintain proficiency. Larger bonus amounts are awarded with increased proficiency. But the proficiency bonus does just what its name suggests—encourages and sustains proficiency. To address staffing challenges, the services supplement FLPB payments with the aggressive use of accession and retention bonuses. For example, the Marine Corps is currently using the SRB to reduce shortages. And nearly all of the personnel in the Army’s language-dependent military occupational specialty (MOS 35P) are authorized an SRB. The Army’s BEAR (Bonus Extension and Retraining) program is designed to channel soldiers into understaffed specialties, which includes the 35P MOS. Under the BEAR program, a soldier who completes training and reenlists is paid an SRB that ranges from \$3,200 to \$72,000 depending on the member’s pay grade and length of service obligation.

**Civilian Market.** The September 11, 2001 terrorist attacks increased demand for qualified linguists not just in the military, but also in the federal government, where the need for individuals with 3R/3L language skills (the defense intelligence community standard) grew significantly. For example, the Federal Bureau of Investigation has reportedly hired 1,000 linguists and is expected to hire over 200 more in the next year. Like the military, federal employers have turned to incentive bonuses to boost inventory. The Central Intelligence Agency offers a hiring bonus—up to \$35,000—for individuals who have exceptional language skills, and the National Security Agency offers a \$7,500 signing bonus to qualified candidates. Even without these bonuses, federal pay rates are competitive, with salaries ranging from \$47,500 for employees entering at the GS-9 level, to nearly \$100,000 or more for new entrants

at the GS-13 level. Moreover, these salary levels do not include Foreign Language Proficiency Pay, which adds up to another \$13,000, as well as other local market salary supplements.

Job opportunities are even more lucrative in the private sector. Several companies with contracts to supply the U.S. military with linguists offer salaries ranging from \$175,000 to \$230,000 to individuals at the 3R/3L/3S level or higher in a critical language who are willing to deploy overseas. These companies provide an attractive and lucrative private sector option for members with the specialized training and experience found in the cryptologic linguist community. Moreover, cryptologic linguists typically possess a security clearance, which significantly enhances their ability to negotiate for a higher salary. A recent survey found that the average 2011 salary for security-cleared professionals was over \$90,000.<sup>54</sup> For those working outside the United States, the average salary was substantially higher, at over \$135,000.

The civilian market clearly provides lucrative job opportunities for linguists with the critical languages in demand today, requiring the services to constantly monitor staffing and retention trends, and be prepared to respond quickly to forecast changes.

**Findings.** Language professionals are critical to mission success, and the time and money invested to train a linguist are substantial. Moreover, numerous civilian opportunities are available—opportunities that are likely to continue as intelligence agencies and the private sector compete for skilled personnel, particularly the most highly skilled linguists. Each of the services offers accession and retention bonuses to individuals entering or remaining in the cryptologic linguist career field. Improvements in staffing levels are a direct result of such bonuses, which are necessary in order for military compensation to be competitive with civilian sector pay. Moreover, given the training investment in language professionals, retaining qualified personnel through aggressive use of retention bonuses is more cost effective than recruiting and training new personnel. Because of the significant investment that the services make in linguists, as well as the lucrative civilian job opportunities available to skilled personnel in this field, the cryptologic linguist community could be another career field where a career incentive pay might prove beneficial.

### **Mental Health Professionals**

The demand for mental health professionals has increased significantly in recent years, as nearly a decade of ongoing military operations and deployments have

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54. The 2012 Security Clearance Jobs Salary Survey was administered by ClearanceJobs.com between November 17, 2011 and January 31, 2012.



taken their toll on service members, their families, and veterans. The incidences of post-traumatic stress disorder, traumatic brain injury, and suicide have all risen, increasing the need for mental health services. Congress has focused on this issue as well, recently directing the department to increase the number of authorized mental health personnel positions to either the amount needed to meet demand or by 25 percent—whichever is greater. It also directed the department to develop and implement a new program of incentive pays and training protocols to significantly increase the number of military health care professionals by the end of FY 2013.<sup>55</sup> In order to meet the growing mental health needs of service members and their families, and to comply with the recent congressional direction, the services are substantially increasing the number of mental health professionals in the force.

**Staffing.** The Army, Air Force, and Navy employ over 3,000 professionals to meet the mental health needs of service members and their families.<sup>56</sup> These specialists include officers serving as psychiatrists, clinical psychologists, clinical social workers, and mental health nurse practitioners, as well as enlisted personnel serving as mental health specialists. In 2010, the Army and Air Force had sufficient personnel to meet over 90 percent of their overall staffing requirements for mental health professionals. However, Navy staffing rates were relatively low in 2010, with only 70 percent of enlisted positions and 76 percent of officer positions filled. Further, over the next five years, the requirement for mental health professionals in all three services will grow, with overall officer mental health professionals projected to increase 26 percent by 2015, and enlisted specialists increasing by 16 percent over the same period (Table 3-8).

Retention rates of officers in mental health professions are generally at or above average retention rates for all officers. Although retention rates for health professionals in the Navy are somewhat lower, that service has recently made a series of policy changes designed to increase retention, including a Graduated Retention Bonus for clinical psychologists and increases in Multi-year Specialty Pay for psychiatrists. Retention rates are also low among enlisted mental health specialists in the Navy.

Much of the growth in this career field will be in social workers, which is consistent with trends in the civilian market where demand for social workers has also been on the rise. Due to less demanding education and training requirements, social workers earn considerably less than psychiatrists and psychologists. Yet they are capable of providing many of the mental health services traditionally supplied by psychologists. In those instances where they are allowed to provide mental health

55. See the National Defense Authorization Act for FY 2010, PL 111-84 October 28, 2009, section 714.

56. Navy mental health specialists care for both Navy and Marine Corps personnel and families.

**Table 3-8. Mental Health Professionals Staffing**

	FY 2010 Requirement	FY 2015 Requirement	Requirement Growth (%)	FY 2010 Inventory	Ratio
<b>Army</b>					
Psychiatrist	172	189	10%	155	0.90
Non-physician specialist	357	510	43	356	1.00
Total officer	529	699	32	511	0.97
Total enlisted	733	888	21	695	0.94
Total Army	1,262	1,587	26	1,206	0.96
<b>Navy</b>					
Psychiatrist	114	125	10	92	0.81
Non-physician specialist	206	274	33	152	0.74
Total officer	320	399	25	244	0.76
Total enlisted	412	377 <sup>a</sup>	-8	300	0.70
Total Navy	732	776	5	544	0.74
<b>Air Force</b>					
Psychiatrist	155	173	12	145	0.94
Non-physician specialist	504	639	27	471	0.93
Total officer	659	812	23	616	0.93
Total enlisted	715	884	24	715	1.00
Total Air Force	1,374	1,696	23	1,331	0.97
<b>Total Force</b>					
All officer	1,508	1,910	26	1,371	0.90
All enlisted	1,860	2,149	16	1,710	0.92
Total Force	3,368	4,059	21	3,081	0.91

a. Navy authorization data did not extend beyond fiscal year 2012.

services, social workers are a cost-effective alternative to more highly compensated psychologists and psychiatrists.<sup>57</sup>

**Incentive Pays.** As with other health care professionals serving in the military, mental health professionals are eligible for substantial incentive pays intended to keep their military compensation competitive with civilian earnings. Table 3-9 summarizes the array of S&I pays available to supplement RMC in this career field.

57. According to McFall (2007), social workers went from providing approximately 5 percent of mental health services nationwide in 1991 to 56 percent by 1997. A similar shift to lower cost providers occurred a few decades earlier, when psychologists began to substitute for psychiatrists in many mental health areas. McFall, Richard M. "Doctoral training in clinical psychology," *Annual Review of Clinical Psychology* 2, 2006: 21–49, 26.

**Table 3-9. Special and Incentive Pays Available to Mental Health Specialists**

Mental Health Occupation	Special and Incentive Pay	Approximate Amount
Psychiatrist	Board Certification Pay	\$200–\$500 per month
	Variable Special Pay	\$400–\$1,000 per month
	Incentive Special Pay	\$20,000 per year
	Multi-year Special pay	\$43,000 per year for a four-year commitment
	Additional Special Pay	\$15,000 per year
Clinical psychologist	Board Certification Pay	\$6,000 per year
	Incentive Pay (if not receiving GRB)	\$5,000 per year
	Graduated Retention Bonus (GRB)	\$20,000 per year for a four-year commitment
Clinical social worker	Board Certification Pay	\$6,000 per year
	Graduated Retention Bonus (proposed)	Up \$10,000 per year for a four-year commitment
Mental health nurse practitioner	Board Certification Pay	\$6,000 per year
	Special Incentive Pay	Authorized up to \$20,000 per year for a four-year commitment
Enlisted mental health specialist	Selective Reenlistment Bonus	Award varies by service

Significant incentive pays are typical for the medical fields, where civilian sector wages are often substantially higher than military compensation, making supplemental pays necessary to attract and retain a sufficient number of health care professionals. As part of the ongoing consolidation of S&I pays, the numerous health professions pays were collapsed into three categories—health professions bonuses, health professions incentive pays, and board certification incentive pays—to simplify management and improve efficiency.

**Civilian Market.** Unlike the specialties discussed above, there is a direct and well-defined civilian career field upon which to compare military and civilian compensation, and that comparison shows that the military pays a competitive wage. In part this is because civilian earnings for psychiatrists and psychologists are relatively low compared to earnings for other medical specialists—despite the fact that their education and training requirements are quite rigorous, and on par with the requirements for more highly paid specialists.<sup>58</sup> Including S&I pays, military

58. This may be partly due to the fact that insurance coverage for mental health services is often more restrictive than coverage for other medical services, meaning that patients may be less able to afford such treatment. Government funding of mental health services has also declined significantly during the economic downturn, further reducing patients' ability to pay for mental health care. With lower salaries and insurance parity challenges, it is estimated that between 2010 and 2020, the number of psychiatrists will decline

compensation for psychiatrists is above the median pay for psychiatrists in the civilian sector. However, without S&I pays—which can account for a significant portion of military psychiatrists’ earnings—military compensation would be less than median civilian compensation, thus illustrating the need for supplemental pay.

Military compensation for other mental health professionals favorably compares with civilian pay, as well. Compensation for clinical psychologists serving in the military is significantly higher than median earnings for psychologists in the civilian sector. In fact, earnings of military psychologists are at or above the 75<sup>th</sup> percentile of civilian clinical psychologists. Military wages for clinical social workers are also substantially higher than comparable civilian wages, with compensation well above the 90<sup>th</sup> percentile of civilian earnings. Mental health nurses in the military are paid at or above the median level of their civilian counterparts, with earnings for more senior nurses (O-3 and above) exceeding the 90<sup>th</sup> percentile of civilian mental health nurses. Similar to officers serving in the mental health fields, enlisted mental health specialists also earn substantially more than their civilian counterparts (psychiatric technicians) with military compensation exceeding the 90<sup>th</sup> percentile of civilian wages. These pay comparisons suggest that, with the utilization of incentive pays, the services can offer very competitive pay. Although military service can involve deployments, family separation, and other hardships, the substantially higher compensation available in the military may help mitigate concerns about military service.

**Findings.** The investment in time and resources to train a mental health professional is significant, making retention of experienced personnel potentially less expensive and more timely than accessing and training new personnel. But with retention rates for mental health professionals already relatively strong in most areas, increasing retention-related pay would likely have only a modest effect on retaining additional mental health professionals—despite the fact that growth targets in many specialties are quite ambitious, particularly in the Navy where shortfalls already exist.

One area that could benefit from offering retention incentives is the Navy’s enlisted mental health specialist field, which is currently staffed well below required levels. Relatively lower retention rates within this community suggest that retention bonuses could yield higher reenlistment rates at a relatively low cost. Another specialty facing potential shortages is psychiatrists, the requirements for which are projected to grow by 10 percent in the Army and Navy, and 12 percent in the Air Force by 2015. Requirements for social workers are also projected to expand substantially by 2015, with the Navy planning to more than double its social worker force, and the Air Force preparing for a 40 percent increase. To help the services

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by over 20 percent, from 34,000 to fewer than 28,000. A survey of the 2005–2010 period suggests that the number of psychologists may also be declining slightly, while the supply of social workers is increasing.

meet these growth targets, the department is considering offering social workers a graduated retention bonus of \$10,000 per year for a four-year commitment.

While the positive effect of retention bonuses on enlisted mental health specialists in the Navy is promising, it is unlikely that the services will be able to substantially increase the supply of officer mental health professionals through retention at a reasonable cost. The most promising alternative is to focus efforts on accessing experienced personnel from the civilian sector through direct accession programs.

## Career Incentive Pay

One issue that emerged in the review of incentive pays, particularly for special operations forces and RPV operators, is the utility of a career incentive pay. The use of career incentive pays is not new. They were part of the legacy S&I pay structure and remain in the consolidated structure, which retains specific career incentive pay provisions for nuclear officers, aviation officers, and health professionals. Further, a career incentive pay for enlisted flyers existed under the legacy pays, that is now administered through the skill incentive pay provision<sup>59</sup> in the consolidated S&I pay authorities. The QRMC's review of special operations forces suggests that career pay incentives could help address concerns about pay stability at a reasonable cost, and will likely be applicable to other communities as well.

The first step in considering the use of a career pay incentive is to understand the conditions that would warrant use of these pays. A number of factors must be assessed to determine if an incentive pay is appropriate—factors that help determine how critical the skill is over time. And because requirements change, such conditions must be reviewed periodically to both determine the need for and the amount of an incentive pay. Factors to consider include:

- ❖ Recruiting performance
- ❖ Retention trends
- ❖ Civilian job opportunities and wages
- ❖ Working conditions and hazards involved
- ❖ Training/replacement costs
- ❖ Proficiency requirements
- ❖ Criticality of the skills

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59. United States Code, Section 353(a), title 37.

While the above factors are important, one or more of the following conditions should be present when considering a career incentive pay. A career incentive pay would be appropriate when the career field is well established and these conditions can be fully evaluated.

- ❖ Recruiting and retention are chronic concerns
- ❖ Civilian wages are historically much higher than RMC
- ❖ Training and replacement costs are exceedingly high

A general career incentive pay that could be used for any career field would have great utility, and such an authority should be established. In assessing the new consolidated S&I pay authorities, the QRMC found that none of them is perfectly suited for this purpose, although section 353 of title 37, United States Code,<sup>60</sup> if modified, could serve as a broad career incentive pay authority. Establishing a general career incentive pay would be preferable to creating additional career-specific incentive pays—a proliferation of pays that would be contrary to the philosophy behind the recent consolidation.

Thus, the QRMC has identified three modifications to section 353 that would allow it to be used as a career pay incentive:

- ❖ First, increase the maximum monthly amount from the current limit of \$1,000 to \$2,000—a level on par with the maximum incentive pay authorized for nuclear officers. The \$1,000 maximum monthly payment is lower than the SOF incentive pay being proposed by USSOCOM (\$1,450), which would make using the existing authority problematic for that community. Consideration could be given to setting the maximum payment even higher to provide greater flexibility in responding to future market conditions or new, yet unforeseen, career fields—thus avoiding an additional legislative change in the future.
- ❖ Second, relax the restriction under section 353 that prevents members from receiving both a skill incentive pay and a hazard pay. Section 351 includes Hostile Fire Pay (HFP), Imminent Danger Pay (IDP), and any duty that has been designated as hazardous. Such a prohibition is not practical. Special operations forces, for example, typically conduct operations in areas where they would be authorized HFP or IDP, or in other dangerous places

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60. Section 353 is the authority the department plans to use when it transitions Career Enlisted Flyer Incentive Pay from the legacy authority (37 USC 320) to the consolidated authority.

where it would be appropriate to simultaneously receive a hazardous duty pay and career incentive pay.<sup>61</sup>

- ❖ Third, the secretary of defense should designate those careers that would be authorized a career incentive pay under this authority. Once approved, the services would have the flexibility to adjust the incentive to achieve their service-specific needs. While the QRMC agrees that personnel in the same occupational field should be treated consistently, circumstances sometimes vary across services, resulting in differences in deployments, operational tempos, family separations, or exposure to hazardous environments. Staffing demands may also differ by service, requiring different responses in order to meet inventory requirements.

The restriction under section 353 that prohibits members from receiving both a skill incentive pay and proficiency bonus also should be reviewed. This restriction states: “A member may not be paid more than one pay under this section in any month for the same period of service and skill.” This restriction could adversely affect airborne linguists, who receive both a language proficiency bonus (subsection a) and a skill pay (subsection b) as an enlisted flyer. These enlisted flyers are airborne cryptologic analysts, which intertwines both flying and language proficiency in the same career field.

If modified, the pay authority under section 353 could be used to establish the proposed career pay for SOF personnel. It could also provide the services with an appropriate option for addressing staffing issues with linguists who are proficient in a critical language and have lucrative civilian job opportunities. Further, as the RPV community matures, analysis may reveal that a career incentive pay is warranted for that community as well. These are but a few examples of how a broad career pay authority could give the services an additional tool to address long-term staffing needs.

**RECOMMENDATION: CAREER INCENTIVE PAY**

Provide authority for a career incentive pay structure, similar to the career pays for aviators and health professionals, which could be used for other communities or career fields.

61. An informal legal review opined that the section 353 prohibition on paying for both hazardous duty pay and skill incentive pay “for the same period of service in the same career field or skill” would apply if the hazardous duty pay was based on performing a hazardous skill or performing in a hazardous position and the member is receiving a skill incentive pay for that same skill. If the hazardous duty pay was for performing duty in a location designated for such pay and the skill incentive pay would be paid regardless of the location of the duty, it was thought that the statute does not prohibit the receipt of both pays.

## Conclusion

The QRMC's review of four critical skill areas revealed common traits and characteristics that are likely to emerge in other career fields, and that can help inform future evaluations. They include:

- ❖ **Staffing shortfalls.** Overall staffing in each of the four occupational groups is generally below authorized personnel levels. Staffing shortfalls do not mean that missions are not being accomplished. Rather, operating tempo is higher than desired in order to meet mission requirements and may remain so until shortfalls are filled.
- ❖ **Demand growth.** Meeting planned growth for all these occupations presents a challenge. The largest growth will be for mental health professionals, RPV operators, and sensor operators, for which planned growth between FY 2010 and 2015 exceeds 25 percent. In the mental health field, growing military requirements are complicated by demand in the civilian sector, and a projected decline in the number of medical students entering the mental health field. For RPV operators, demand in the civilian sector is projected to double in the next 10 years. The military services will need to closely monitor these expected trends and the potential impact on recruiting and retention.
- ❖ **Competitive compensation.** A comparison of military compensation and civilian wages in these four career fields shows varied outcomes. In cases where there is a pay differential in favor of civilian wages, incentive pays have proven to be effective in both reducing the gap and encouraging retention. For example, the use of the Critical Skills Retention Bonus for senior personnel in special operations forces proved very effective in increasing continuation rates. As the economy emerges from the recession, civilian job opportunities are likely to become more plentiful and wages are likely to rise. In a healthier economy, the services may have to work harder to retain a sufficient number of personnel.
- ❖ **Effectiveness of S&I pays.** While effective in many cases, S&I pays may not be sufficient to resolve staffing challenges in all occupations. When retention rates are high and staffing shortfalls persist, the additional pay needed to increase retention will become increasingly expensive, with diminishing results. Whether incentive pays are a cost-effective solution is something the services must carefully consider. Though improvements in retention can help, meeting the challenging growth goals for many



high-demand specialties will likely require increased accessions. For skills found in the civilian sector, such as mental health professionals, the services could take advantage of programs through which they can access trained and experienced personnel—in order to alleviate the need for expensive and time-consuming training, and more quickly fill shortfalls in experienced personnel.

S&I pays remain an important resource for personnel managers. Such pays are essential to maintaining competitive compensation in many specialized career fields, responding to rapid growth in demand for certain skills, and compensating personnel for dangerous or undesirable working conditions. That said, it is important to regularly review how these pays are being used in order to ensure that they continue to be necessary, efficient, and cost effective in meeting staffing goals.



## Chapter 4

# Combat Compensation

Among the many different elements of military compensation, two are exclusive to combat and combat support operations—Hostile Fire Pay/Imminent Danger Pay (HFP/IDP) and the Combat Zone Tax Exclusion (CZTE). HFP/IDP provides monthly payments to members serving in designated combat zones. The CZTE allows all pay of enlisted personnel serving in combat zones to be excluded from federal income tax. For officers, the exclusion is limited to the highest level of pay for enlisted members plus HFP/IDP.

Intended to recognize personnel who face significant combat risk, the origins of combat compensation can be traced back to World War I, when a tax benefit was first made available to military personnel. In the decades since, the portion of the force receiving combat benefits—as well as the level of those benefits—has grown. While some of the changes have ensured more comprehensive recognition of service members serving in harm’s way, the relationship between the degree of danger to which the member is exposed and combat compensation has eroded. Designated combat zones have been expanded and preserved to the point that they often include areas where no combat takes place. And those service members who are closest to danger often receive smaller benefits than other personnel who are serving in less dangerous environments. As a result, there is little correlation between exposure to danger and combat compensation benefits.

Wartime income tax exclusions for military personnel were first established during World War I, with combat pays initially instituted during World War II. For much of the time since then, a strong and direct relationship existed between the risks facing military personnel and the combat compensation they received. Combat pay was initially limited to personnel serving in front-line infantry units, and later expanded to include those troops serving in or near active combat zones. Over time, however, a series of policy changes and administrative practices—as well as the changing nature of military missions—weakened the link between dangers of combat and combat compensation.

Today, designated combat zones include countries where there are no ongoing combat operations, nor even recognized dangers. For example, although Bahrain remains designated as a combat zone, members are now able to relocate there with their families. And service members deployed to these relatively safe areas still receive the same monthly HFP/IDP as personnel who are actually in combat. The relationship between CZTE benefits and exposure to risk has also weakened. Historically, congressional preference was for the CZTE to benefit enlisted members, since far

more junior personnel are deployed to those areas where actual combat takes place and casualties are the highest. But changes in the CZTE law have upturned that policy, so that the program's greatest benefits now go to those personnel with the highest income, not to junior enlisted members who are more likely to be engaged in combat operations.

The QRMC was tasked to review compensation for service performed in a combat zone, combat operation, or hostile fire area, or while exposed to a hostile fire event. This chapter explores the origins of combat compensation and how it has evolved over time into the system in place today. It also describes the elements of combat compensation, and evaluates how current benefits are correlated with members' exposure to combat or imminent danger. The QRMC found that, over time, the relationship between the degrees of danger to which a member is exposed and combat compensation has eroded. The chapter concludes with a series of recommendations designed to strengthen the relationship between combat and compensation so that combat compensation more appropriately rewards those service members who face the greatest possibility of being injured or losing their lives as a result of a hostile action.

## The History and Evolution of Combat Compensation

Combat compensation has been provided to military personnel fighting the nation's wars for nearly 100 years, and was a firmly entrenched component of military compensation long before the U.S. military transitioned to an all-volunteer force in 1973. While combat compensation was initially limited to troops serving on the front lines, the benefits have evolved over time to cover personnel serving in a broader—and often less hazardous—range of environments.

### Combat Pay

Higher compensation for personnel serving in combat originated during World War II, with the narrowly focused Badge Pay.<sup>62</sup> Designed to recognize the hazards and hardships of infantry service and to boost the morale of frontline infantrymen, Badge Pay awarded \$10 per month to holders of a Combat Infantryman's Badge, earned through combat service, and \$5 to those with an Expert Infantryman's Badge, earned through proficiency in training. Once awarded, an infantryman would continue to receive Badge Pay as long as the benefit was authorized, even after he exited the war theater. Although other personnel endured similar risks and discomforts, Badge Pay was available only to the infantry, which comprised just a fraction of the total force, but suffered the overwhelming majority of World War II casualties.

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62. The history of combat pay provided here is based on the in-depth historical review in Brandon R. Gould and Stanley A. Horowitz, *History of Combat Pay*, in the second volume of this report.

Combat pay for military personnel deployed to Korea represented the first modern form of direct combat compensation. Authorized in 1952, Combat Pay provided \$45 per month to enlisted members and officers serving at least six days in designated “combat units,” or individuals wounded, injured, or killed in hostile fire. While Badge Pay eligibility was occupation-based, eligibility for Combat Pay was based on the conditions of combat service. Despite this shift, eligibility was still limited, largely restricted to frontline ground units, with the intent that the pay recognize only those enduring the worst hazards and hardships of war. And because the pay was not available to those who received other special pays, such as flight or submarine pay, it was mainly limited to Army troops. Over the course of the conflict, less than 20 percent of troops deployed to Korea and adjacent waters received Combat Pay.

In 1963, Congress reinstated Combat Pay (which had expired with the Korean armistice) as Hostile Fire Pay (HFP) to provide a monthly stipend to eligible service members and allow personnel to receive multiple special pays. Most importantly, the new law provided the DOD nearly complete discretion over administration of HFP. That administrative authority—along with the fluid combat environment in Vietnam—soon yielded substantial changes in the eligibility criteria for HFP. Unlike prior conflicts in which casualties peaked along defined front lines, nowhere was safe in the jungles of Vietnam and combat risk was impossible to estimate. In 1965, the department adopted a new “zonal” eligibility standard for combat pay. HFP was no longer limited to those service members experiencing the worst hazards and hardships; instead, all personnel serving within a designated combat zone who faced any level of risk were eligible. Not surprisingly, the number of service members qualifying for Combat Pay greatly expanded under zonal eligibility, increasing five-fold to include all military personnel serving in Vietnam.

In the years following the Vietnam War, U.S. forces were involved in few military conflicts, with little need for new combat zone designations. But the 1983 bombing of the Marine barracks in Beirut, along with violence against U.S. personnel stationed in El Salvador, ushered in a new type of low-intensity military conflict, prompting a reevaluation of combat-pay policies. HFP had traditionally been reserved for the hazards of open warfare, not for the risks associated with low-intensity conflicts outside of war zones, which characterized many of the military deployments and peacekeeping operations of the 1980s and 1990s. In response, Congress established Imminent Danger Pay (IDP), which provided HFP-equivalent pay to members in imminent danger due to civil war or insurrection, terrorism, or wartime conditions.

While the introduction of IDP was consistent with the missions and risk environments of military deployments in the 1980s and 1990s, it further reduced the risk threshold for combat pay eligibility, and weakened the link between exposure

to danger and benefit levels. Between 1990 and 1999, for example, the number of countries designated for Combat Pay grew from 13 to 45. Moreover, because HFP and IDP were set at the same level, personnel serving in high- and low-risk areas received the same pay.

### **Combat Zone Tax Exclusion**

The exclusion of military pay from federal income taxes, originally established in World War I, was designed to exempt those service members fighting the war from the income tax increases required to finance military operations.<sup>63</sup> Under the Revenue Act of 1918, all military personnel received a \$3,500 tax exclusion that offset across-the-board cuts made to the personal income tax exemption to finance the cost of the war. The exclusion remained in place until 1921, when it was automatically curtailed, more than two years after the end of hostilities.

During World War II, combat tax benefits were permanently separated from issues of wartime finance. In 1942, the \$250 tax exclusion provided to single enlisted personnel, and the \$300 exclusion for married enlisted personnel, precisely offset a cut in the personal deduction to cover war costs. But within a year, Congress replaced those exclusions with a single \$1,500 exclusion available to all military personnel, including officers. A third revision enacted in 1945 allowed enlisted members to exclude all military compensation from income tax, while retaining the officer exclusion at \$1,500, demonstrating a congressional preference toward benefiting enlisted members. Wartime tax benefits remained in place until 1949.

The World War II-era law changes also afforded military personnel a set of additional tax benefits, many of which are still in place today. Considered “instrumental” to a fair tax system for military personnel serving in combat, these benefits included suspension on time limits for tax activities and forgiveness of unpaid income and estate taxes for deceased members.

The Revenue Act of 1950 authorized tax exclusions for military personnel deployed to the Korean Peninsula, excluding all income for eligible enlisted members and up to \$200 per month for officers—maintaining parity between the maximum exclusion between officers and senior enlisted personnel.<sup>64</sup> With the shift from the global military mobilizations of World War I and World War II to more geographically limited conflicts, eligibility for tax exclusion benefits (and instrumental benefits) was to be based on a member’s presence within a defined “combat

63. The historical information provided here on the CZTE is drawn from Brandon R. Gould and Stanley A. Horowitz, *History of the Combat Zone Tax Exclusion*, in the second volume of this report.

64. The maximum officer exclusion has been raised several times since then in order to retain this parity.

zone.” The 1950 law authorized the president to designate (and terminate) future combat zones by executive order.

Presidential designation was intended to preclude the need for congressional intervention and provide administrative flexibility and responsiveness regarding combat zone designations. However, while DOD typically favored broader application of tax exclusions, the Department of Treasury—which bore the costs of tax exclusions—preferred narrow applications. Faced with these competing perspectives, future administrations often proved to be less, not more, flexible at managing combat zone designations. And in the decades following that conflict, difficulties designating and discontinuing combat zones persisted, with Congress sometimes creating combat zones statutorily in the absence of presidential action.

The Vietnam War revealed another issue with combat zone designations—the potential inequities with a geographically defined combat zone that did not extend to all areas in which personnel were deployed in support of the war effort. To address this, the Treasury Department granted combat zone status to personnel outside Vietnam who were providing direct support to combat operations and receiving HFP for danger related to the combat zone. Tax exclusion eligibility for those providing direct support to combat operations has endured and expanded, and is still available today.

Unlike their predecessors, the combat zones of the 1990s typically covered broader areas that encompassed varying degrees of risk and often remained in effect long after the end of hostilities. The designated combat zone for the 1990 Persian Gulf War, for example, included almost the entire Persian Gulf region, including Qatar, Bahrain, Oman, and the United Arab Emirates. While these countries hosted coalition troops preparing for deployment to Iraq or Kuwait during Operations Desert Shield and Desert Storm, they never experienced actual combat operations and were rarely under heightened risk of attack. Yet the tax benefits authorized for service members serving in such low-risk areas were identical to those received by personnel on the front lines of Iraq and Kuwait.

The establishment of less hazardous combat zones may have been a reflection of the low-intensity conflicts in which the U.S. military was involved during the 1980s and 1990s. However, the existence of both extremely hazardous and low-risk areas within the Persian Gulf combat zone diluted the relationship between the hazards of combat and combat-related benefits. All members deployed to the zone were eligible for the same tax exclusion benefits, whether they were fighting on the front line or performing combat support operations in Qatar or Oman. Such open warfare and low-intensity conflicts continue to coexist today, and members continue to receive the same benefits for serving in seemingly different circumstances.

Eligibility for tax exclusion benefits was further expanded in 1991, when personnel serving in direct support of combat operations and receiving IDP were deemed eligible for the tax benefit. Prior to that change, direct support personnel had to receive HFP in order to qualify for the tax benefit. Another expansion occurred in 1995 during U.S. troop peacekeeping operations in the Balkans. In the absence of a combat zone for the area, Congress established a qualified hazardous duty area, a new designation that allows members serving in a qualified area and receiving HFP/IDP to also receive CZTE benefits.

Because HFP/IDP had historically proven easier to terminate in response to changing risk environments than had CZTE designations, it was thought that linking qualified hazardous duty areas to HFP/IDP might make it easier to discontinue income exclusions when circumstances no longer justified tax benefits. Unfortunately, it appears that the reverse occurred—the existence of tax benefits made it more difficult to terminate HFP/IDP in the Balkans, which remained in place until 2007.

CZTE designations created during the 1990s also proved difficult to terminate. The Kosovo combat zone was established in 1999 and remains in place today, long after cessation of hostilities and risk in that area. Likewise, the Persian Gulf combat zone, established in 1991, was never terminated, and service members deployed to that region during the 1990s continued to receive tax benefits, despite the absence of combat operations for much of the decade. And the designation that was established for the first Gulf War also covers current combat operations in that region today.

A final and significant change that occurred during the 1990s involved CZTE benefits provided to officers. For most of its history, the CZTE had shown a preference for enlisted personnel. Specifically, all the pay of enlisted personnel serving in designated combat zones had been exempt from tax, while officer exemptions remained at a fixed amount roughly equal to an E-9 with 10 years of service. In 1996, however, the officer exclusion was modified to equal the pay of the force's most senior enlisted members—an amount that was 56 percent higher than the prior standard and that exempted many more officers from paying income taxes. The change significantly altered the traditional parity between enlisted personnel and officers, resulting in substantially more generous CZTE benefits for officers relative to junior enlisted personnel.

This increase in the exclusion for officers, combined with a change to the Earned Income Tax Credit later that same year, enabled high-earning officers serving in



combat zones to exclude their income for purposes of tax credit eligibility. By 2005, this change enabled nearly 10,000 otherwise ineligible officers to qualify for benefits under the Earned Income Tax Credit—a credit intended for minimum wage earners. In combination, these two changes dramatically shifted the distribution of combat tax benefits in favor of personnel with higher earnings, so that junior enlisted personnel, who typically endured the greatest exposure to combat operations, received lower average combat compensation than higher paid officers.

After the September 11, 2001 terrorist attacks, the president established the Afghanistan combat zone. Unlike the Persian Gulf combat zone, the Afghanistan combat zone does not include surrounding countries where combat or combat support operations could be conducted. Instead, CZTE benefits for those serving outside of Afghanistan are based on DOD designation of direct support to operations either in the combat zone or related to Al Qaeda terrorist operations. The direct support designation allows the department to provide CZTE benefits to personnel serving outside a combat zone—a designation the department can initiate or terminate more easily. And in fact, while the Afghanistan combat zone is still in force, direct support designations for Turkey and Egypt, which were put in place in 2003, have since been terminated.

### Combat Compensation Today

Combat compensation was originally designed to recognize the hazards and hardships faced by frontline troops in combat, with benefits directly related to the degree of exposure to those conditions. Indeed, the department's *philosophy* remains the same today: the greater the risk, the greater should be the compensation.<sup>65</sup> But as the previous section details, that relationship has eroded. This section describes the components of combat compensation in place today.

#### Hostile Fire Pay/Imminent Danger Pay

HFP/IDP is paid to personnel serving in DOD-designated locations<sup>66</sup> in which “the member—

65. Directorate of Military Compensation, Brief delivered to the Association for Financial Counseling and Planning Education, Denver, CO, November 2010.

66. The Under Secretary of Defense for Personnel and Readiness is responsible for designation determinations, based on recommendations from the Joint Staff, in coordination with the services.

- (A) was subject to hostile fire or explosion of hostile mines;
- (B) was on duty in an area in which the member was in imminent danger of being exposed to hostile fire or explosion of hostile mines and in which, during the period the member was on duty in the area, other members of the uniformed services were subject to hostile fire or explosion of hostile mines;
- (C) was killed, injured, or wounded by hostile fire, explosion of a hostile mine, or any other hostile action; or
- (D) was on duty in a foreign area in which the member was subject to the threat of physical harm or imminent danger on the basis of civil insurrection, civil war, terrorism, or wartime conditions.<sup>67</sup>

Until passage of the National Defense Authorization Act for Fiscal Year 2012, personnel received HFP/IDP pay of \$225 per month or any part of a month during which they were on duty in a designated area, or subject to hostile fire or a hostile mine explosion event. As a result of the recent law change, the pay is now prorated at 1/30<sup>th</sup> of the monthly amount for each day in a qualifying area, except when a member is actually exposed to hostile fire or a hostile mine explosion. This change recognizes that a member is only exposed to hazardous conditions while actually serving in a designated area.

Currently, the pay does not vary based on the risks or hazards in a particular IDP area: whether a combat zone or imminent danger area, all members receive the same pay. However, implementation of the new Hazardous Duty Pay provision under the S&I pay consolidation provides the opportunity to vary pay based on whether the member is serving in a hostile fire area or an imminent danger area.

Forty-five countries and seven sea areas are currently designated for HFP/IDP (Table 4-1). While personnel deployed to these regions all receive the same \$225 monthly HFP/IDP benefit, the casualty rates vary considerably, depending on the country in which a member is stationed. Personnel deployed in Afghanistan, for example, face more dangerous conditions than those deployed to other countries within the Arabian Peninsula, such as Bahrain or Oman.

Approximately 85 percent of HFP/IDP is paid to enlisted personnel, with the remaining 15 percent provided to officers. In 2009, about 640,000 personnel received at least one month of HFP/IDP—the equivalent of 292,000 man-years—at a total cost of \$790 million. Costs and participation are down about 10 percent from 2003, but slightly higher than the previous five years (Table 4-2).

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67. United States Code, Section 310, title 37.

**Table 4-1. Countries and other Areas Designated for Hostile Fire Pay/Imminent Danger Pay**

Country/Area or Water Area			
Afghanistan	Greece	Malaysia	Turkmenistan
Algeria	Haiti	Montenegro	Uganda
Azerbaijan	Indonesia	Oman	United Arab Emirates
Bahrain	Iran	Pakistan	Uzbekistan
Burundi	Iraq (includes the Al Basra Oil Terminal)	Philippines	Yemen
Chad	Israel	Qatar	Yugoslavia, Fed Rep
Colombia	Jordan	Rwanda	Persian Gulf
Congo, Democratic Republic	Kazakhstan	Saudi Arabia	Red Sea
Cote d'Ivoire	Kenya	Serbia	Gulf of Oman
Cuba	Kosovo	Somalia	Somalia Basin
Djibouti	Kuwait	Sudan	Arabian Sea north of 10 degrees N latitude & west of 68 degrees E longitude
East Timor	Kyrgyzstan	Syria	
Egypt	Lebanon	Tajikistan	Mediterranean Sea (north of northern boundaries of Libya and Tunisia)
Eritrea	Liberia	Tunisia	
Ethiopia	Libya	Turkey	

Source: Department of Defense, Directorate of Military Compensation Working Document, June 15, 2011.

**Table 4-2. Hostile Fire Pay/Imminent Danger Pay, 2003–2009**

Year	Total Personnel		Enlisted		Officers	
	Number <sup>a</sup>	Cost (\$ millions)	Number	Cost (\$ millions)	Number	Cost (\$ millions)
2003	322,681	\$871	279,534	\$755	43,147	\$116
2004	198,534	536	163,373	441	35,161	95
2005	277,106	748	229,890	621	47,216	127
2006	257,687	696	220,796	596	36,891	100
2007	263,209	711	228,401	617	34,808	94
2008	291,469	787	249,729	674	41,740	113
2009	292,438	790	248,188	670	44,250	119

a. Total personnel figures reflect man-years, which are substantially less than the number of members who receive at least one month of HFP/IDP in a given year.

Source: Department of Defense, Directorate of Military Compensation, Military Compensation Background Papers, 7th edition, forthcoming.

## Combat Zone Tax Exclusion

The other major combat-related benefit available to military personnel is the CZTE, which, as described previously, relieves military members from paying federal income tax on pay received while in a combat zone designated by the president.<sup>68</sup> Personnel serving outside designated combat zones can also receive CZTE benefits if they are serving in direct support of combat operations and receiving HFP/IDP, or are deployed to a qualified hazardous duty area and receiving HFP/IDP. The number of designated combat zones varies from year to year, although the overall trend has been upward, with designated zones growing from 10 in 1990 to 31 in 2010 (Table 4-3).

Enlisted personnel and warrant officers eligible for the CZTE can exclude all military pay—and bonuses when approved while the member is serving in a designated CZTE area—from their taxable income. Officers can exclude income up to the basic pay level of senior enlisted advisors, plus \$225 per month for HFP/IDP—or \$7,714.80 per month in 2011. Personnel can also use CZTE exclusions when determining eligibility for the Earned Income Tax Credit. Although this tax credit is intended to assist low income working families, the income exclusions authorized under the CZTE allow even senior officers whose taxable income is lowered enough to qualify for the credit, which—depending on family size—can exceed \$5,000 annually.

The CZTE benefit is typically much larger than HFP/IDP, with an average annual benefit of approximately \$6,000, more than twice the annual HFP/IDP benefit. Unlike the flat \$225 monthly HFP/IDP award, the CZTE benefit varies considerably by member. In 2009, annual CZTE benefits ranged from a low of about \$280, to as much as \$22,430. The median benefit that year was \$4,600.

This variation, however, is not based on the different levels of risk or hazards that personnel face on deployment. Instead, differences in CZTE benefits result from individual circumstances, such as income and family size, which are completely unrelated to on-the-job risk. Factors that affect CZTE benefit levels include:

- ❖ **Income.** CZTE benefit levels are based largely on service members' income levels. The higher a member's income, the greater the amount that can be excluded from taxation. Moreover, because the federal income tax is progressive, the marginal tax rate increases with income, rising from 10 percent for those at low-income levels up to 35 percent for those with higher incomes. Compared to junior enlisted personnel, service members with

68. Most states allow a similar exclusion for state income taxes.

**Table 4-3. Countries and other Areas Designated for Combat Zone Tax Exclusion Benefits**

Combat Zones		
Location	Authorization	
Iraq	Executive Order 12744, January 17, 1991	
Kuwait		
Saudi Arabia		
Oman		
Bahrain		
Qatar		
United Arab Emirates		
Persian Gulf		
Red Sea		
Gulf of Oman		
Gulf of Aden		
Portion of the Arabian Sea north of 10 degrees N. Latitude, and west of 68 degrees E. Longitude		
Federal Republic of Yugoslavia (Serbia and Montenegro)		
Albania		
Adriatic Sea		
Ionian Sea north of the 39th parallel		
Afghanistan	Executive Order 13239, September 19, 2001	
Qualified Hazardous Duty Areas		
Location	Authorization	
Bosnia-Herzegovina	Public Law 104-117 effective November 21, 1995 Hostile Fire Pay/Imminent Danger Pay for these areas has not been paid since October 31, 2007, therefore the tax exclusion no longer applies.	
Croatia		
Macedonia		
Direct Support Areas		
Location	Effective	Supporting
Djibouti	July 1, 2002	Operations in the Afghanistan combat zone
Jordan	September 19, 2001	
Kyrgyzstan	September 19, 2001	
Pakistan	September 19, 2001	
Syria	January 1, 2004	
Tajikistan	September 19, 2001	
Uzbekistan	September 19, 2001	
Yemen	April 10, 2002	
Philippines	January 9, 2002	Operation Enduring Freedom for operations in the Afghanistan combat zone
Jordan	March 19, 2003	Operation Iraqi Freedom in the Arabian Peninsula combat zone
Somalia	January 1, 2007	Operations in the Afghanistan combat zone Somalia airspace Specifically designated water areas of the Somalia Basin

*Note:* Designated water areas of the Somalia Basin include the following coordinates: 1110N3-0511E2, 0600N6-04830E5, 0500N5-05030E8, 1130N5-05334E5, 0500N5-05030E8, 0100N1-04700E1, 0300S3-04300E7, 0100S1-04100E5, 0600N6-04830E5.

*Source:* Department of Defense Financial Management Regulation 7000.14-R, Volume 7A, Chapter 44, last modified September 7, 2011.

higher incomes have more taxable income that would be taxed at a higher rate. Hence the savings they realize from avoiding taxation are typically greater than the savings of junior enlisted personnel. In fact, because many junior members have low taxable income, they pay little or no income taxes and therefore gain little benefit from the tax exclusion.

- ❖ **Family size.** Earned Income Tax Credit benefits increase with family size. But in terms of the CZTE, larger families typically have more personal exemptions, which lower taxable income, and thus, the value of the CZTE benefits.
- ❖ **Other tax variables.** Any other factor that changes a member's taxable income, deductions, or credits would also change tax liability and, hence, the value of the CZTE benefit.
- ❖ **Distribution of deployment across calendar years.** Because of the way the Earned Income Tax Credit is structured, service members deployed for the same number of months can earn substantially different tax credits based on how those months are distributed across calendar years. For example, a member whose 12-month deployment is evenly split between two calendar years can receive a substantially larger reduction in taxes, than if the entire 12-month deployment occurs within the same calendar year.

Not only do benefits vary considerably, the amount of the CZTE benefit is generally unknown to the deployed service member. The value of CZTE benefits depends upon an individual member's marginal tax bracket, based on income, deductions, and exemptions. The complexity of this calculation makes it difficult for deployed service members to quantify the savings to their income tax liability, as well as how their adjusted taxable income affects eligibility for—or increases in—Earned Income Tax Credit benefits. This contrasts sharply with HFP/IDP, which provides all eligible personnel with a predetermined and recognizable dollar amount each month.

The total annual cost of the CZTE benefit is significantly higher than the cost of the HFP/IDP benefit. In 2009, tax savings for military members associated with the CZTE totaled \$3.6 billion, more than four times the \$790 million spent on HFP/IDP. CZTE costs, however, are not part of the DOD budget. Instead, they are tax revenues not paid to the Treasury. Hence, decisions by the DOD to request a combat zone designation do not result in increased costs to the department, but do enhance the take-home pay of military members. Likewise, termination of a combat zone does not create savings that the department can apply to other expenditures.

Finally, unlike the recent change to HFP/IDP, the CZTE is not prorated. Rather, the member's monthly pay is excluded from gross income regardless of the number of days actually served in a combat zone.

### Other Related Compensation

In addition to HFP/IDP and CZTE, several other benefits are also available to service members deployed to combat zones. One group is comprised of insurance benefits—that is, compensation that would accrue to survivors or the member in the event of death or traumatic injury. These include: the Death Gratuity; Servicemembers' Group Life Insurance (SGLI); SGLI for Traumatic Injury Protection Program; the Survivor Benefit Plan; the Social Security death benefit; payments to surviving spouse and children from other federal agencies; one year of housing or housing allowance payments; continued commissary and exchange privileges; and forgiveness of federal income taxes in the year of a member's death—a number of which will be discussed in more detail in the following chapter of this report.

Service members deployed to combat zones also receive other pays and allowances that typically are not available to personnel serving in the United States. These include family separation allowances (\$250 per month), hardship duty pay (\$100 per month), and incidental expense allowances (\$105 per month). These pays are not considered combat compensation, as they are also available to personnel serving in noncombat situations outside of the United States.

## The Risk-Benefit Relationship

The purpose of combat compensation is to recognize the risks and dangers that military personnel face when deployed in combat zones or other potentially hazardous environments. Yet a review of combat compensation finds virtually no relationship between risk and the level of combat compensation benefits.

The disconnect that exists between risk and benefit results from two basic features of the current combat compensation system. **First, combat benefits themselves are not correlated with exposure to combat or imminent danger.** CZTE benefits—which comprise the bulk of combat compensation—vary based on income, family size, and other non-work-related considerations. The degree of risk to which a service member is exposed is not a factor in the CZTE benefit calculation. Nor does HFP/IDP reflect the risk to which personnel are exposed. Every service member deployed to an eligible combat zone or designated direct support area receives the same \$225 monthly payment, regardless of the risks he or she faces. **Also contributing to the disconnect between risk and benefits is the fact that the degree of danger within**

**designated combat zones varies significantly**, ranging from hazardous combat conditions in places like Afghanistan, to relatively safe regions with little or no risk of combat, such as Oman. This wide variation in risk, in combination with a policy that does not vary benefit amounts based on risk, results in a system in which there is no correlation between risk and the combat compensation military members receive.<sup>69</sup>

As previously described, CZTE benefits are tied directly to members' income levels, with the value of the benefit increasing with pay grade—that is, members with higher pay receive a greater tax benefit. In fact, average CZTE benefits for officers in pay grades O-4 through O-6 are more than four times larger than the CZTE benefit for the most junior enlisted personnel in grades E-1 through E-4 (Table 4-4). This advantage to higher paid personnel has become even more pronounced in the last 15 years, following a policy change that enabled officers to exclude significantly more of their income from taxation and also qualify for tax credits under the Earned Income Tax Credit. Under current exclusion rules, nearly all officers under grade O-5 pay no income taxes, and those at higher grades pay substantially less than they would absent the CZTE.

Moreover, while CZTE benefits are highly concentrated among higher income earners, both officer and enlisted casualty rates decline as pay grade rises (Figure 4-1).<sup>70</sup> Hence, those junior enlisted and junior officers who typically are more likely to be exposed to the greatest risk receive the lowest CZTE benefit, while senior officers who have high earnings (and potentially higher tax liability) receive the greatest benefit, even though they may face lower risks.

**Table 4-4. Combat Zone Tax Exclusion Benefits, 2009**

Pay Grade	Number of Dependents					Average
	0	1	2	3	4	
E1–E4	\$ 2,812	\$ 3,543	\$ 4,154	\$ 4,505	\$ 4,741	\$ 3,260
E5–E6	4,287	5,310	6,138	6,908	7,240	5,710
E7–E9	7,573	8,414	8,547	9,165	9,335	8,862
O1–O3	7,539	9,768	10,443	11,410	11,887	9,251
O4–O6	13,102	14,448	13,950	14,583	15,086	14,468

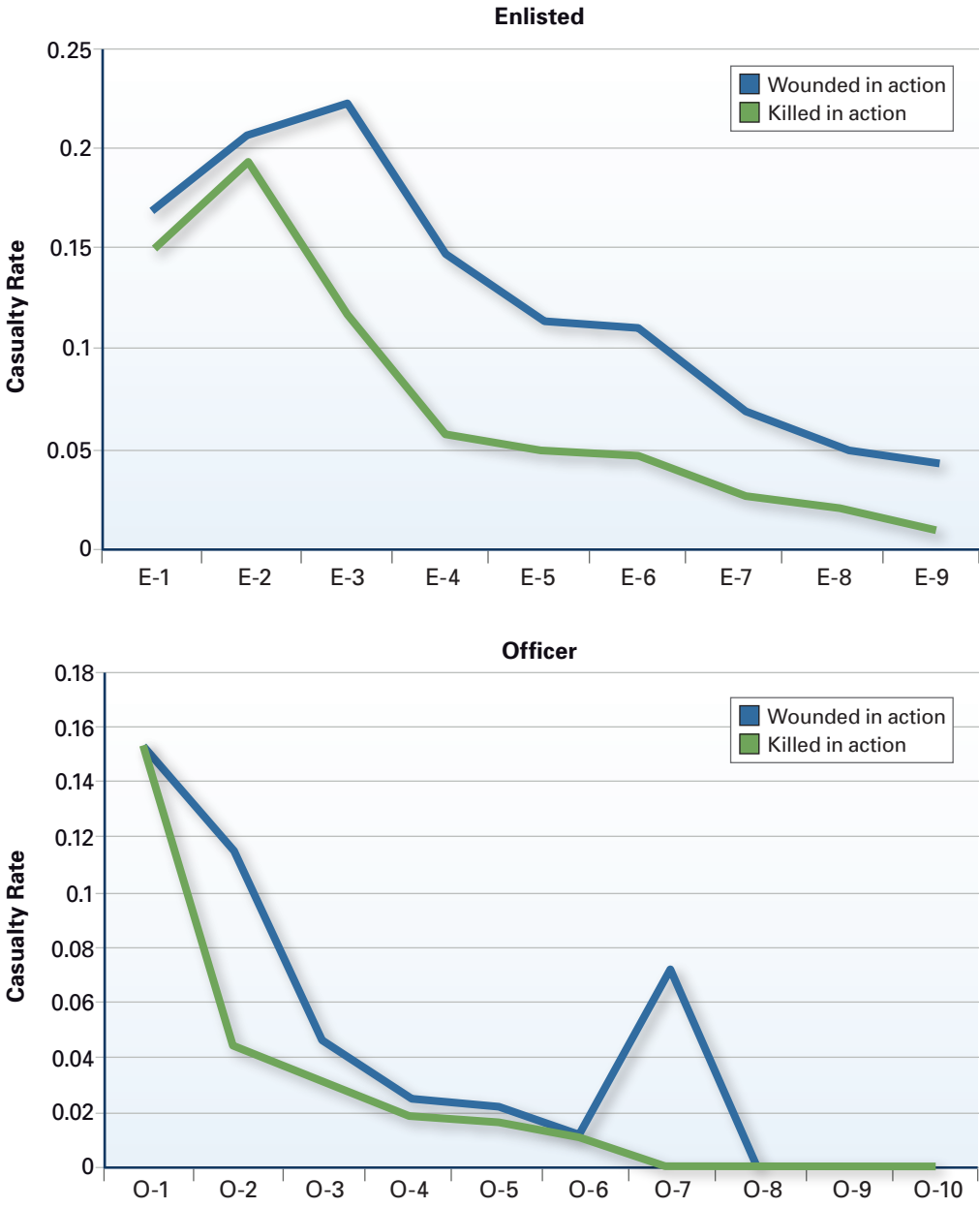
Note: Data are for active component only.

Source: Department of the Treasury, Office of Tax Analysis, April 2011.

69. For more on the analysis that informed this discussion of the relationship between risk and compensation, see Saul Pleeter et al., *Risk and Combat Compensation*, in the second volume of this report. An examination of combat pay within the framework of wage theory is found in Curtis J. Simon et al., *Combat Risk and Pay: Theory and Some Evidence*, also in the second volume of this report.

70. Casualty rates are used to approximate exposure to danger.





Note: The spike for O-7s reflects injuries sustained by one brigadier general.

Figure 4-1. Casualty Rates, 2005–2010

Family size also affects benefit levels, with CZTE-eligible service members at the same pay grade receiving significantly different benefits based on differences in the number of dependents. Among junior enlisted personnel, for example, the average annual CZTE benefit for a member without dependents is \$2,812, nearly \$2,000 less than the average benefit for personnel at the same pay grade with four dependents. This differential is largely attributed to the fact that Earned Income Tax Credit benefits increase with family size.

The second factor that has weakened the link between risk and benefit levels is the wide range of conditions and hazards that personnel can face within designated combat zones. While combat compensation began as a narrowly focused pay provided only to those personnel facing the most hazardous combat conditions, today's combat compensation is available to personnel exposed to varying degrees of risk, from the front lines of combat to the relative safety of support areas located far from hostilities.

As Table 4-5 shows, 2007 casualty rates varied considerably among countries in the Arabian Peninsula and Afghanistan combat zones, with the majority of countries in the two zones showing no casualties. Yet personnel deployed to these relatively safe countries—such as Oman or Djibouti—are eligible for the same combat compensation as members serving on the front lines in Afghanistan.

In fact, among the countries included in Table 4-5, with the exception of Djibouti and Jordan, personnel serving in countries with no casualties received higher average

**Table 4-5. Casualty Rates and Combat Zone Tax Exclusion Benefits in Selected Combat Zone Countries, 2007**

Country	Wounded in Action	Killed in Action	Total Casualties	Enlisted as % of Deployed	Average CZTE Benefit
Afghanistan	11.3	1.4	12.6	83.6%	\$ 5,924
Iraq	10.8	1.4	12.3	87.0	5,439
Kuwait	2.1	0.3	2.4	85.9	5,799
Kyrgyzstan	1.2	0.1	1.3	85.0	5,868
Bahrain	0.6	0.6	1.2	81.1	6,075
Qatar	1.1	0.1	1.1	78.4	6,092
Somalia	0.0	0.0	0.0	83.3	7,411
Djibouti	0.0	0.0	0.0	83.2	5,798
Jordan	0.0	0.0	0.0	79.2	5,565
Saudi Arabia	0.0	0.0	0.0	79.0	6,428
Yemen	0.0	0.0	0.0	60.3	9,480
Pakistan	0.0	0.0	0.0	47.4	9,879
Oman	0.0	0.0	0.0	38.5	11,090

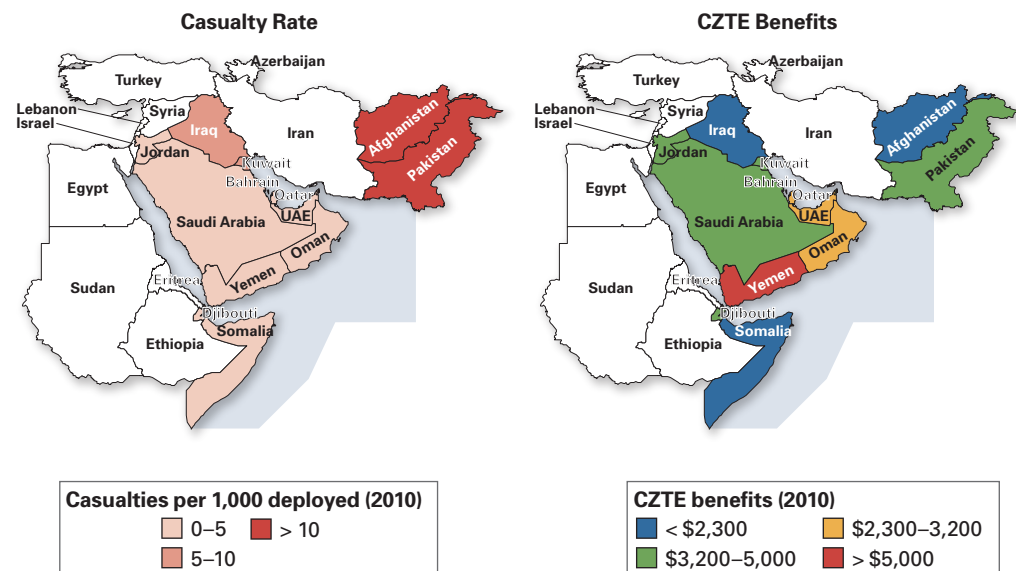
*Note:* Totals may not add due to rounding; casualty rates are per thousand deployed members.

*Source:* Defense Manpower Data Center and Department of Treasury.

CZTE benefits than personnel deployed to Afghanistan and Iraq. For example, the average benefit in Oman, where there were no casualties in 2007, was nearly double the average benefit paid to personnel in Afghanistan, the country with the highest casualty rate. In large part, this is due to the fact that far more junior personnel—E-5s and below, who receive the lowest benefit from the CZTE—are deployed to those combat areas with the highest casualties. In contrast, senior personnel, who generally enjoy significantly higher CZTE benefits, are more likely to be deployed to low-casualty areas. In Oman, for example, enlisted personnel comprise less than 40 percent of those deployed.

Furthermore, service members themselves acknowledge that the risk is quite low in some parts of designated combat zones. Survey results from 2010 reveal that 31 percent of members receiving combat benefits did not consider their deployment location any more dangerous than their pre-deployment setting.<sup>71</sup> Yet by virtue of their location in a designated combat zone (or their direct support of combat zone operations), they receive additional pay to compensate for conditions that are assumed to be more dangerous.

In summary, as combat compensation is currently designed and administered, the degree of risk varies considerably within a combat zone, and there is no relationship between the risk to which personnel are exposed and the compensation they receive (Figure 4-2). As a result, service in hazardous environments is not being appropriately recognized, with many members who are far removed from combat receiving the



**Figure 4-2. Casualty Rate versus Combat Zone Tax Exclusion Benefit, 2010**

71. Defense Manpower Data Center, 2010 Quick Compass Survey of Military Members, question 70.

same or often greater benefit as those who are actually in combat. Indeed, the highest combat benefits typically accrue to senior personnel who are often deployed to the safest regions within combat zones, while junior enlisted personnel serving in the most dangerous areas receive smaller benefits.

### Recommendations

As the QRMC's analysis shows, the correlation between combat compensation and degree of danger has eroded. To address this issue, the QRMC proposes recommendations that will establish a compensation differential based on exposure to combat and a tax benefit that is more consistent and better aligned with combat operations.

#### Hostile Fire Pay/Imminent Danger Pay

All members serving in designed combat zones receive the same \$225 HFP/IDP payment each month, regardless of grade or the level of risk to which they are exposed. Current law (title 37, section 351) allows for a pay differential that can be used to recognize different levels of danger. The QRMC understands that the department is preparing to implement this provision—separating HFP and IDP into two individual pays—and recommends that there be a meaningful difference between the HFP awarded to members exposed to hostile fire and the IDP provided to members located in relatively less hazardous, but still potentially dangerous areas. While it is appropriate to recognize the risks and dangers that members face in less hazardous regions of combat zones, that risk is substantially different than the dangers faced by personnel fighting on the front lines. As such, IDP should be set at an amount less than HFP.

The QRMC further recommends that the department establish more than one pay level for IDP that is correlated with different levels of threat. Putting in place multiple levels of pay would require well-defined criteria for each level. But establishing different levels of pay offers an opportunity to better align IDP with the varying degrees of danger faced by service members.

The QRMC recognizes that Congress recently passed a provision to prorate HFP—a change the QRMC supports—so that it is only paid during the period in which a member is actually exposed to danger. It is worth noting that while Congress prorated HFP, no similar change was made to the CZTE, which the QRMC addresses in the next section.

**RECOMMENDATION: HAZARDOUS DUTY PAYS**

Establish differentials in hazardous duty pays:

- Set Hostile Fire Pay at an amount higher than Imminent Danger Pay.
- Establish more than one level of Imminent Danger Pay to recognize different levels of exposure to danger.

**Combat Zone Tax Exclusion**

As currently structured, high-income personnel receive larger CZTE benefits than more junior personnel, primarily because income tax exclusions generally yield greater income tax savings for those with higher incomes (and greater tax liability). Moreover, members can use the CTZE for purposes of establishing eligibility for the Earned Income Tax Credit—enabling otherwise ineligible high-wage earning service members to qualify for the Earned Income Tax Credit, which is intended to assist low-wage earners. Junior personnel, particularly those with larger families (and more deductions), have little taxable income and thus pay little in income taxes. With modest tax liabilities, these members gain little benefit from the CZTE.

Because exposure to danger when serving in the same location or under the same conditions is no greater for senior service members than more junior members of the force, senior members should not receive a higher combat-related benefit—just as HFP/IDP does not vary by grade. It is a matter of fairness for many military members. In a recent survey, only 27 percent of enlisted members indicated it was fair that higher income members reap a greater benefit from the CZTE. Even among officers, only half of those surveyed thought it fair that higher income personnel receive larger CZTE benefits.<sup>72</sup>

The QRMC concludes that replacing the CZTE with a *refundable* Combat Tax Credit would *equalize the benefit* for all members. Based on the period during which the member received HFP, a credit would also eliminate factors such as family income and size from calculation of the combat tax exclusion. A tax credit is independent of tax bracket and, like all tax credits, would be applied after an individual’s tax liability is computed. By making this a refundable tax credit, junior members who have little or no tax liability would receive the full amount of the credit as a refund. A tax credit would also eliminate the current practice of high-income members using the tax exclusion to qualify for the Earned Income Tax Credit. Unlike the current tax exclusion, a tax credit would also be easier for members to understand and quantify.

72. Defense Manpower Data Center, January 2011 Status of Forces Survey, question 164 c, d, and e (for active duty members); and question 233 c, d, and e (for reserves).

Furthermore, the tax credit could be set at a level that would not increase total costs. For example, with the average CZTE benefit at \$6,000 per year and an average deployment of seven months, a refundable tax credit of \$850 per month could replace current policy at no additional cost. The distribution of benefits among the force, however, would change. But here again, the credit could be set at an amount that ensures all enlisted members at the grade of E-6 would continue to receive the same or greater benefit than currently received under the CZTE, providing a larger benefit for all junior enlisted personnel.

The QRMC recognizes that, in general, officers and more senior personnel would receive a lower benefit under a refundable tax credit than they currently receive from the CZTE. However, the large CZTE benefits that such individuals now receive are not necessarily related to the degree of hazardous conditions they face. There is the possibility that lowering the benefit to officers and other higher-paid personnel could have an effect on retention, as service members see their overall compensation decline. However, the QRMC studied the relationship between combat compensation and retention and found no clear evidence that combat compensation itself directly influences retention decisions. Although enlisted members do reenlist in a combat zone to receive the associated tax advantage, analysis reflects a stronger relationship between reenlistment decisions and deployments in general than between reenlistment and combat compensation.<sup>73</sup>

**RECOMMENDATION: REFUNDABLE TAX CREDITS**

Institute two tax credits to replace the Combat Zone Tax Exclusion:

- Establish a refundable Combat Tax Credit for which eligibility is contingent upon receipt of Hostile Fire Pay.
- Establish a separate Direct Support Tax Credit for which eligibility is contingent upon receipt of Imminent Danger Pay.

The QRMC proposes three other measures that would more closely align these tax credits (or the CZTE in the absence of adopting the tax credit) with combat service.

First, a member's eligibility for the full Combat Tax Credit should be based on receipt of HFP. If receiving IDP, members in direct support of combat operations would be eligible for a Direct Support Tax Credit at a level lower than the Combat Tax Credit (e.g., set proportional to the difference between HFP and IDP).

73. Further details of this analysis can be found in Diana Lien and Molly F. McIntosh with Darlene E. Stafford, *Combat Compensation and Continuation in the Active and Reserve Components*, in the second volume of this report.

This distinction between the credit for combat and for direct combat support is consistent with the differentiation between HFP and IDP that was established in the new HDP provision of title 37 (37 USC 351). Linking the tax credit to HDP is also consistent with the treatment of qualified hazardous duty areas in which the tax benefit is only available if the member is receiving HFP/IDP. Currently, creation and termination of CZTE combat zones require an executive order or statutory change, whereas the secretary of defense authorizes HFP/IDP designations. While establishing a combat zone designation by executive order has been timely, terminating a combat zone designation has been less so. Hence, by linking Hazardous Duty Pay and the tax credit, the department could more effectively manage these two elements of combat compensation.

Second, **the tax credit should be prorated in the same manner as HFP/IDP.** Unless actually exposed to hostile fire or a hostile mine explosion, the member would receive the tax credit for only those days in which the member is serving in a designated combat zone or in a designated direct support area. A member does not face the hazards of combat until entering the combat zone and no longer faces those dangers once he or she has departed the combat zone. This recommendation is consistent with the recent change to HFP/IDP which, except in certain circumstances, authorizes the benefit only during those periods when the member is actually exposed to the dangers of combat.

Third, the QRMC recommends annual recertification of combat zone designations. As noted above, termination of combat zones currently requires an executive order or a statutory change, a hurdle that can result in designated combat zones remaining in place long after the risk of danger has subsided. Vietnam, for example, was designated a combat zone until June 1996. An annual recertification process—similar to the annual recertification requirement for a national emergency—could facilitate more timely termination of a combat zone after the end of hostilities and ensure that designations do not outlast the threat upon which they were based. More timely termination of combat zones where dangerous conditions have abated would also reduce the number of personnel receiving combat compensation while serving in relatively safe conditions.

**RECOMMENDATION: COMBAT ZONE CERTIFICATION**

Require annual recertification of combat zones.

## Conclusion

Today, there is little correlation between combat compensation provided to military personnel and the risks they face. Designated combat zones now include the full spectrum of risk, from widespread danger in countries like Iraq (during and following the regime change) and Afghanistan, to the much safer environments of Qatar and Oman. And regardless of the risk they face, all personnel in designated zones are eligible for benefits, but the amount they receive varies widely. In part, this variation in risk reflects the different types of conflicts in which U.S. forces are involved, ranging from peacekeeping and low-intensity conflicts to those fighting on the front lines of a “hot” war. Also playing a role is an administratively burdensome—and sometimes politically charged—designation process that makes it difficult to terminate combat zones in regions where the risk of combat has subsided and combat designations can no longer be justified.

Because the largest component of combat compensation is the tax exclusion, the system disproportionately benefits high-earning personnel over junior enlisted personnel. This exacerbates the disconnect between compensation and risk, since junior enlisted members are more likely to be engaged with the enemy, yet they receive more modest combat compensation than officers and more senior personnel who are not exposed to the same degree of danger.

The recommendations presented here will better align combat compensation with the risks facing military personnel. The proposed changes are designed to more appropriately reflect the range of conditions in which deployed personnel serve. They provide the department with greater flexibility in managing combat benefits and the ability to respond more quickly to changes in U.S. missions.



## Chapter 5

# Compensation for Wounded Warriors, Caregivers, and Survivors

Technological advances in battlefield medicine are saving the lives of many more wounded service members. But often these members survive with serious injuries, face months of treatment and rehabilitation, and possibly a lifetime filled with challenges because of their wounds—all of which may have significant financial implications for the member and his or her family. In some cases, a family member serves as caregiver, helping the wounded member with activities of daily living—a decision that may create additional financial challenges for the family. And in the unfortunate event that a member does not survive his or her wounds, the financial situation of the surviving family members also changes.

Wounded warriors, their caregivers, and survivors of fallen service members have access to a range of disability, retirement, and other benefits designed to compensate for the financial losses that result from their injuries. The past ten years of combat operations in Iraq and Afghanistan have brought into sharper focus the struggles facing wounded warriors and their families. In response, the support system for injured service members has expanded and evolved to more effectively address their needs and those of their families.

Directed in its charter to evaluate the compensation benefits available to wounded warriors, the QRMC examined the economic impact of combat injuries on members and their families, as well as the extent to which those impacts are mitigated by the compensation benefits available from the DOD, the VA, and the Social Security Administration. Through this research, a more accurate picture has emerged of the economic status of wounded warriors, their families, and those who care for them. The results show that the benefit programs are working well.

This chapter describes the QRMC's findings on wounded warrior and survivor compensation, as well as other recent research on the financial impact of assuming the responsibility of caregiver. It also recommends continued research and other reforms designed to better assess and improve the financial well-being of wounded warriors and their families over the long term.

## Wounded Warriors

Since September 11, 2001, more than 1.7 million service members have been deployed in support of military operations in Iraq and Afghanistan. Thousands of those

personnel have been injured or suffered declining health while deployed. And as a result of advances in battlefield medicine, many of those who were most seriously injured survived their wounds. In fact, seven out of eight personnel who are seriously injured in today's combat operations survive their injuries, compared to five out of eight during the Vietnam conflict.<sup>74</sup> These wounded warriors, however, often require considerable rehabilitation and other support when they return home. For many service members and their families, combat injuries have resulted in reduced earnings, for both the member and, in some instances, his or her spouse.

A number of programs are designed to compensate service members for their injuries and the resulting financial losses, including continuation of certain pays and benefits while on active duty, as well as retired pay and disability compensation for members who have separated from the military. The growing number of injured personnel has increased attention on both the needs of wounded warriors and the adequacy of existing compensation benefits to meet these needs.

While recent research has greatly improved our understanding of the types and incidence of injuries that service members sustain while deployed in Iraq and Afghanistan, less is known about how these combat injuries affect the household earnings of wounded service members—and the extent to which current retirement and disability benefits compensate injured personnel for those earnings losses.<sup>75</sup> In order to better understand the financial consequences of combat injuries, the QRMC reviewed the injuries, earnings, and compensation benefits of nearly 700,000 active and reserve component personnel deployed to Iraq and Afghanistan between 2003 and 2006, as well as nearly 350,000 spouses. The results of this review quantify the impact of combat injuries on the earnings of service members and their spouses, and estimate the extent to which retirement and disability benefits compensate families for those lost earnings.<sup>76</sup>

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74. *Serve, Support, Simplify*. Report of the President's Commission on Care for America's Returning Wounded Warriors, July 2007.

75. Some recent studies of injured service members have concluded that, on average, disability benefits offset earnings losses attributable to disabilities, but that within those totals, some groups of disabled veterans are not fully compensated for their lost earnings. See Buddin, Richard and Bing Han, *Is Military Disability Compensation Adequate to Offset Civilian Earnings Loss from Service-Connected Disabilities?*, MG-1098-OSD. Santa Monica, CA: RAND Corporation, 2011; Buddin, Richard and Kanika Kapur, *An Analysis of Military Disability Compensation*, MG-369. Santa Monica, CA: RAND Corporation, 2005; Christensen, Eric, Joyce McMahon, Elizabeth Schaefer, Ted Jaditz, and Dan Harris, *Final Report for the Veterans' Disability Benefits Commission: Compensation, Survey Results, and Selected Topics*. Alexandria, VA: CNA, 2007; and EconSys, *A Study of Compensation Payments for Service-Connected Disabilities*. Falls Church, VA: EconSys, 2008.

76. In the sections that follow, the analysis of the impact of combat injuries on the earnings of service members and their spouses is drawn from Paul Heaton, David S. Loughran, and Amalia Miller, *Compensating Wounded Warriors: An Analysis of Injury, Labor Market Earnings, and Disability Compensation Among Veterans of the Iraq and Afghanistan Wars*, in the second volume of this report. The paper describes the methodology and data used in the assessment, as well as results.

### Injuries Among Deployed Personnel

The QRMC’s analysis found that the overwhelming majority of personnel deployed to Iraq and Afghanistan—approximately 79 percent overall—returned home uninjured.<sup>77</sup> The remaining 21 percent, however, came back from their deployment injured or in poorer health. The types and severity of the injuries varied, ranging from worsened health to life threatening combat injuries. Nearly 18 percent of service members reported that their health worsened during deployment, with 55 percent of those personnel referred for follow-up care. Another 3 percent were wounded in combat—2.5 percent sustained a non-serious, combat injury; 0.2 percent suffered a serious, life-altering injury; and 0.1 percent sustained a life-threatening combat injury. Approximately 0.4 percent died from combat injuries. As these figures show, nearly all deployment-related injuries fell into the self-reported “worsened health” category, with more serious injuries comprising only a small portion of the total.<sup>78</sup>

Injury patterns vary somewhat by component. Among the active component, approximately 82 percent of service members returned from deployment uninjured, compared to about 74 percent of reserve component members (Table 5-1). Reserve personnel were somewhat more likely than their active duty counterparts to report worsened health following deployment, and considerably more likely to be referred for follow-up medical care due to worsened health. Active component members, in contrast, were more likely than reserve personnel to have suffered an injury or died from wounds suffered while deployed.<sup>79</sup>

**Table 5-1. Injuries by Component**

	Active Component	Reserve Component	Total
No injury	82.2%	73.6%	79.3%
Health worsened	7.1	9.2	7.8
Referred	7.0	14.8	9.7
Non-serious casualty	2.9	1.9	2.5
Serious casualty	0.3	0.2	0.2
Very serious casualty	0.1	0.1	0.1
Death	0.5	0.3	0.4

*Note:* Totals may not add due to rounding.

77. As more is learned about post-traumatic stress disorder and the delayed emergence of symptoms, this percentage could decline.

78. This chapter sometimes refers to the “health worsened” category of service member as less seriously injured than those with recorded serious casualties. However, it should be noted that some self-reported cases of worsened health—such as psychological injuries—could have as significant an effect on long-term well-being as a serious casualty.

79. These data do not include conditions that manifest following deployment, which may be particularly relevant to psychological injuries such as post-traumatic stress disorder.

### Impact of Injuries on Earnings

In addition to their injuries, wounded service members also experienced reduced earnings in comparison to uninjured personnel (Figure 5-1). Not surprisingly, earnings losses were largest among the most seriously injured. By the fourth year following deployment, the most seriously injured personnel in the active component experienced annual income losses of nearly \$22,000, on average. At the other end of the spectrum, active component service members who reported worsened health faced substantially smaller average earnings losses of about \$2,900 per year. Nearly all earnings losses resulted from reductions in military earnings—not unexpected, given that active duty personnel have little in the way of civilian earnings. Although civilian earnings actually increased among some less seriously injured personnel who were able to partly offset their military earnings losses with increased civilian income.

In the reserve components, earnings losses also increased with the severity of injury, with the most seriously injured personnel suffering average earnings losses of over \$25,000 annually, by the fourth year following deployment. Losses were considerably smaller among those with less serious injuries. Reservists who reported worsened health, for example, experienced average annual earnings losses of just under \$2,000. In contrast to active component personnel, reservists' earnings losses

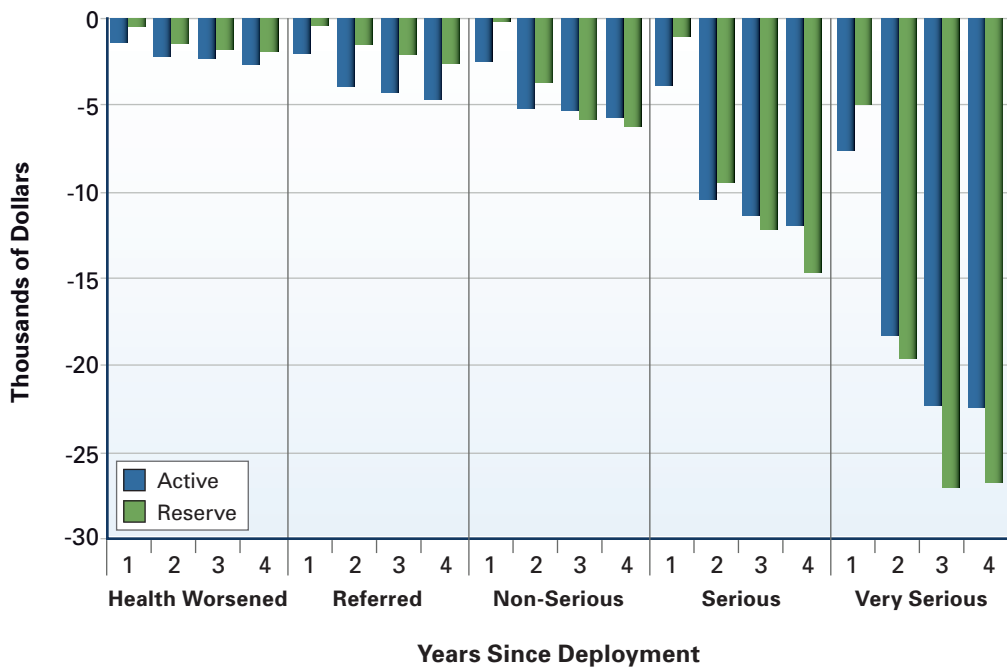


Figure 5-1. Impact of Injury on Service Member Earnings

were comprised of both military and civilian compensation. Civilian losses were substantial among the more seriously injured reservists, yet for all but the very seriously injured, these earnings losses lessened over time. The most seriously injured reservists, however, experienced sustained civilian earnings losses of approximately \$12,000 per year. In terms of their military earnings, injured reservists actually experienced increased earnings in the first year following deployment, likely because they remained on active duty to receive treatment for their injuries. By the second year after deployment, however, military earnings begin to decline, with annual losses for the very seriously injured growing to over \$14,000 by the fourth year following deployment.

Earnings losses also increased over time for both active and reserve component personnel, with all injury categories experiencing greater income decline over the course of the first four years following deployment. One factor that may contribute to this increase in earnings losses is that the injury eventually led to separation from the military, resulting in the loss of military earnings. Some portion of the force separates from the military each year, but by the fourth year following deployment, attrition was much higher among injured service members than it was among those who returned uninjured.

In the first year following deployment, injured service members from the active component were only slightly more likely than uninjured personnel to separate from the military (Table 5-2). This is not surprising, given that the services typically wait until a member’s injuries have stabilized before evaluating whether he or she is fit to return to duty—a process that can take some time. By the second year following deployment, however, separation rates of injured personnel rise sharply, and by the

**Table 5-2. Impact of Injury on Military Separation Rates**

Years Since Deployment	Increase in Separation Rates (percentage points)					
	Uninjured	Health Worsened	Referred	Non-Serious Casualty	Serious Casualty	Very Serious Casualty
<b>Active component</b>						
1	7.9%	1.8	3.4	3.1	1.7	2.9
2	19.4	5.0	8.6	9.8	17.7	23.8
3	28.7	5.7	10.4	11.5	21.2	33.6
4	36.7	6.0	10.4	10.1	18.9	33.1
<b>Reserve component</b>						
1	5.9%	0.6	0.4	1.3	2.9	16.1
2	16.5	2.9	3.0	5.0	15.3	33.8
3	25.3	4.3	5.2	10.1	23.4	44.9
4	33.4	5.1	6.1	12.0	24.7	43.5

fourth year, approximately 70 percent of the most seriously injured active personnel have left the military, nearly double the 37 percent separation rate among uninjured service members. A similar trend is evident in the reserve component, where separation rates for the most seriously injured are 77 percent by the fourth year following deployment, compared to just 33 percent among uninjured personnel.

In some instances, combat injuries can also affect the earnings of spouses. Spouses of injured service members may curtail their work hours or stop working altogether in order to care for an injured service member, exacerbating the financial impact on the household. Alternatively, some spouses may work more hours in order to offset a service member’s earnings losses.

A review of spousal earnings shows that the earnings impact varied depending on the severity of the service member’s injury (Figure 5-2). Spouses of less seriously injured active component personnel modestly increased their earnings in comparison to the spouses of uninjured members. Spouses of members referred for treatment, for example, increased their annual earnings by \$236 in the year following deployment; by the fourth year following deployment, annual earnings gains by this group had increased to \$674. Such earnings gains were not evident among the spouses of reserve component personnel with less serious injuries, whose earnings levels remained largely unchanged in the years following deployment.

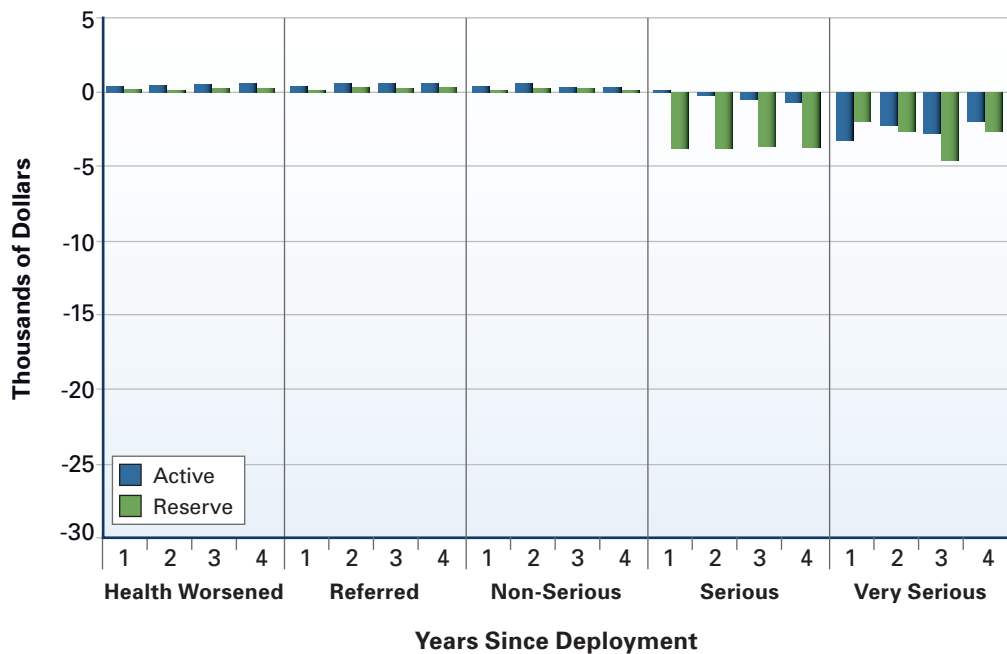


Figure 5-2. Impact of Injury on Spousal Earnings

Among the most seriously injured members, in contrast, the impact on spousal earnings was negative and substantial, with the losses greater for spouses of reserve component members. Among the active component, spouses of the most seriously injured members experienced annual earnings losses each year following deployment, with losses averaging more than \$2,100 in the fourth year. Spouses of reserve personnel who were seriously injured suffered larger annual earnings losses of close to \$4,000 for spouses of the seriously injured, and nearly \$2,800 for the most seriously injured. However, reserve spouses also had higher pre-injury earnings than active duty spouses—\$20,460 versus \$10,985, on average.<sup>80</sup>

The effect of combat injuries on spouses' labor market participation was mixed. Within the active component, approximately 60 percent of uninjured service members have spouses who work. Employment rates among the spouses of injured personnel are not significantly different than those of uninjured personnel. Spouses of uninjured reserve component personnel are slightly more likely to participate in the labor force than are active duty spouses, and like their active duty counterparts, most experience little change in labor market participation following an injury to their service member spouse. However, beginning in the first year after deployment, spouses of seriously and very seriously injured reservists did reduce their participation in the labor force. By the fourth year, labor market participation by the spouses of seriously injured reservists dropped by over 13 percent.

Figure 5-3 shows the combined impact of member and spousal earnings losses on the household incomes of injured service members—with the vast majority of the decline resulting from the drop in member income. For the most seriously injured active component members, annual household earnings losses topped \$22,500 by the fourth year following deployment—nearly triple the \$7,680 first year loss. At the other end of the spectrum, active component personnel who reported worsened health saw their annual household income drop by only \$2,700.

Among more seriously injured reservists, household earnings losses were even greater than the losses experienced by active component personnel. Four years after deployment, the average annual household earnings loss for very seriously injured reservists was \$26,800, up from \$4,900 in the first year after returning from deployment, and nearly 20 percent higher than the average active component earnings loss. The impact on less seriously injured reserve personnel—those with worsened health—was relatively modest, with annual earnings losses of \$1,900 by the fourth year following deployment.

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80. The earnings differential between active duty and reserve spouses may be due partly to the fact that active duty spouses are subject to frequent relocations, which can affect their rate and type of employment.

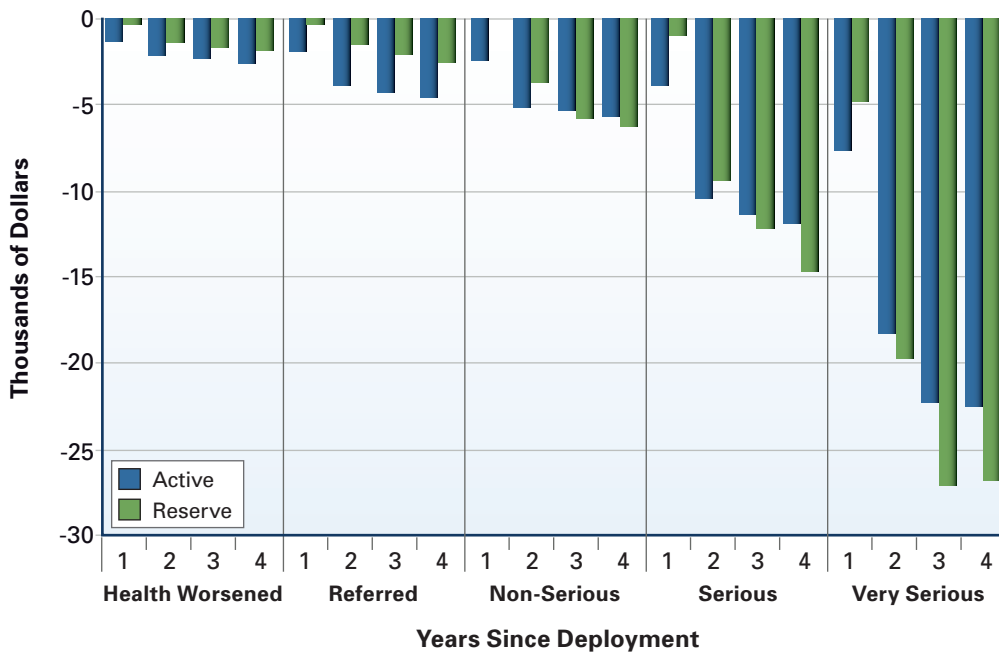


Figure 5-3. Impact of Injury on Household Earnings

### Wounded Warrior Compensation

An array of compensation programs is available to injured service members. The specific benefits and compensation amounts depend on a variety of factors, including a member’s duty status, degree of disability, years of service, and other earnings. The major compensation programs available to injured service members are described in this section.

**Active Duty Compensation.** Service members wounded in combat zones typically remain on active duty until they recover sufficiently to return to their regular duties, or until they retire or separate from the military because their injuries prevent them from performing those duties. During this hospitalization and rehabilitation period, injured personnel continue to receive their full military pay and allowances. Through the Pay and Allowance Continuation program, service members wounded in a combat operation or a combat zone also continue to receive other special pays or allowances which they received while deployed, including HFP/IDP and Hardship Duty Pay. Service members who are hospitalized due to their injuries also continue to qualify for the CZTE during their hospitalization.<sup>81</sup> In combination, these programs ensure that wounded warriors still on active duty do not experience a sudden or unplanned change in compensation.

81. See Chapter 4 of this volume for discussion of the Combat Zone Tax Exclusion and other compensation available to personnel serving in combat zones.



**Retirement/Disability Compensation.** In some instances, the severity or nature of a service member's injury precludes a return to active or reserve duty. The services have the authority to separate or retire service members whose injuries prevent them from performing duties consistent with their office or grade. Once an injured service member's condition has stabilized, DOD uses the Integrated Disability Evaluation System to determine whether a member is fit for duty and to rate his or her disability. Service members who are deemed unfit for service due to their injuries are retired or separated from the military. These members are potentially eligible for one or more disability compensation programs operated by DOD, VA, and the Social Security Administration.<sup>82</sup>

The resources available to wounded warriors include the following:

- ❖ **DOD disability compensation.** Service members with a disability rating of 30 percent or more are eligible for DOD disability retired pay. This pay is based on the member's disability rating or years of service—whichever yields a greater benefit. Personnel who receive a disability rating of less than 30 percent and are not retirement eligible are separated from service and receive a lump sum disability severance payment, which is based on pay grade, years of service, and whether the disability was combat related.<sup>83</sup>
- ❖ **VA disability benefits.** Service members who separate from the military can also obtain disability benefits from the VA. While DOD and the VA use the same disabilities rating schedule, DOD's evaluation focuses on a member's ability to perform his or her military duties while the VA considers the impact of all service-connected disabilities on a member's ability to work in the civilian sector. Moreover, while DOD disability benefit levels are based on the DOD retired pay structure, VA benefit amounts are designed to reflect lost earnings potential. VA benefit levels also vary with the number of dependents, are tax-exempt, and are higher for veterans with specific types of injuries that require specialized care. Because of these differences between the two programs, compensation amounts from DOD and the VA differ.
- ❖ **Concurrent Retirement and Disability Pay and Combat Related Special Compensation.** Prior to 2004, a veteran who received both DOD and VA disability benefits had to fully offset the VA benefit with a dollar-for-dollar reduction in his or her DOD retired pay. The veteran

82. See Appendix A for more detailed information regarding the percentage of injured personnel who participate in these programs, as well as the average awards.

83. Only a small percentage of service members in the sample cohort were potentially eligible for disability severance pay, and because data for the reserve component were not available, the pay is not included in the QRMC's analysis of how compensation benefits impact household income for wounded warriors.

received the higher of the two benefit amounts, but not both. Since that time, Congress has created two new programs that essentially reduce the amount of the offset, enabling eligible individuals to collect some or all of both DOD retired pay and VA disability compensation. Concurrent Retirement and Disability Pay (CRDP) is intended to gradually restore the offset for retirees with 20 or more years of service, provided they have a disability rating of at least 50 percent. The pay will be fully phased in by 2014, at which time CRDP will completely eliminate the offset for eligible retirees, effectively allowing them to collect 100 percent of their retired pay from DOD while also receiving their full VA benefits.

A second program designed to reduce the offset is the tax-exempt Combat Related Special Compensation (CRSC), which is paid to members with combat-related disabilities of at least 10 percent whose retired pay is being offset due to receiving VA disability.<sup>84</sup> Like CRDP, CRSC is based on years of service, but limited to the disability rating attributable to the combat-related injury.

- ❖ **Social Security Disability Insurance.** Injured personnel may also be eligible to receive Social Security Disability Insurance (SSDI) benefits. To qualify, an individual must have a physical or mental condition that prevents him or her from engaging in any “substantial gainful activity”—currently defined as pay or profit of more than \$1,000 per month.<sup>85</sup> While work above the \$1,000 cap is allowed during the first year or so following an individual’s transition into the program, after that point SSDI benefits are suspended in those months that earnings exceed the cap.
- ❖ **Traumatic Injury Protection under Servicemembers’ Group Life Insurance.** Active and reserve component personnel are eligible to purchase life insurance through the VA’s Servicemembers’ Group Life Insurance (SGLI) program. Because service members are automatically enrolled in SGLI (unless they expressly opt out), the vast majority of personnel participate. All those enrolled in SGLI are also automatically enrolled in Traumatic Injury Protection under SGLI (TSGLI), which insures service members against a list of specific traumatic injuries, such as

84. Eligible reserve component retirees receive CRDP and/or CRSC when they begin receiving retired pay. See [http://militarypay.defense.gov/Retirement/concurrent\\_dod\\_va.html](http://militarypay.defense.gov/Retirement/concurrent_dod_va.html), <http://www.dfas.mil/retiredmilitary/disability/crdp.html>, and <http://www.dfas.mil/retiredmilitary/disability/crsc.html>.

85. Individuals must also have sufficient work history to qualify for SSDI benefits. Service members disabled before the age of 22 who do not have adequate work history can potentially claim benefits based on their parents’ work experience.

amputation, paralysis, burns, sight or hearing loss, facial reconstruction, coma, and traumatic brain injury.<sup>86</sup> The inventory of qualifying conditions was expanded in 2008 following a VA review of program effectiveness.<sup>87</sup> Typically paid out as lump-sum awards in the first year following deployment, the tax-exempt TSGLI payment is \$25,000; \$50,000; \$75,000; or \$100,000, depending on the injury or injuries.

### Analysis

The QRMC's analysis of retired and disability pays found that, on average, the compensation available to wounded warriors offsets the income losses suffered by nearly all injured service members and their families. Among the seriously and very seriously injured, compensation benefits more than offset earnings losses with both groups experiencing a net gain in household income. The review also showed that compensation levels rise with the severity of the injury and increase over time. And for those personnel who experience net losses, the loss is small, on average.

DOD and VA retirement and disability pay alone substantially offset household earnings losses among injured service members. Relative to their uninjured counterparts, injured active personnel, on average, receive between \$1,718 and \$31,479 of additional DOD and VA compensation (excluding CRSC) in the fourth year following their deployment (Appendix A). These payments essentially cut in half the estimated income loss for personnel reporting worsened health or referred for treatment, and fully offset the earnings losses of non-serious casualties. The payments more than fully offset estimated earnings losses among the very seriously injured, with those individuals receiving an average of \$9,373 more in household income in the fourth year following deployment than they would have if they had not been injured (Figure 5-4, panel 1).

The impact of DOD and VA payments on injured reservists is even greater, ranging from an average of \$2,099 to \$40,586, depending on the severity of the injury. With the exception of personnel who reported worsening health but were not referred for further care, reservists in other injury categories experience a net increase in household income in each of the four years following deployment once DOD and VA pays are included. By year four, the net increase ranges from \$550 for personnel who were referred for further care, to \$13,561 for those with very serious injuries.

86. For a complete list of TSGLI-qualifying injuries and conditions, see <http://www.insurance.va.gov/sglisite/tsgli/Schedule/Schedule.htm>.

87. U.S. Department of Veterans Affairs. *Expanded Benefits under the SGLI Traumatic Injury Protection (TSGLI) Program*. Washington, DC: Servicemembers' & Veterans' Group Life Insurance, November 30, 2010. <http://www.insurance.va.gov/sglisite/tsgli/ExpandedBenefits.htm>.

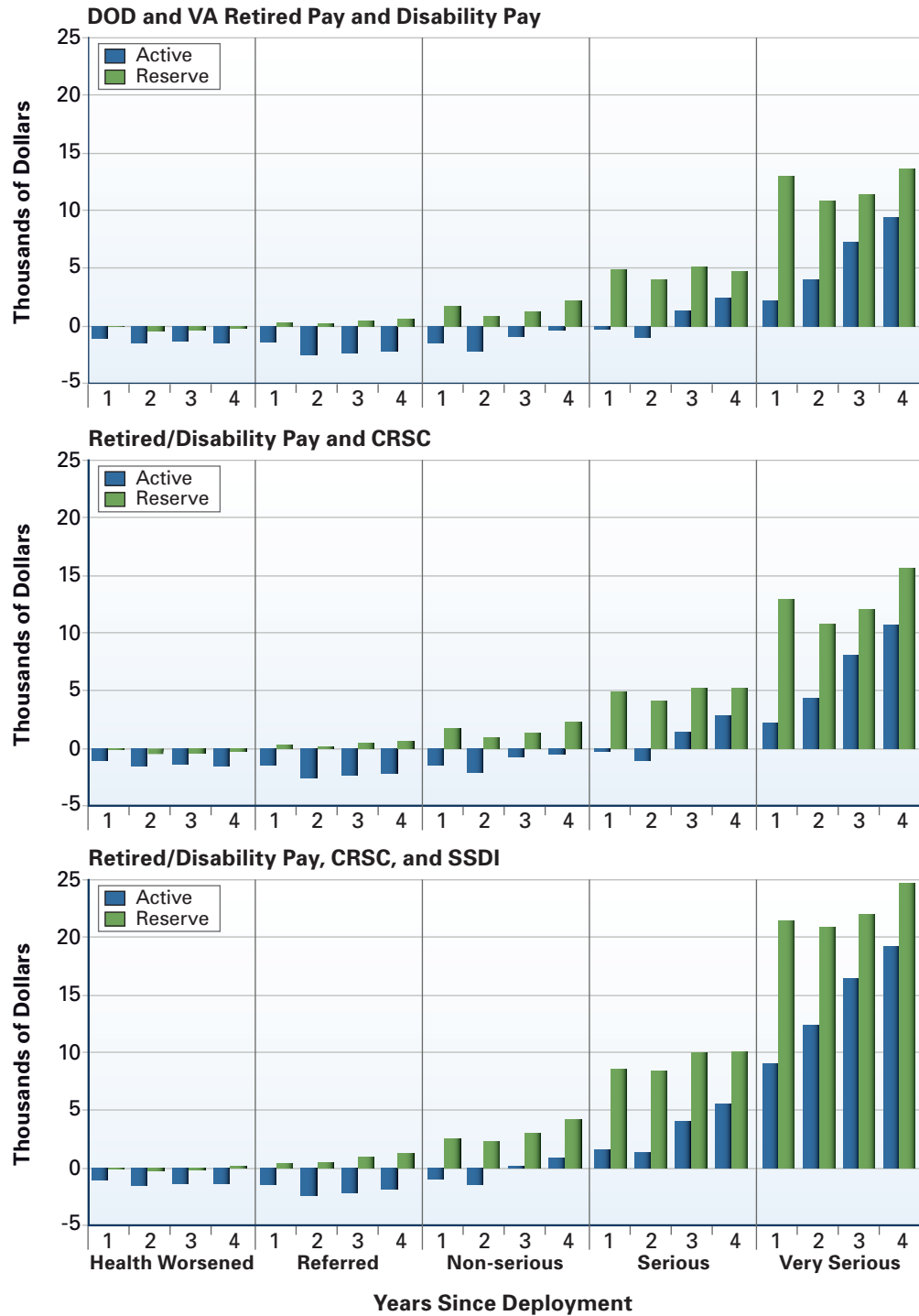
Even within the worsening health category, the net loss was only \$202 by the fourth year following deployment.

Compared to DOD retirement and VA disability payments, the incremental impact of CRSC on household income is relatively small (Figure 5-4, panel 2). The net increase is larger in later years, and for more severe injuries, but the average CRSC impact is generally under \$200 for both active and reserve component households. Among the very seriously injured, CRSC has a somewhat larger effect by the fourth year following deployment, adding an average of about \$1,400 to active component household earnings, and \$1,600 to reserve component households. In part, the relatively modest impact of CRSC results from the fact that only a small portion of injured service members receives these payments.

The impact of SSDI further reduces the income losses for active component personnel with less severe injuries—albeit by modest amounts—and significantly increases the income gains for those with more severe injuries. Among very seriously injured personnel, annual SSDI benefits averaged over \$8,600 by the fourth year following deployment. SSDI payments also improved the earnings picture for injured members of the reserve component, with small increases for the less seriously injured, and substantial add-ons for those reservists with more serious injuries. Among the most seriously injured, average annual fourth year SSDI payments topped \$10,000. By the fourth year, the inclusion of SSDI resulted in reserve component members in every injury category, on average, experiencing an increase in net household income relative to what they would have received absent the injury (Figure 5-4, panel 3).

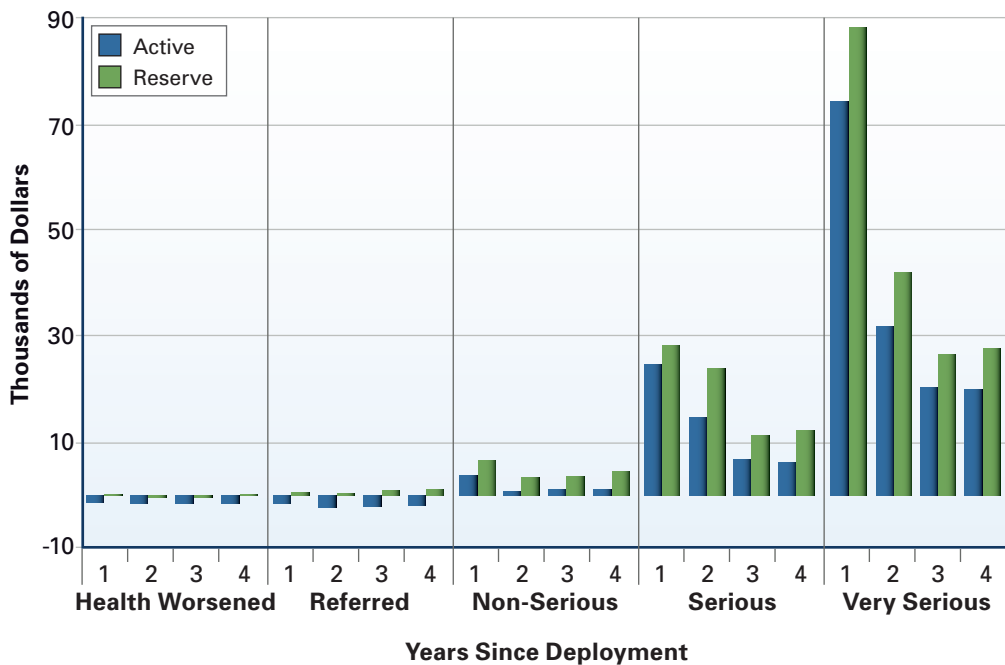
TSGLI payments also have a significant impact on the household income of seriously and very seriously injured personnel in both the active and reserve component. Because of the one-time nature of the TSGLI benefit, however, the impact is limited to the year in which the payment is made, usually the first or second year after deployment—and, as a result, net changes in the income stream are dramatic in that year (Figure 5-5).

Nearly one-quarter of seriously injured active component personnel, for example, received a TSGLI payment in the year after deployment, with the average TSGLI payment totaling approximately \$23,000. Among the very seriously injured, the average first year TSGLI payment topped \$65,000, with over half of that group receiving a TSGLI payment in the first year. Even among the non-seriously injured, the average TSGLI payment in the first two years following deployment exceeded \$2,000. TSGLI's impact on personnel with worsened health (with or without referral), in contrast, was negligible, with average payments of less than \$85 across the entire group. Results are similar for injured personnel in the reserve components.



Note: Data shown are net change over pre-deployment earnings.

**Figure 5-4. Impact of Recurring Retired and Disability Pays on Household Income**

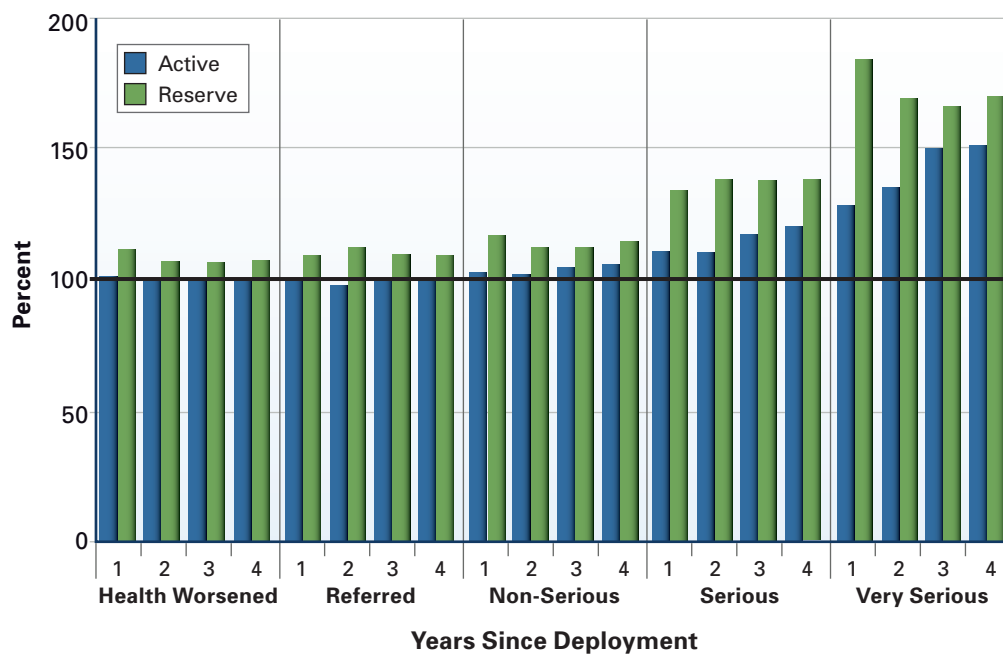


Note: Data shown are net change over pre-deployment earnings.

**Figure 5-5. Impact of Recurring Retired and Disability Pays, and One-time Benefit on Household Income**

The results of the QRMC's analysis demonstrate the critical role of disability compensation in offsetting the sometimes-significant earnings losses that injured service members experience after they return home. In combination, the retirement and disability compensation available to injured service members offsets the household earnings losses of nearly all personnel. And in many cases, the combined benefits more than offset those losses, particularly among the more seriously injured, who experienced the largest income losses due to their injuries. Moreover, the few instances where compensation did not wholly offset earnings losses occurred among the less seriously injured—that is, those with worsened health, with or without referral—and the average net losses for these households was modest, ranging from less than \$100 to \$2,400. By the fourth year following deployment, replacement rates range between 98–154 percent for injured active component service members, and between 107–183 percent for injured reserve component personnel (Figure 5-6). Replacement rates rise with the severity of the injury, and are generally higher among reservists.<sup>88</sup>

88. For a description of the distribution of income replacement within each injury category, see Paul Heaton, David S. Loughran, and Amalia Miller, *Compensating Wounded Warriors: An Analysis of Injury, Labor Market Earnings, and Disability Compensation Among Veterans of the Iraq and Afghanistan Wars*, in the second volume of this report.



**Figure 5-6. Replacement Rate of Lost Earnings**

The QRMC’s review does not address whether the income replacement rates for wounded warriors are at appropriate levels. But by way of comparison, the standard for adequacy used in civilian workers’ compensation programs is replacement of two-thirds of gross wages,<sup>89</sup> although actual wage replacement levels are typically below this standard.<sup>90</sup> Yet higher replacement rates for military personnel may be appropriate for several reasons.

First, individuals in the workforce typically experience an increase in wages due to career milestones—such as expanded responsibility, promotion, or job changes. These increases are above and beyond those that would typically occur in response to rising inflation or cost of living. And while the disability payments available to injured service members are indexed for inflation, they do not include any increases for wage growth associated with career advancement. Hence, disabled individuals will not experience the earnings growth that their uninjured peers may enjoy by

89. National Academy of Social Insurance, *Adequacy of Earnings Replacement in Workers’ Compensation Programs*. Kalamazoo, MI: W. E. Upjohn Institute for Employment Research, 2004.

90. Reville, Robert T., Leslie I. Boden, Jeffrey E. Biddle, and Christopher Mardesich, *An Evaluation of New Mexico Workers’ Compensation Permanent Partial Disability and Return to Work*, MR-1414-ICJ. Santa Monica, CA: RAND Institute for Civil Justice, 2001; and Seabury, Seth, Robert Reville, Stephanie Williamson, Christopher McLaren, Adam Gailey, Elizabeth Wilke, and Frank Neuhauser, *Workers’ Compensation Reform and Return to Work: The California Experience*, MG-1035-CHSWC. Santa Monica, CA: RAND Center for Health and Safety in the Workplace, 2011.

simply receiving government disability payments. Replacement rates above 100 percent can help offset the lack of real wage growth in disability payments.

Higher replacement rates may also be justified for occupations in which some calculated risk-taking is desirable—such as military service, policing, or firefighting. Similarly, replacement rates above 100 percent may help to attract recruits to relatively risky military occupations.

Further, injured service members often face other financial consequences beyond lost earnings. Some, for instance, may incur additional out-of-pocket expenses in order to accommodate their disabilities, costs that uninjured individuals do not face. Moreover, many injured personnel also experience non-economic problems, such as pain and suffering. Higher replacement rates may partly compensate service members for these additional expenses and hardships.

### Recommendations

The QRMC’s research on wounded warriors offers a clear picture of how combat injuries and disability compensation affect the household income of injured service members and their families in the four years following their return from deployment. As detailed above, the current array of compensation benefits offsets—and in some cases, more than offsets—the earnings losses that wounded military personnel and their spouses experience as compared to their peers.

Based on the findings described in this chapter, the QRMC is not recommending any near-term changes to the system of compensation benefits available to injured service members and veterans. That said, wounded warriors’ earnings losses should continue to be studied beyond the four-year post-deployment window in order to determine the adequacy of disability benefits over the long term, which might reveal a different picture for some groups of service members than the near-term impacts discerned by the 11<sup>th</sup> QRMC. Such a long-term study will provide a better understanding of how well disability benefits compensate for the income losses of injured service members during the course of a full career and into retirement.

#### RECOMMENDATION: WOUNDED WARRIORS

Continue to examine wounded warriors’ earnings and disability payments in order to monitor the long-term financial well-being of the wounded.



## Caregivers

After returning home, many seriously injured service members will require long-term or permanent help from a caregiver in order to accomplish activities of daily living. Typically, caregivers are family members or loved ones—usually the spouse or mother of a wounded warrior. The challenges they face are substantial and multifaceted. Not only must they come to terms with their spouse’s or child’s disability, they also must deal with the exhausting demands of providing care, often putting their own lives on hold to look after their loved one.

Many caregivers in the workforce experience a decline in earnings when they cut back work hours or quit their jobs in order to care for a disabled spouse or child. Other aspects of their lives can also suffer, with the demands of providing constant care often crowding out parental duties, school, friends, and leisure activities. The responsibilities can be physically and emotionally taxing. Indeed, several studies of caregivers within the general population have found high incidences of anxiety and depression among those providing care.<sup>91</sup>

While the QRMC recognizes the daily struggles and long-term challenges that caregivers face, its task was to evaluate *the compensation benefits* available to family members or loved ones who assume the role of caregiver for a wounded warrior. But despite its focus on caregiver compensation, the QRMC understands that financial issues are only one of many challenges that caregivers of wounded warriors confront. Other commissions have addressed many of these non-economic concerns, including the President’s Commission on the Care for America’s Returning Wounded Warriors. And based on that group’s recommendations, some important new benefits—including extended family and medical leave for caregivers, and respite care for caregivers—are now available.

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91. For more information about the psychological condition of caregivers, see J.S. Kreutzer et al., “Primary caregivers’ psychological status and family functioning after traumatic brain injury,” *Brain Injury* 8(3), 197–210, 1994; J.S. Kreutzer et al., “Patient correlates of caregivers’ distress and family functioning after traumatic brain injury,” *Brain Injury* 8(3), 211–230, 1994; and N.J. Marsh et al., “Caregiver Burden During the Year Following Severe Traumatic Brain Injury,” *Journal of Clinical and Experimental Neuropsychology* 24(4), 434–447, 2002.

### The Caregiver Population: Characteristics and Impacts<sup>92</sup>

As many as 720 seriously wounded service members return from Iraq or Afghanistan each year requiring caregiver assistance with nonmedical activities of daily living.<sup>93</sup> Inpatient and outpatient stays for injured personnel average close to a year, with the rehabilitation period for more severely injured service members sometimes continuing for two to four years.<sup>94</sup> In terms of caregiver needs while the service member is still on active duty, the research concluded that seriously injured service members required caregiver assistance for about 19 months, on average. Many, however, may need support for longer periods. In fact, 43 percent of those surveyed anticipated that they would need long-term caregiver assistance.

Approximately 90 percent of seriously injured male service members have a primary caregiver; and in the vast majority of cases, that primary caregiver is a family member.<sup>95</sup> Among married personnel, 96 percent identified their wife as the primary caregiver. Mothers play a larger role in caring for single members, serving as primary caregiver for 47 percent of injured personnel under age 30, and for 33 percent of members 30 or older. Many unmarried personnel rely on girlfriends or fiancées to provide care—12 percent of those under 30, and 34 percent 30 and over. Single personnel were also more likely to turn to a non-relative for assistance, with 17 percent of those under 30, and 8 percent 30 and over, using a non-family caregiver. In contrast, 1 percent or less of married personnel relied on non-relatives for care.

The amount of time that caregivers devote to their duties varies. Survey data show that 43 percent are engaged in caregiver duties for less than 10 hours per week—the most frequent time commitment—while 30 percent devote more than 30 hours each week to providing assistance. Wives, fiancées, and girlfriends typically spend more time providing support than do other family members.

Individuals who take on caregiver responsibilities can experience many financial challenges, including new out-of-pocket expenses, such as travel costs, additional

92. The information in this section is drawn from Christensen, Eric, Candace Hill, Pat Netzer, DeAnn Farr, Elizabeth Schaefer, and Joyce McMahon, *Economic Impact on Caregivers of the Seriously Wounded, Ill, and Injured*, CNA Research Memorandum D0019966.A2/Final. Alexandria, VA: CNA, April 2009. The analysis in that report used Bureau of Labor Statistics earnings data, as well as a survey of seriously injured male service members and their health care workers. Data presented here are based on those survey results and earnings information.

93. This estimate is based on the number of very seriously injured and seriously injured personnel included in the Defense Manpower Data Center's Statistical Information Analysis Division data systems on the seriously ill and injured.

94. Supporting this estimate, a "Troops and Family Care Fund Feasibility Study" white paper estimated an average stay of more than 380 days.

95. Approximately 95 percent of surveyed service members were male. The small numbers of female respondents precluded separate analysis of that population.

childcare expenditures, or the costs of establishing a new residence where their injured family member is rehabilitating. The caregiver study found that 37 percent of caregivers for seriously injured service members had unmet financial obligations, and 41 percent incurred additional financial obligations. Generally, those providing more hours of care were more likely to have unmet financial obligations. Further, the analysis revealed that nearly 50 percent of the seriously injured were service members in pay grades E-4 through E-6, many of whom may not have the financial wherewithal to handle such additional costs.

DOD programs cover many of the expenses that caregivers incur while supporting an injured service member. For example, for very seriously and seriously injured personnel, the military provides family members with transportation to the medical facility where their loved one is located, as well as housing and per diem to cover meals and other incidental expenses.<sup>96</sup> Nongovernmental agencies and charitable groups also provide financial support to wounded personnel and their families, often assisting with out-of-pocket expenses such as car payments and utilities. While this network of economic assistance can be a lifeline for caregivers struggling to cover expenses, it is not an income replacement program.

Yet for many caregivers, lost income is a considerable issue, with the demands of supporting an injured service member forcing them to quit or take time off from work. Survey results estimate that approximately 76 percent of caregivers worked prior to becoming caregivers. Of that group, 36 percent quit their jobs, 37 percent took time off, and 11 percent cut back their work hours. Among those who had been in school, 65 percent either quit or took time off. Not surprisingly, the percentage of caregivers who gave up work or school was higher among those who spent more time providing caregiver assistance. Among caregivers with outside jobs, for example, 14 percent of those spending less than 10 hours per week on caregiver duties quit their job. In contrast, 65 percent of those providing support for more than 40 hours a week left their jobs.

With the average annual salary of previously employed caregivers estimated to be approximately \$34,600, the average caregiver loses approximately \$2,900 in wages each month he or she remains away from work to care for a wounded service member.<sup>97,98</sup> If benefits are included, that annual loss jumps to \$45,000. This income loss can be a serious burden for families who still have to meet ongoing financial

96. Much of the financial support provided by DOD is from Invitational Travel Authorization Orders.

97. Estimates are based on March 2006 Current Population Survey average earnings data for individuals in the general population with characteristics comparable to the caregivers of injured service members.

98. The 2008 National Defense Authorization Act amended the Family Medical Leave Act to allow family members of injured service members to take up to 26 weeks of leave to care for their injured family member. Leave under the Family Medical Leave Act, however, is unpaid.

obligations, including mortgage or rent, car payments, and credit card payments. In fact, survey results identified lost income as the biggest hardship facing family members serving as caregivers.

According to the study, parents who act as caregivers can face additional issues. Unlike spouses, who are covered by military health insurance, many parents of service members receive health care insurance through their employer. So, for this group, leaving a job to care for an injured child can mean not only a loss of income, but also loss of health insurance.

### Caregiver Compensation

In 2009 and 2010, Congress responded to the financial struggles facing injured service members and their families by enacting new DOD and VA caregiver compensation programs intended to provide an allowance to compensate caregivers who assist injured service members with activities of daily living.<sup>99</sup>

In explaining the need for the new DOD program, the Senate Committee on Armed Services noted that:

The committee remains concerned about spouses and other family members who continue to shoulder an extraordinary burden in caring for catastrophically injured service members, many of whom will survive their injuries but will require a lifetime of special care. Many spouses and family caregivers give up their jobs and careers to care for service members under these circumstances. The special monthly compensation that would be authorized by this section is intended to compensate designated family caregivers for the dedicated time and assistance they provide to catastrophically injured service members.<sup>100</sup>

Implemented in 2011, the two new caregiver programs joined the existing VA Aid and Attendance program, which provides veterans who need regular aid and attendance or higher level care with a monthly allowance to purchase that support. Although not intended to serve as income replacement programs, the new DOD and VA programs provide a source of compensation for caregivers and help offset the \$2,900 average earnings loss that caregivers experience.

99. The DOD Caregiver Compensation program was enacted as part of the National Defense Authorization Act for Fiscal Year 2010 (P.L. 111-84). The VA Caregiver Compensation program was established in the Caregivers and Veterans Omnibus Health Services Act of 2010 (P.L. 111-163).

100. U.S. Senate. Committee on Armed Services. National Defense Authorization Act for Fiscal Year 2010: Report Together with Additional Views (to accompany S. 1390). (S. Rpt.111-35). Washington DC: Government Printing Office, 2009. S. Rep. No. 111-35, at 144–45 (2009).

- ❖ **DOD Special Compensation for Assistance with Activities of Daily Living (SCAADL).** DOD’s caregiver compensation program, SCAADL, is designed to compensate catastrophically injured or ill service members who were injured in the line of duty and require caregiver support. To qualify, personnel must require assistance with activities of daily living, which—absent caregiver aid—would result in hospitalization or institutional care. The monthly stipend is paid to the service member, who can then provide the funds to his or her caregiver. While most caregivers are family members, non-family members may also serve as caregivers. However, other military members are not permitted to serve as caregivers if the wounded member is receiving caregiver compensation. Caregiver training is available to those participating in the program, but training certification is not required.

Per congressional mandate, monthly stipend rates under SCAADL are the same as those paid under the VA Caregiver Compensation program—although DOD payments are taxed, while VA compensation is tax exempt. Rates are based on commercial home health prices, as well as the amount and type of personal services being provided. Caregivers providing 40 hours of assistance per week receive a tier 3 stipend—averaging about \$2,000 per month. Those providing 25 hours per week receive tier 2 stipends (approximately \$1,300), and those assisting for 10 hours per week receive tier 1 stipends (about \$550).<sup>101</sup> On average, monthly payments are estimated to be approximately \$1,600. Service members are eligible for the compensation until they recover from their injuries, begin to receive VA caregiver benefits, or 90 days after separation from the military, whichever occurs first. In 2011, approximately 350 service members were eligible for DOD’s caregiver stipends, at a total annual cost to the department of approximately \$7 million.

- ❖ **VA Family Caregiver Program.** After separating from military service, injured veterans receive benefits from the VA Family Caregiver program, which provides compensation for the care of veterans who were seriously injured in the line of duty and who require assistance with activities of daily living.<sup>102</sup> The criteria for determining payment rates are the same as those used for SCAADL. The major difference between the two programs

101. Stipend amounts are current as of February 2012.

102. The VA Family Caregiver Program is a comprehensive program which includes training, education, support, mental health treatment, health insurance for those not already covered by a health insurance plan, as well as a stipend given in recognition of the sacrifice and dedication that family caregivers provide every day to the veterans they care for.

is that the VA stipend is paid directly to the caregiver and is exempt from taxation. While SCAADL is available to any caregiver supporting an eligible service member (unless the caregiver is also a service member), only family members or individuals living with the injured veteran are eligible for the VA stipend. Caregivers also must be trained and approved before they can qualify for compensation. As of February 2012, VA had just over 3,100 caregivers participating in the program (1,445 at tier 3, with an average stipend payment of \$2,266; 1,028 at tier 2, receiving an average payment of \$1,518; and 641 at tier 1, with a payment of \$632). Of that total, 72 percent were spouses, and another 13 percent were mothers of wounded warriors. Nearly all, 92 percent, were women.<sup>103</sup>

- ❖ **VA Aid and Attendance Allowance.** In addition to its new caregiver compensation program, VA also offers an aid and attendance allowance for veterans who need caregiver assistance. Veterans who qualify for the caregiver compensation stipend may also qualify for the aid and attendance allowance. A regular, tax-exempt allowance (\$2,002 per month in 2011) is available to veterans who need assistance with activities of daily living. The allowance is paid directly to the veteran, and can be used to compensate any individual providing caregiver support. Veterans who need higher level daily health care services qualify for a larger stipend (\$2,983 per month), but only if the care must be rendered by a licensed health care service provider or an individual supervised by a licensed professional.

Caregiver compensation provides critical financial support to families grappling with an injured service member, both while on active duty and after separating from the military. Maintaining continuity of the benefit during the transition from active duty to veteran status is important for families who rely on the additional resource to help support their wounded service member and his or her caregiver needs. As the Senate Armed Services Committee noted when explaining its rationale for setting the DOD compensation rates equal to the VA stipend, the “Departments of Defense and Veterans Affairs must work together to ensure seamless transition of care of all service members retiring for disability.”<sup>104</sup>

Nonetheless, differences between the DOD and VA programs—primarily around eligibility criteria—may complicate the transition of some personnel from the

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103. U.S. Department of Veterans Affairs. Program Update: February 2012. Washington, DC: VA Health Care, February 2012.

104. U.S. Senate. Committee on Armed Services. National Defense Authorization Act for Fiscal Year 2011: Report Together with Additional Views (To accompany S. 3454). (S. Rpt. 111-201). Washington, DC: Government Printing Office, 2010.

DOD caregiver program to the VA program. For example, the DOD program covers personnel with catastrophic injury *or illness*, while the VA stipend is only available to veterans with serious injuries. Hence, the caregiver of a service member who receives the DOD caregiver stipend due to the member's serious illness would not be eligible for the new VA caregiver stipend once the member separates from the military. Several examples illustrate the differences in coverage. If a service member were receiving special compensation from DOD after developing cancer while on active duty, that member would no longer receive caregiver benefits upon transitioning to the VA, as the VA program does not cover illnesses. An even murkier example involves a member who suffers a heart attack while on active duty that leads to anoxic brain injury due to the time it took for resuscitation following the heart attack. Is the illness because of heart disease or an injury? If the two programs were aligned, benefits would be the same in either case.

Another difference is the terminology used to describe the injury (and illness in the case of the DOD program). Again, the DOD program covers personnel with *catastrophic* injury or illness, while the VA stipend is only available to veterans with *serious* injuries. DOD defines catastrophic as “a permanent severely disabling injury, disorder, or illness incurred or aggravated in the line of duty that the Secretary of the Military Department concerned determines compromises the ability of the afflicted person to carry out ADL [activities of daily living] to such a degree that the person requires personal or mechanical assistance to leave home or bed, or constant supervision to avoid physical harm to self or others.”<sup>105</sup> Consistent with 38 U.S.C. 1720G(a), VA defines serious injury as “any injury, including traumatic brain injury, psychological trauma, or other mental disorder, incurred or aggravated in the line of duty in the active military, naval, or air service on or after September 11, 2011, that renders the veteran or service member in need of personal care services.”<sup>106</sup> Differences in definitions can be a barrier to seamlessly transitioning between programs.

Eligibility criteria for caregivers also differ between the two programs. DOD's stipend, for example, can be used to reimburse any individual (other than an active duty member) providing caregiver assistance. To qualify for the new VA stipend, in contrast, the caregiver must be either a family member or someone living with the veteran. This criteria may exclude some caregivers from receiving the VA benefit, particularly those providing care to an unmarried veteran—who account for a significant number of wounded service members, as noted above.

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105. DOD Instruction 1341.12, “Special Compensation for Assistance With Activities of Daily Living (SCAADL),” August 31, 2011.

106. U.S. Department of Veterans Affairs, 38 CFR Parts 17 and 71, Federal Register, Vol. 76, No. 87; May 5, 2011, Rules and Regulations.

Also, caregivers in the VA program must be trained and approved before they can qualify for compensation. This training is available to caregivers before the member transitions to veteran status, and the benefit is retroactive to the date of application to help preclude the possibility of a disruption in compensation. However, the residency requirement for a non-family member caregiver presents a more challenging obstacle to qualifying for the VA stipend.

Other differences between the two programs could further complicate the transition from the DOD compensation program to the VA stipend. The DOD allowance, for example, is paid to the service member, who uses the funds to pay his or her caregiver. The VA stipend, in contrast, is paid directly to the caregiver. There is also a difference in how the benefits are treated for tax purposes, with DOD compensation subject to taxation and the VA stipend tax exempt.

### **Aligning Caregiver Programs**

Seriously injured service members and their families must cope with myriad physical, emotional, and financial issues. For those who are no longer able to serve, the transition from military to veteran status can be a challenging period, as veterans and their families must adjust to the different programs, benefit structures, and administrative systems at the VA. The QMRC concurs with congressional intent that the transition between the two programs should be as seamless as possible. To improve the transition process, the QMRC recommends a closer alignment between the DOD and VA caregiver programs.

Specifically, the QMRC recommends changes to the eligibility criteria for the VA stipend to more closely align it with DOD's eligibility criteria. First, the VA eligibility criteria should be expanded to include veterans with serious illnesses. Second, the law uses a different adjective to describe the injury—"catastrophic" in the case of the DOD program and "serious" in the case of the VA program. While the implementing guidance for each program appears to make the programs compatible, using identical language and definitions would ensure consistency. Third, expanding the VA program to include non-relatives as eligible recipients of the stipend would alleviate the need for a service member whose caregiver is a fiancée or girlfriend/boyfriend to find a new caregiver in order to receive the stipend upon transitioning to veteran status. Lastly, the QMRC recommends making DOD caregiver compensation tax exempt, consistent with the tax treatment of VA caregiver compensation.



**RECOMMENDATION: CAREGIVER COMPENSATION PROGRAMS**

Facilitate a more seamless transition between the Departments of Defense and Veterans Affairs by making eligibility criteria, disbursement policies, and the tax treatment of caregiver compensation consistent between the two programs.

Recent research has provided valuable information and insights regarding the economic status of injured military personnel. However, earnings data for caregivers are not as readily available or precise as data for wounded warriors. Hence, the analysis of their economic status is not as robust, relying on survey information rather than actual data to determine the economic impact. The newly established caregiver compensation program at VA could generate the information needed to carry out a more detailed analysis of caregivers, similar to the income analysis described earlier in this chapter on wounded warriors. The QRMC recommends that data collection functions for the VA caregiver program capture the information needed to assess the financial impact of taking on caregiver responsibilities, as well as the extent to which compensation benefits mitigate that impact. With these data, a study similar to the QRMC's analysis of compensation for wounded warriors and survivors (described in the next section), can be performed, providing a more accurate picture of the financial implications for caregivers.<sup>107</sup>

**RECOMMENDATION: FINANCIAL STATUS OF CAREGIVERS**

Once the caregiver compensation programs mature, conduct further analysis to better understand the financial implications for caregivers.

## Survivors

Survivors of fallen service members receive an array of compensation benefits, including immediate and transitional assistance following the loss of their loved one, that helps replace the income lost as a result of the member's death. A number of these benefits have increased significantly since 2004, part of broader efforts to improve the financial well-being of service members injured in Iraq and Afghanistan, as well as their families. This section provides an historical perspective of how survivor benefits have evolved over time, describes the financial assistance currently available to survivors, and explores potential areas for improving the system moving forward.

107. The QRMC's analysis of wounded warrior and survivor compensation was based on a longitudinal study of earnings over a four-year period after deployment. A longitudinal study is a correlational research study that involves repeated observations of the same variables over long periods of time—often many decades.

### Evolution of Survivor Benefits<sup>108</sup>

The precursors of many current survivor benefits have been in place for decades, some even longer. In fact, the first provision of survivor benefits can be traced back to 1780, when compensation benefits were granted to survivors of officers who died as a result of the Revolutionary War. Under that program, surviving spouses and children received half of the officer's pay for seven years. Spouses of enlisted personnel—and those with service-connected deaths not related to the Revolutionary War—were not eligible for survivor compensation.

Since that time, legislative changes to the system of military survivor benefits have consistently been designed to provide more comprehensive and long-term financial compensation to a broader group of survivors. In 1802, Congress enacted peacetime death compensation for survivors of officers, equal to half pay for five years. It would take more than 30 years, however, before peacetime death compensation was extended to the widows and children of enlisted personnel in 1836. Once coverage expanded to include the enlisted force, the duration of the benefit was gradually expanded beyond the five-year limit, ultimately provided to surviving spouses for the rest of their lives, or until they remarried.

In 1862, Congress replaced this early dependency compensation with another survivor benefit that was created in conjunction with a newly established disability compensation program. Under the new law, survivors received as a death benefit the same compensation they would have received if the member had been totally disabled rather than died. The annuity was based on pay grade and degree of disability—a formula that would remain in place until World War I.

A death gratuity was added to the survivor compensation structure in 1908. A lump sum payment equal to six months pay, this indemnity benefit was intended to compensate for the fact that many service members did not have life insurance. Congress described the payment as an “emergency fund” to support survivors immediately after the death of a member, and instructed that the benefit be provided to survivors as soon as possible. Although death gratuities were briefly repealed when government life insurance was made available to service members in 1917, the benefit was reestablished for Army personnel in 1919 and in the Navy and Marine Corps a year later. It would not be until 1949 that the survivors of reserve and guard members were made eligible for death gratuity payments.

During World War I, dependency compensation was revised again, with annuities based on pay grade and disability replaced with fixed payments for all widows, plus an

108. The historical review of survivor benefits is drawn from U.S. Department of Defense, *Military Compensation Background Papers*, Sixth Edition. Washington, DC: Under Secretary of Defense for Personnel and Readiness, 2005.

additional amount for each surviving child. Members were also given the opportunity to supplement this dependency compensation with the purchase of up to \$10,000 of low-priced government life insurance—essentially an indemnity benefit designed to partially compensate survivors for the death of the service member. In 1951, the indemnity aspect of survivor compensation was strengthened when optional life insurance was eliminated, and replaced with an automatic \$10,000 indemnity payment, which—unlike the predecessor life insurance policy—did not require any member contribution.

The range of compensation benefits available to survivors was expanded again two years later under a 1953 law that allowed members to opt for reduced retirement pay in exchange for a continued annuity for their survivors after their death—essentially a survivor benefit based solely on the service member’s retirement annuity. However, because the Uniformed Services Contingency Option plan was fully funded through offsetting reductions in member premiums, it was quite expensive and not popular among members.

In 1956, existing dependency annuity benefits and the one-time indemnity payment were replaced with a new combined annuity benefit—Dependency and Indemnity Compensation (DIC), a program still in place today. Initial DIC pay rates for surviving spouses were set at \$112 plus 12 percent of the service member’s basic pay (based on pay grade and length of service). The understanding at the time was that the \$112 was the indemnity portion of the benefit, and the 12 percent the dependency portion. Because part of the annuity was tied to basic pay, survivor compensation rose each time basic pay went up. In addition to establishing DIC, the 1956 legislation also capped the death gratuity at \$3,000.

Survivor benefits continued to evolve over the next decade. In 1961, the seldom-used Contingency Option plan was replaced with the Retired Serviceman’s Family Protection Plan (RSFPP). But although the new program was more flexible than its predecessor in many ways, it retained its self-sustaining financing mechanism. And in combination with the increased flexibility, the option of a continued retirement annuity after death became even more expensive than it had been under the Contingency Option, and participation remained low.

In 1965, Congress reestablished life insurance for service members and veterans with SGLI, which offered a maximum \$10,000 policy. The maximum benefit was periodically increased over the next 20 years, rising to \$50,000 by 1985. Changes to the DIC program also occurred in the late 1960s, with the benefit formula based on basic pay replaced with a flat rate based on pay grade—a change that favored more junior members who, because of fewer years of service, had lower basic pay than more senior personnel.

Another major reform took place in 1972 when persistently low participation rates in the RSFPP prompted Congress to replace RSFPP with the Survivor Benefit Plan (SBP). Unlike its predecessor, SBP was not designed to be a self-supporting program financed solely by participating service members. Instead, its costs were shared by the government, which made it a much more affordable retirement-based survivor annuity option for service members, particularly those at lower pay grades.

Under the new program, retirement-eligible service members were automatically enrolled for the maximum benefit, unless they specified otherwise. The maximum SBP annuity, still in place today, is 55 percent of the service member's base amount, with the base amount equal to the member's retirement benefit. Members opting for less coverage set their base amount at a level lower than their retirement pay. The new program also subjected SBP payments to certain reductions for those survivors who also received compensation through the Social Security system and the DIC program. In terms of the DIC, the SBP offset was dollar for dollar.

In 1985, further changes were made to improve and simplify the SBP. One major reform replaced the existing Social Security offset with a two-tier SBP annuity system that provided survivors with 55 percent of retired pay prior to age 62, and 35 percent after that point, at which age Social Security benefits based on military service kick in.

More recently, expansions of survivor benefits often have been enacted during times of war, when the dangers facing military personnel generate increased concern about their well-being, as well as greater efforts to strengthen the financial support systems available to them and their families. During the first Persian Gulf War, for example, the maximum SGLI benefit was doubled from \$50,000 to \$100,000, and doubled again in 1996 to \$200,000. After increasing the maximum amount to \$250,000 in 2000, in 2005 Congress raised the SGLI maximum to its current level of \$400,000.

The death gratuity benefit also was expanded during this period. In 1991 it was temporarily increased from \$3,000 to \$6,000 for the survivors of Gulf War-related fatalities. Later that same year, the \$6,000 level was made permanent. More than a decade later, U.S. troops again were fighting in the Gulf when Congress doubled the death gratuity to \$12,000 and made the entire benefit tax exempt. Two years later, in 2005, the gratuity amount was increased more than eight-fold to \$100,000.

DIC compensation was also revised during the first Gulf War, with the pay grade-based benefit that had been in place since 1969 replaced in 1992 with a flat monthly annuity of \$750 per month, indexed for inflation. Survivors with children received an additional \$100 per month for each child, an amount that grew to \$205 per child by 1995. The rationale for the shift to a flat annuity was similar to the arguments

made in favor of the 1969 reforms—an annuity based on a member’s pay grade is inequitable, particularly to the survivors of service members in lower pay grades, who receive a smaller annuity than survivors of personnel in higher pay grades.

The SBP remained intact during the Gulf War period, but has been modified several times in the ten years since the September 11, 2001 terrorist attacks. In 2001, the benefit was made available to the surviving spouse of a member who, on or after September 10, 2001, dies in the line of duty while serving on active duty, and now includes spouses of service members who had not completed 20 years of service.<sup>109</sup> This change greatly increased the number of survivors receiving both SBP and DIC payments—and hence, subject to the DIC offset. In 2008, Congress created the Special Survivor Indemnity Allowance (SSIA) to partially compensate for the offset beginning in 2009 with a monthly payment of \$50 for those survivors receiving both benefits. The allowance was scheduled to increase in \$10 increments each year, until it reached \$100 a month after 2013. However, subsequent legislation enacted in 2009 mandated even larger increases to the monthly SSIA amounts beginning in 2014, with the annuity scheduled to rise to \$310 by 2016.

Another change made to SBP payments during this period occurred in 2004, when Congress began a gradual phase-out of the Social Security benefit reduction (i.e., lower SBP benefits to those survivors over age 62), with the reduction completely eliminated in 2008.

### Survivor Benefits Today

Today, the set of benefits available from DOD, VA, and the Social Security Administration combines to provide survivors with critical short-term assistance immediately following the service member’s death, as well as long-term income support and reparation compensation. This section describes the most significant components of the current survivor compensation system.<sup>110</sup>

The VA provides both dependency and indemnity compensation to survivors.

- ❖ **Dependency and Indemnity Compensation.** DIC is a tax-exempt monthly annuity paid to the survivors of members or veterans whose death is service-connected. DIC benefits are indexed to inflation, with surviving spouses receiving monthly payments of \$1,195 in 2012 and \$296 for each

109. The benefit for this population is calculated as if the member were retired at 100 percent disability, resulting in an annuity equal to basic pay times 75 percent times 55 percent.

110. For additional information on survivor benefits, see Patrick C. Mackin et al., *Review of Survivor Benefits*, in the second volume of this report.

dependent child.<sup>111</sup> Additionally, a \$250 monthly transition benefit is paid for 24 months if the surviving spouse has at least one child under the age of 18. While the benefit provides both dependency and indemnity compensation, they are combined into one annuity, blurring the distinction between the amount paid for dependency and the amount paid for indemnity.

- ❖ **Servicemembers' Group Life Insurance.** Military personnel are eligible to purchase life insurance through the VA's SGLI program. Because service members are automatically enrolled in SGLI (unless they expressly opt out), the vast majority of personnel participate in the indemnity program at the maximum coverage level of \$400,000, which is available for an annual premium of \$312. Maximum SGLI amounts are set in statute, and are not indexed for inflation. However, Congress does periodically increase the maximum, most recently in 2005. SGLI benefits are excluded from gross income for tax purposes.

DOD also provides a series of benefits to the survivors of service members.

- ❖ **Survivor Benefit Plan.** The SBP allows members to opt for reduced retirement pay in exchange for an inflation-adjusted annuity for their survivors after their death—essentially a survivor benefit based solely on the service member's retirement annuity. The basic SBP for a surviving spouse is 55 percent of the member's retired pay, although members can opt for a lower amount upon retirement. Retirees fund approximately 53 percent of the cost of the SBP program through reductions in their retirement pay, with the government covering the remaining costs. Personnel who die on active duty are automatically covered and, because they had not yet retired, made no contributions to the cost of the program. SBP annuities are paid until the death or remarriage of a surviving spouse (if remarriage occurs before the surviving spouse reaches age 55).<sup>112</sup> When a member dies on active duty, SBP may be paid to dependent children if the military department and surviving spouse determine it appropriate to provide the annuity to the children instead of the surviving spouse. In this case, SBP payments are made until the children no longer qualify as dependents.

For those survivors also receiving DIC, the SBP is offset dollar for dollar by the DIC benefit. Hence, if a survivor's DIC payment is less than the SBP payment, the survivor will receive the DIC payment, plus the difference

111. Surviving spouses must remain unmarried to qualify for DIC, although those who remarry after age 57 are still eligible to receive DIC benefits. To receive DIC payments for a child, the child must be under age 18, or between the ages of 18 and 23 and attending school.

112. Surviving spouses who remarry after age 55 continue to receive SBP payments.

between the SBP and DIC. In those instances in which a survivor receives a reduced or no SBP benefit because of concurrent receipt of a DIC annuity, the survivor is refunded those contributions (the premium payments) that the member made in support of SBP payments that were not realized due to the offset. When the dependent children are designated as the SBP beneficiaries, there is no SBP offset. This difference is why some spouses elect to have the dependent children designated as beneficiaries.

- ❖ **Reserve Component Survivor Benefit Plan.** The Reserve Component Survivor Benefit Plan functions the same way as SBP. It provides an opportunity for guard and reserve members who qualify for retired pay based on reserve service to reduce their retirement pay (once received) in exchange for an inflation-adjusted annuity for their survivors. The members can select from three options.
  - Option A. Decline to make an election until age 60.
  - Option B (deferred annuity). Elect to provide an annuity beginning on the 60<sup>th</sup> anniversary of the member's birth if the member dies before that date or on the day after date of death, if the death is on or after the 60<sup>th</sup> birthday.
  - Option C (immediate annuity). Elect to provide an immediate annuity beginning on the day after the date of death, whether before or after age 60.

If the reservist does not make an election within 90 days of receiving his or her notice of eligibility for reserve retirement, the member's spouse and children are automatically covered under option C.

- ❖ **Special Survivor Indemnity Allowance.** The SSIA is a monthly payment designed to partially compensate for the SBP offset that affects survivors eligible for both DIC and SBP benefits.<sup>113</sup> The monthly allowance is set at \$80 in 2012, and is scheduled to gradually increase to \$310 in 2016.
- ❖ **Death gratuity.** Survivors of active and reserve component members who die on active duty, inactive duty training, authorized travel, or within 120 days after release from duty receive a one-time payment of \$100,000. A tax exempt indemnity, the death gratuity is designed to help survivors cover living expenses and other costs in the period immediately following a member's death.

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113. The surviving spouse of a reserve component member who dies while performing inactive duty training is not eligible for SSIA, although the spouse is subject to the SBP offset.

- ❖ **Basic Allowance for Housing.** Survivors receive one year of rent-free government housing, or a tax-free housing allowance, following the death of a service member.<sup>114</sup> Until recently, this transitional benefit was only available for six months.
- ❖ **Compensation for burial expenses.** In most cases, DOD handles burial arrangements. When survivors choose to make their own arrangements, the department reimburses expenses up to \$8,800 (up from \$6,900 prior to 2007). Travel reimbursement is also available for the member's relatives to attend burial or memorial services.

Some survivors are also eligible for Social Security payments.

- ❖ **Social Security lump sum death payment.** Survivors are eligible for a \$255 lump sum death payment that is paid out within 30 to 90 days of the member's death.
- ❖ **Social Security benefits.** Survivors, both spouses and children, may also be eligible for monthly Social Security payments, which are based on the length of time the member worked, and the amount of payroll deductions contributed to the Federal Insurance Contributions Act, or FICA. The surviving spouse receives a percentage of the basic Social Security benefit—typically 71.5 to 100 percent of the full benefit amount, depending on age.<sup>115</sup>

### Analysis

Benefits available to the survivors of service members combine to provide a comprehensive and robust system of immediate and long-term financial support. This system of financial protections has been strengthened and expanded over the past decade, as combat operations in Iraq and Afghanistan have increased attention on the sacrifices and challenges facing military personnel and their families.<sup>116</sup>

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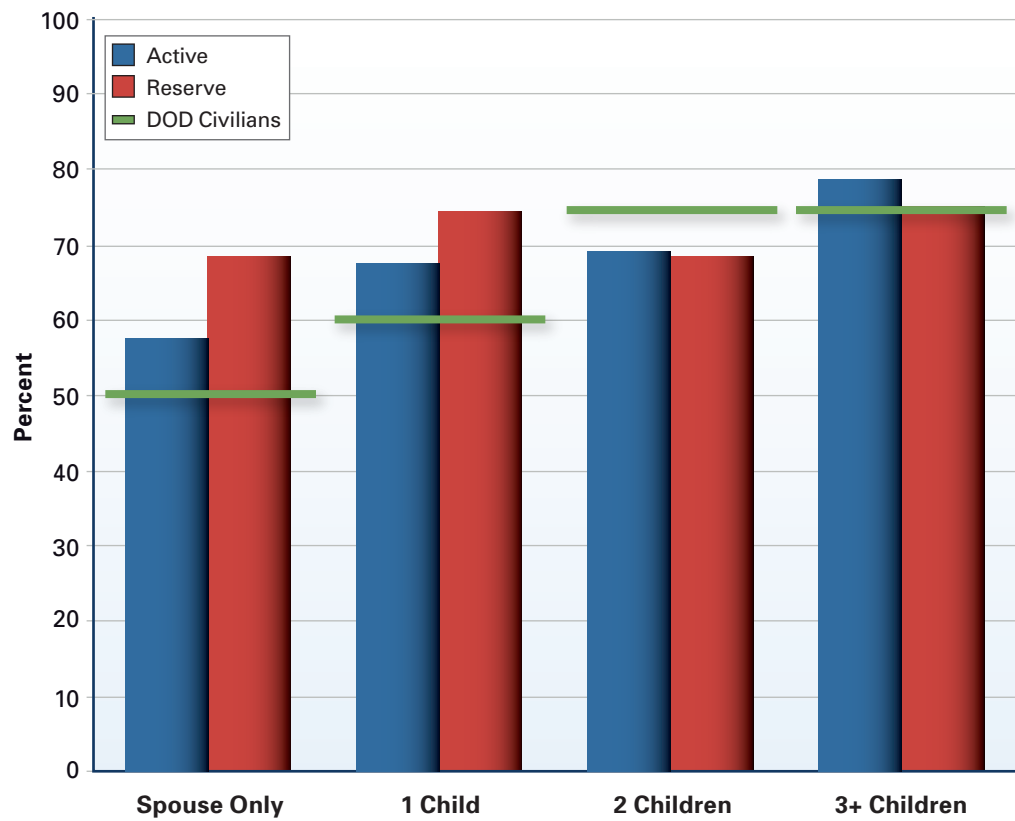
114. In order for a survivor to receive a housing allowance, the member must have been eligible to receive the allowance for dependents at the time of his or her death.

115. A non-disabled surviving spouse can receive reduced benefits as early as age 60. Unmarried children younger than age 18 (or up to age 19 if they are attending elementary or secondary school full time) can receive Social Security benefits and the surviving spouse can also receive benefits at any age if she or he takes care of a child receiving Social Security benefits who is younger than age 16 or disabled.

116. The results in this section, as well as detailed discussion of the data and methodology, are based on analysis described in: Amalia R. Miller, Paul Heaton and David S. Loughran, *Analysis of Financial Support to the Surviving Spouses and Children of Casualties in the Iraq and Afghanistan Wars*. This paper can be found in the second volume of the QRMIC report.



Today, recurring survivor benefits from DOD, VA, and SSA,<sup>117</sup> on average, replace between 57 and 78 percent of a member’s earnings, depending on family size and component (Figure 5-7).<sup>118</sup> These benefits also compare favorably to the benefits provided to the survivors of DOD civilian federal employees whose death is connected to a contingency operation—except in the case of a surviving spouse with two children, which is 6 to 7 percent lower. The survivors of a civilian federal employee receive benefits that replace between 50 and 75 percent of the worker’s income.<sup>119</sup>



**Figure 5-7. Replacement Rates for Recurring Survivor Benefits**

117. Recurring payments are payments that are paid out periodically and that are available for an extended period of time; these include DIC, SBP, SSIA, and Social Security survivor benefits. Non-recurrent, or lump-sum, payments occur at a single point in time and include SGLI, the death gratuity, and the Social Security lump sum death benefit.

118. The replacement rate in Figure 5-7 is defined as the ratio of recurring survivor benefits paid in the fourth year after the member’s death to the inflation-adjusted value of the member’s pre-deployment earnings. Median values are used for the averages in the figure because they are less sensitive to outliers (households with very low pre-deployment earnings that have very high replacement rates).

119. United States Code, Section 8133, title 5.

Reserve component members who died in combat tended to be older than active component members and more likely to have served in senior enlisted ranks at the time of their deployments. Active component members who died in combat were more likely to have been in junior enlisted ranks than members of the reserve component, but those with two or more children were more likely to have been officers. These differences in pay grade may provide a potential reason for the higher replacement rates in the reserve component for households with fewer than two children but higher replacement rates in the active component for households with two or more children.

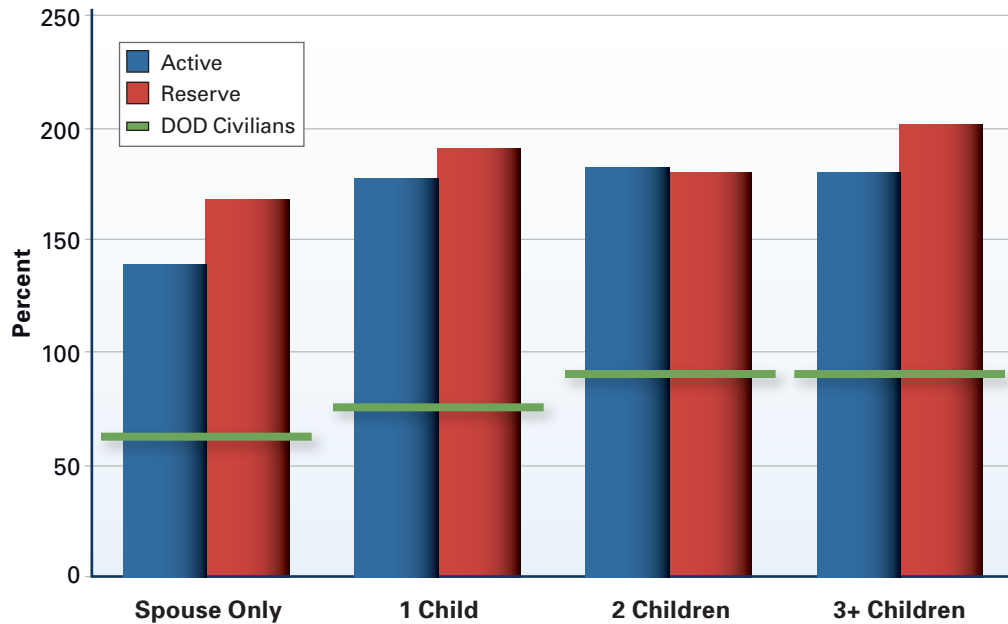
While the replacement value of recurring military survivor benefits is fairly consistent with the replacement value of ongoing federal survivor benefits, this comparison does not include the substantial lump sum benefits available to the survivors of military personnel: the death gratuity and, particularly, SGLI. Nor does it include the lump sum benefit available to the survivors of federal employees: Federal Employees' Group Life Insurance, on which SGLI is based, and a death gratuity.<sup>120</sup> If those benefits are factored into the comparison, the replacement value of military survivor benefits far exceeds the replacement rate of benefits provided to the survivors of federal employees (Figure 5-8).<sup>121</sup>

Survivors of military personnel may also experience other income loss, as spousal income generally declines in the years following a service member's death. But lost spousal earnings comprise only about one-tenth of the overall loss in household income—between \$4,500 and \$5,500 annually for spouses of active component members and between \$7,500 and \$8,500 for reserve component spouses. The main—and potentially more enduring—source of the decline in household income is the loss of the service member's earnings.

As described above, the survivors of military personnel also have access to an array of valuable in-kind benefits that are not captured in the income replacement comparisons presented here, but which can substantially reduce a family's out-of-pocket costs for health care, education, and housing expenses. For example, families of personnel who die on active duty retain eligibility for free health care coverage under TRICARE for three years following the member's death, and are entitled to life-long coverage under the retiree family rate. Survivor's housing costs are also

120. Federal Employees' Group Life Insurance benefits vary depending on the annual pay of the employee and the option selected.

121. Spending patterns of lump-sum payments vary. Figure 5-8 assumes that lump-sum payments are amortized over 20 years. Different amortization assumptions would yield different replacement rate comparisons, but in any instance, the inclusion of the lump-sum benefits provided to military survivors substantially increases the replacement value of military survivor benefits vis-à-vis federal survivor payments.



**Figure 5-8. Replacement Rates for Recurring and One-time Survivor Benefits**

covered for a year, and both the spouse and children of a fallen service member are eligible for educational assistance.

The current system of benefits available to the survivors of military service members is comprehensive, particularly given the changes in the survivor benefit structure enacted over the past ten years. However, the QRMC identified two areas where opportunities exist to improve the compensation structure. The first involves concerns that have been raised about the reduction in SBP payments when a spouse is also entitled to DIC. The second is the disparity in SBP payments when a reserve component member dies while performing inactive duty training. The QRMC made recommendations in both areas.

#### Annuity Offset—Survivor Benefit Plan and Dependency and Indemnity Compensation

As described above, survivors of members who die in the line of duty are eligible for both DIC and SBP annuities.<sup>122</sup> The number of dual-eligible survivors grew substantially after 2001, when SBP compensation was extended to all service members who died on active duty, not only those who had accumulated 20 years of service.

122. The surviving spouse of a member who elected to participate in SBP and whose subsequent death was service-connected is also eligible for DIC and therefore subject to the offset.

But while survivors may be eligible for both benefits, current law reduces the SBP payments that a survivor receives by the amount of his or her DIC payment—essentially eliminating any duplication.<sup>123</sup> Opponents of this SBP “offset” contend that the two benefits were established to serve different purposes, and that full payment of both should be provided to eligible survivors. DIC, the argument goes, is designed to compensate survivors for the death of a service member who died as a result of his or her military service. SBP, in contrast, is intended to provide the survivor of military personnel with a portion of the member’s retired pay.

Proponents of this position have support in Congress, where some members have expressed a desire to repeal the offset. The 2008 enactment of the SSIA, for instance, was intended to repay part of the offset. Moreover, legislation was introduced in both the House and the Senate in 2011 to repeal the SBP-DIC offset—the so-called “widow tax.”<sup>124</sup> Others contend that DIC and SBP compensation essentially serve the same purpose—to provide financial remuneration to surviving spouses. As such, providing both benefits would result in dual, government-subsidized compensation, creating what some have dubbed “super annuitants.”

The evolution of survivor benefit programs clearly demonstrates the government’s commitment to provide compensation to the survivors of military personnel who have served their country. Although structured differently, an examination of the evolution of survivor benefits reveals that both DIC and SBP serve the same purpose—to provide dependency compensation meant to offset the income loss resulting from the service member’s death. Given that they share the same objective, paying full benefits under both programs is duplicative.

At the same time, a member who participates in the SBP actually purchases part of the surviving spouse’s annuity through a reduction in his or her own retired pay. In effect, the member has purchased an annuity for his or her spouse and paid a premium for that benefit, just like purchasing any form of insurance. In fact, such premium payments finance 53 percent of SBP costs. Therefore, survivors who are eligible for both DIC and SBP compensation should continue to receive 100 percent of their DIC benefit, as well as that portion of the SBP benefit paid for by the service member. (Under current law, that insurance is canceled and previously paid premiums are returned to the survivor.) However, the portion of the SBP

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123. To avoid the offset, a surviving spouse can elect to have the SBP annuity assigned to a dependent child; however, in those instances, SBP ends when the last child reaches majority.

124. See H.R. 178, Military Surviving Spouses Equity Act, currently pending before the House Armed Services Committee; S. 260, a bill to amend title 10, United States Code, to repeal the requirement for reduction of survivor annuities under the Survivor Benefit Plan by veterans’ dependency and indemnity compensation, pending before the Senate Armed Services Committee; and H.R. 493, Military Retiree Survivor Comfort Act, pending before the House Armed Services Committee.

benefit paid for with taxpayer dollars—which is the only part of the benefit that is duplicative—should continue to be offset. This approach honors the retiree’s desire to provide for the financial well-being of his or her survivors, but also avoids dual payment of taxpayer-funded compensation, since offset of the government-subsidized portion would remain intact.

#### RECOMMENDATION: ANNUITY OFFSET

Modify the Dependency and Indemnity Compensation and the Survivor Benefit Plan offset to allow the surviving spouse to receive that portion of the Survivor Benefit Plan annuity funded by retiree premiums (approximately 50 percent).

### Inactive Duty Death Annuity

Another concern with the SBP is the disparity between the treatment of reserve component members who die on active duty and reserve component personnel who die while performing inactive duty. Under current law, survivors of reserve component members who die on active duty (as well as active component members) receive the maximum annuity—75 percent of basic pay times 55 percent. When a reserve component member dies while performing inactive duty, the survivor annuity is based on the member’s years of service—a formula that results in a significantly lower annuity.<sup>125</sup> Yet like those personnel who die on active duty, reservists who die on inactive duty are still performing military duty at the time of their death, and often this duty is required training.

Several examples illustrate just how significant the difference in annuity can be. Consider, for example, an aircrew consisting of three married service members: one on active duty; one reserve member on two weeks of annual training (active duty); and one reserve member performing inactive duty. All three are E-5s with eight years of service, and the two reserve members have the equivalent of four years of service for retired pay computation purposes. If all three members perish while performing a mission, the monthly SBP payment for the surviving spouses of the two members on active duty would be \$1,155, while the monthly SBP payment for the reserve member on inactive duty would be \$154.<sup>126</sup> Yet all three members died while performing the same mission. If the three crewmembers were O-4s with 18 years of service and each reserve officer had 10 years of service for retired pay computation purposes,

125. The formula for determining the SBP annuity for the survivor of a service member who died while performing inactive duty is as follows: Basic Pay x (2.5% x Computed Years of Service) x 55%. This yields a significantly smaller benefit than the calculation for active or reserve members who die on active duty: Basic Pay x 75% x 55%.

126. Calculation based on the 2011 pay table.

the monthly SBP for the surviving spouses of the two active duty officers would be \$2,908, while the spouse of the reserve officer performing inactive duty would receive \$969.

The SBP annuity for reserve component personnel who die while performing inactive duty is significantly less than the benefit available to survivors of active duty members and reserve members who die on active duty. Despite their inactive duty status, these reservists are still performing military duties at the time of their death. Moreover, the survivors of reservists who die on inactive duty do qualify for other unreduced survivor benefits, such as the death gratuity and SGLI. For these reasons, the annuity provided to the survivors of those who die while on inactive duty should be consistent with the annuity provided to the survivors of active or reserve members who die on active duty.

The QRMC has identified two strategies for making the annuities consistent. The first would be to expand the active duty death benefit provision in current law to include members who die while performing inactive duty. Alternatively, the formula currently used to determine the annuity for survivors of those who die while performing inactive duty could be replaced with the formula used for those who die while serving on active duty. Either approach would ensure consistent annuity calculations.

### **RECOMMENDATION: SURVIVOR BENEFIT PLAN FOR RESERVISTS**

Calculate Survivor Benefit Plan benefits for a reservist who dies while performing inactive duty training using the same criteria as for a member who dies while on active duty.

## Conclusion

The constellation of compensation programs available to wounded warriors and their families provides critical assistance that helps offset the financial repercussions when a member is injured or dies in the line of duty. Such financial assistance can be traced back to the earliest days of the republic, when compensation benefits were granted to survivors of officers who died as a result of the Revolutionary War. Since then, the array of available benefits has expanded and evolved into a robust support system that compensates for many of the financial losses experienced by injured personnel and their families.

Over the past decade, combat operations in Iraq and Afghanistan have drawn more attention to the sacrifices made by military personnel and their families, as well as the many challenges they face when a member is injured or killed. As a result, the support system available to these families has been further enhanced, with increased benefits and expanded eligibility designed to strengthen financial protections and more effectively meet family needs.

The QRMC's analysis has provided a detailed picture of the financial impact of combat injuries on wounded warriors and their families, as well as the adequacy of compensation benefits to offset those impacts. In general, the earnings losses experienced by injured service members and their families are more than offset by the retirement and disability compensation available through the Departments of Defense and Veterans Affairs, and the Social Security Administration. Recently implemented caregiver assistance programs also provide critical financial support to family members and others who care for injured service members. And for those families who lose their loved one, a range of programs offer both short- and long-term financial assistance that compares favorably to the survivor benefits available in other employment sectors.

Yet while the system of benefits available to wounded warriors and their families is increasingly comprehensive and robust, there are cases where benefits overlap and inconsistencies exist among programs and between the active and reserve components—areas where the QRMC has proposed recommendations to remedy shortfalls. The QRMC also recommends continued analysis of the financial ramifications of injuries to ensure that compensation remains adequate over the life of a career—as the majority of warriors who are wounded or killed in action are young and in the early stages of their working lives. The goal of these proposals is to ensure an equitable and efficient system of benefits that will ensure financial well-being over the long term.







**Part III**

**Compensation and Benefits  
for Reserve Component  
Members**



## Chapter 6

# Reserve Duty

Part III of this report contains the QRMC’s findings and recommendations on reserve component compensation and benefits. The charter directed the QRMC to evaluate whether or not reserve compensation and benefits are consistent with current and planned utilization of the reserves. Our overall findings and recommendations stem from one fundamental observation: current and future roles for the guard and reserve include performing operational missions *and* maintaining strategic depth. Yet the compensation system is structured in such a way that the focus of compensation is primarily aligned with only one of those roles—the training associated with maintaining a strategic reserve. As a result, all areas of compensation need to be considered in light of this dual role for the reserve components.

Complicating the structure of compensation and benefits is the reserve duty system. This system consists of a plethora of authorities to order a reserve component member to duty and a variety of purposes of duty—all of which need to be tracked in order to justify the budget request, remain within authorized strength limits, and comply with utilization restrictions. The QRMC found that without first addressing the convoluted and complex system of reserve duty, it would be difficult to bring meaningful change to compensation and benefits. Thus our assessment begins, in this chapter, with the reserve duty system.

For over a decade, the Department of Defense (DOD) has considered alternatives that would simplify the system under which guard and reserve members perform duty. Today’s system is complicated, confusing, and frustrating—for both commanders and service members. The structure causes members to encounter disruptions in pay and benefits as they transition between types of duty or duty periods, and commanders experience frustration when seeking access to reserve component members for operational missions. The numerous authorities and purposes that define the current structure are scattered throughout various provisions of law. Moreover, funding for the reserve components is drawn from different sources depending on the type or purpose of duty—a contributor to current complications in the system. As described by the Commission on the National Guard and Reserves (CNGR), the result is a “byzantine” structure under which guard and reserve members perform duty.<sup>127</sup>

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127. Commission on the National Guard and Reserves, *Transforming the National Guard and Reserves into a 21st-Century Operational Force*, Final Report to Congress and the Secretary of Defense, January 31, 2008, <http://www.loc.gov/rr/frd/CNGR-reports.html>.

Although simplifying the system under which reserve component members perform duty is not necessarily a compensation issue, and therefore not necessarily an issue for the QRMC, it does have a significant impact on a member's compensation and benefits. Simplifying the system also sets the conditions for modernizing the compensation system and better aligning benefits with purpose. It is for that reason that the QRMC undertook the task of preparing a legislative change that provides a concise set of authorities to order a member to perform duty.

The QRMC agrees in general with the conclusions of those who have studied the duty status system over the past decade: the duty system is long overdue for change. Any reform to the duty status system should be mindful of one underlying principle: reserve members are either on duty or off duty. While it may not be possible to have a single status, as does the active component, whatever minimal number of statuses are devised should be tested against this ideal. The purpose of duty, the funding required to pay for it, and other characteristics of the current structure, though important, do not need to complicate the specific task of calling a member of the reserve component to duty. They can be accounted for in ways that do not create unnecessary challenges for members and operational commanders, as is the case today. The next section of this chapter provides a brief overview of the reserve components, before turning to an assessment of the existing system and a new approach recommended by the QRMC.

### Origins of the Reserve Components

There are seven reserve components in the U.S. armed forces:

- ❖ Army National Guard
- ❖ U.S. Army Reserve
- ❖ U.S. Navy Reserve
- ❖ U.S. Marine Corps Reserve
- ❖ Air National Guard
- ❖ U.S. Air Force Reserve
- ❖ U.S. Coast Guard Reserve

The components differ widely in size and missions. Together there are 1.1 million members of the Ready Reserve, operating within a \$49.6 billion budget. Table 6-1 shows the size of the Ready Reserve by component. The Selected Reserve comprises those units and individuals with the highest priority for being mobilized to active duty in support of operational missions in the United States or overseas. Members

**Table 6-1. Size of the Ready Reserve by Component**

Reserve Component	Selected Reserve	Individual Ready Reserve/ Inactive National Guard	Total Ready Reserve
Army National Guard	361,561	3,608	365,169
U.S. Army Reserve	204,803	83,890	288,693
U.S. Navy Reserve	64,792	38,223	103,015
U.S. Marine Corps Reserve	39,772	60,681	100,453
Air National Guard	105,685	0	105,685
U.S. Air Force Reserve	71,321	35,493	106,814
U.S. Coast Guard Reserve	7,933	1,593	9,526

Source: Defense Manpower Data Center, 2011.

participate in a specified amount of training each year so they are ready when called to duty. Members of the Individual Ready Reserve (IRR) are not assigned to units, but can participate in training or support operational requirements. Most IRR members have prior military experience in the active or reserve component and many still have a military service obligation, which they will complete while in the IRR. Despite differences in size and mission, all components of the reserve use the same basic training regime; and all use the same duty system for training and performing operational missions.

The history of the reserve components goes back to the colonial militia. As described in a report by The Wexford Group International: “The National Guard, in its militia incarnation, goes back to the founding of the British North American colonies. The Army Reserve and Naval Reserve grew out of the Spanish-American War and preparations prior to World War I.” The National Defense Act of 1916 reorganized the Regular Army and provided for a “Volunteer Army,” consisting of four separate reserve organizations and the National Guard when on federal service. The Marine Corps Reserve was also established that year. The Coast Guard Reserve was established in 1941. The Air National Guard was established in 1947 with the creation of the United States Air Force followed shortly by the Air Force Reserve, which was officially established in 1948.<sup>128</sup>

The National Guard and reserve forces were used extensively in World War I and World War II. But it wasn’t until after 1948 that Congress began a process of improving and standardizing the reserve components. Some key legislative and

128. This history of the reserve component draws from a series of reports prepared by The Wexford Group International for the *Reserve Component Duty Status Study*.

policy milestones between 1948 and 1980 that had significant influence on the reserve components are as follows:

- ❖ Two laws in 1948 made the reserves an effective supplement to the regular forces. The Selective Service Act of 1948 established the need to develop a large and well-trained reserve to back up the regular forces, driving the size and membership of the reserve components. Draftees were to spend part of their service obligation in the reserves.
- ❖ The 1948 Army and Air Force Vitalization and Retirement Act provided retirement benefits to reservists and made a career in the reserve components a viable option.
- ❖ Also in 1948, the Organized Reserve Corps—Inactive Duty Training Pay Act established training categories for the Army Reserve and set 15 days of active duty and 48 drills as the annual training standard.
- ❖ The Armed Forces Reserve Act of 1952 established three levels of reserve participation: Ready Reserve, Standby Reserve, and Retired Reserves; and established uniform training categories for all the reserve components.
- ❖ The Reserve Forces Act of 1955 gave the president the authority to call up one million men to active duty for a presidentially declared emergency.
- ❖ The Selected Reserve Act of 1967 established the Selected Reserve as that part of the Ready Reserve that would be maintained at the highest state of readiness for activation.
- ❖ In 1970, the “total force concept” emerged and the role of the reserves was expanded to provide a small-scale surge capability and specialized skills.
- ❖ The 1970s also saw an end to conscription and the establishment, in 1973, of the all-volunteer force. This too had a major influence on the reserve component.
- ❖ In 1976, the Armed Forces—Selected Reserves—Active Duty Order gave the president the authority to call up 50,000 reservists without declaring a national emergency.
- ❖ In 1980, the Defense Appropriations Act established separate end strength for reserves on full-time active duty in support of training and administration of reserves.

In essence, the years between 1948 and 1980 saw continued organization and structure applied to the reserve components, but the basic training regime established in 1948 has endured, despite the fact that the use of the reserves has changed significantly since that time.

## Current Reserve Duty System

“Duty status reflects a reservist’s availability to perform a specific mission, function, or job and is linked to appropriated funds and legal authorities.”<sup>129</sup> Dozens of legal authorities exist that divide duty statuses into distinct types based on the purpose of the duty, use categories, funding streams, and applications to the reserves, National Guard, or both.

While active component members have a single duty status—active duty—reserve component members serve in an array of statuses governed by a diverse set of laws, policies, and practices. Statuses vary with respect to:

- ❖ **Authorities.** Titles 10, 14, and 32 of the United States Code; and DOD policy
- ❖ **Type of duty.** Active duty, full-time National Guard duty, inactive duty
- ❖ **Mission.** Training, support, operational
- ❖ **Duty.** Voluntary, involuntary
- ❖ **Funding.** Military personnel appropriations, National Guard personnel appropriations, reserve personnel appropriations
- ❖ **Strength accounting.** Active duty, selected reserve, active guard/reserve

Together these factors have driven the proliferation of authorities to order a member to duty and specify the purpose of the duty—collectively referred to as duty statuses. As roles and missions changed, new duty statuses were created to codify a new mission for the guard and reserve or a new purpose of the duty to ensure that all reserve activities would fall within the appropriate status and purpose. As the individual changes were made, they likely made sense. But what exists today is a system developed by a patchwork of laws and administrative fixes that complicate employment of the reserves as well as personnel management.

This complexity is not a recent phenomenon—in fact, the system of reserve duty is quite dated. Most of the statuses predate 1980 though five have been established since that time: Funeral Honors Duty (1999), Active Duty for Medical Evaluation (1999), Active Duty for Health Care (1999), Major Disaster/Emergency Response Call-up (2012), and Combatant Command Support (2012). Nineteen of the statuses existed prior to World War II. Thus, this system has not evolved in concert with how reserves are being employed in the total force but instead has expanded as utilization grew and changed.

129. Dolfini-Reed, Michelle and Darlene E. Stafford, *Identifying Duty Status Reforms Needed to Support an Operational Reserve*, CRM D0021656.A2. Alexandria, VA: CNA, 2010, 1.

Another anomaly of the duty system is that studies conducted over the past decade have identified differing lists of statuses or authorities, in both number and content. The list of reserve component utilization authorities identified by the DOD cites 26 authorities.<sup>130</sup> The QRMC set out to identify a comprehensive list of duty authorities. We reviewed legislation contained in titles 10, 32, and 14, as well as DOD regulations and instructions. The result was a list of 30 authorities (Table 6-2) as well as other elements that include purposes, restrictions, and conditions associated with reserve duty (Table 6-3).

The current duty status structure has come under scrutiny by combatant commanders, unit commanders, budget administrators, government officials, and other stakeholders. “It is viewed as a major factor that makes it difficult to employ reservists, places burdens on National Guard and Reserve members and their families,

**Table 6-2. Current Authorities to Order Reserve Component Members to Duty**

<p><b>Title 10, United States Code</b></p> <ol style="list-style-type: none"> <li>1. Full mobilization</li> <li>2. Partial mobilization</li> <li>3. Presidential reserve call-up</li> <li>4. Major disaster/emergency response</li> <li>5. Preplanned combatant command mission call-up</li> <li>6. Captive status</li> <li>7. Unsatisfactory participation (45 days)</li> <li>8. Unsatisfactory participation (24 months)</li> <li>9. Disciplinary action</li> <li>10. Annual active duty (up to 30 days)</li> <li>11. Additional training and operational support</li> <li>12. Duty at the National Guard Bureau</li> <li>13. Medical evaluation and treatment</li> <li>14. Medical care (duty &lt; 30 days)</li> <li>15. Retiree recall</li> <li>16. Muster duty</li> </ol>	<p><b>Title 10, United States Code (continued)</b></p> <ol style="list-style-type: none"> <li>17. Aid for state governments</li> <li>18. Enforce federal authority</li> <li>19. National Guard called to federal service</li> <li>20. Additional training periods</li> <li>21. Additional flight training periods</li> <li>22. Readiness management periods</li> <li>23. Funeral honors</li> </ol> <p><b>Title 32, United States Code</b></p> <ol style="list-style-type: none"> <li>24. Required training and other duty</li> <li>25. Additional training and other duty</li> <li>26. Additional training periods</li> <li>27. Additional flight training periods</li> <li>28. Readiness management periods</li> <li>29. Funeral honors</li> </ol> <p><b>Title 14, United States Code</b></p> <ol style="list-style-type: none"> <li>30. Emergency augmentation</li> </ol>
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130. DoD Instruction 1215.06, Uniform Reserve, Training and Retirement Categories, February 7, 2007.



and ultimately contributes to creating barriers to volunteerism.”<sup>131</sup> Thus, the construct has been criticized on many accounts. The CNGR identified four main problems that capture the range of criticisms:

**Table 6-3. Purposes and Restrictions for National Guard and Reserve Duty**

<p><b>A. Mandatory Duty (Active Duty)</b></p> <ol style="list-style-type: none"> <li>1. Full mobilization</li> <li>2. Partial mobilization</li> <li>3. Ready reserve call-up</li> <li>4. Disasters/emergency response</li> <li>5. Combatant command missions</li> <li>6. Emergency augmentation</li> <li>7. Captive status</li> <li>8. Unsatisfactory participation</li> <li>9. Disciplinary action</li> </ol> <p><b>B. Training (Active Duty)</b></p> <ol style="list-style-type: none"> <li>1. Initial entry training</li> <li>2. Annual training</li> <li>3. Additional training</li> </ol> <p><b>C. Training/Other (Inactive Reserve Service)</b></p> <ol style="list-style-type: none"> <li>1. Required monthly training</li> <li>2. Additional training</li> <li>3. Additional flight training</li> <li>4. Readiness management periods</li> <li>5. Muster duty</li> <li>6. Funeral honors support</li> </ol> <p><b>D. Operational Support (Active Duty)</b></p> <ol style="list-style-type: none"> <li>1. Voluntary duty</li> <li>2. Retiree recall</li> </ol> <p><b>E. Staff Duty (Active Duty)</b></p> <ol style="list-style-type: none"> <li>1. Active Guard and Reserve duty</li> <li>2. Seat of government</li> <li>3. Headquarters</li> <li>4. Reserve policy boards</li> </ol>	<p><b>F. Medical (Active Duty)</b></p> <ol style="list-style-type: none"> <li>1. Evaluation</li> <li>2. Treatment/care</li> </ol> <p><b>G. Insurrection (Federal Service)</b></p> <ol style="list-style-type: none"> <li>1. Aid for state governments</li> <li>2. Enforce federal authority</li> <li>3. Interference with state/federal law</li> <li>4. National Guard called to federal service</li> </ol> <p><b>H. Training (Full-time National Guard Duty)</b></p> <ol style="list-style-type: none"> <li>1. Annual training</li> <li>2. Additional training</li> </ol> <p><b>I. Training/Other (Inactive National Guard Service)</b></p> <ol style="list-style-type: none"> <li>1. Monthly required training</li> <li>2. Additional training</li> <li>3. Additional flight training</li> <li>4. Readiness management periods</li> <li>5. Funeral honors support</li> </ol> <p><b>J. National Guard Missions (Full-time National Guard Duty)</b></p> <ol style="list-style-type: none"> <li>1. Field exercises</li> <li>2. Voluntary duty</li> <li>3. Homeland defense</li> <li>4. Challenge program</li> <li>5. Drug interdiction</li> <li>6. Rifle instructors</li> <li>7. Small arms competitions</li> <li>8. Army/Air Force schools</li> <li>9. National Guard schools</li> </ol>
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131. Dolfini-Reed and Stafford, *Identifying Duty Status Reforms Needed to Support an Operational Reserve*, 2010: 3.

1. **Complexity.** Multiple duty statuses produce complex rules and procedures that are highly inefficient, inhibit volunteerism, and increase the difficulty of accessing reservists to perform operational missions. The complexity impacts reservists and operational commanders alike.
2. **Inactive duty training.** Established more than 90 years ago with its roots in the colonial militia, the premise was based on reservists serving in local units and performing drill duty in the evening or on weekends in order to maintain a strategic reserve. The system is obsolete and no longer supports how the reserves are being used today.
3. **Appropriation and budgeting.** The budgeting process is based on artificial duty status distinctions that complicate the allocation of resources and obscure the understanding of the work and training actually being performed. It is difficult to track funding because duty statuses are not linked to how the budget is organized.
4. **Inconsistencies in compensation.** Pay and allowances and benefits differ depending on duty status—whether inactive duty, active duty for 30 or fewer days, or active duty for more than 30 days. Resolving these inconsistencies would require both simplification of the duty status structure and the reserve compensation system.

A question often asked is, “Why can’t the reserve system be more like the active duty system where the member is simply ordered to duty?” Unfortunately, a duty system for the reserve components has complications that do not affect active component members or active component resource managers. Active component members are ordered to active duty for one purpose: to complete the term of active duty service specified in their service agreement. Further, a single source of appropriations is used to fund active duty service. Therefore, personnel accounting and preparing the personnel appropriations budget are much more straightforward because active component members are always on duty. This is not the case for the reserves. Following is a discussion of some of these aspects of the current system.

### Authorities

For the reserve components, multiple titles of the United States Code provide for calling or ordering a member of the guard or reserve to perform duty:<sup>132</sup>

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132. United States Code, Section 204(a)(4), title 42 (as amended by the Patient Protection and Affordable Care Act, Public Law 111-48) provides the Surgeon General with the authority to order a commissioned officer of the Ready Reserve Corps to active duty at any time, including active duty for the purpose of training. Since the Public Health Service is still in the process of establishing its Ready Reserve Corps and, when established, will not be affected by the changes recommended in the duty status reform proposed in this chapter, it is not included in this discussion.

- ❖ Title 10 for the reserves and the guard when called or ordered to duty for federal service
- ❖ Title 32 under which the guard trains as well as performs certain operational duty that is federally funded, but under the command and control of state authority
- ❖ Title 14 which provides the authority to order members of the Coast Guard reserve to duty for the emergency augmentation of the regular force

Each title provides various authorities and purposes, which are often intertwined. Further, because reserve duty is periodic, developing and justifying the budget for reserve personnel requires a level of specificity beyond the duty authorities alone, as the next section explains.

## Funding

Another aspect that complicates the duty structure is the different appropriations from which pay and allowances for the reserve components are drawn. These factors are transparent to the active component, but are critical to identifying the resources needed to maintain readiness and employ reserve forces. The budget is based on expected use (purpose) and duration. Funding for reserve duty may come from either active or reserve component personnel appropriations, depending on the purpose of duty.

If the duty is for training or a certain requirement designated for the guard or reserve, it is funded from reserve component appropriations. The National Guard/reserve personnel appropriations language specifies the purpose of duties for which guard and reserve personnel appropriations may be expended. These primarily include various training activities and limited reserve-specific duty such as serving on a headquarters staff. Funding comes from active component appropriations—military personnel appropriations—if the purpose of the duty is to support an active duty requirement. Duty funded by military personnel appropriations can be for any purpose except that provided for in the National Guard/reserve personnel appropriations. This construct was more or less manageable for supporting a strategic reserve. The reserve personnel appropriations ensure funding for training reserve component members. Military personnel appropriations provide the flexibility to fund involuntary activations (such as mobilization) and operational missions as they occur.

But the two funding sources create considerable complexity and do not facilitate employment of the expanded use of the reserves in an operational role. National Guard/reserve appropriations are used to prepare reserve personnel for mobilization and

deployment. Then military personnel appropriations are used for actual deployment. Generally there is no break in service as a member transitions from pre-deployment activities to actual deployment. But because the source of funding has changed, a new order must be issued, with requisite out/in processing, and potential disruption of pay and benefits.

Better planning for employing the reserve components in operational missions provides an opportunity for streamlining the system—and such planning is being increasingly conducted by the military services. When reserve employment is planned in advance, funding for those missions could be incorporated into the National Guard/reserve appropriations, rather than drawn from the military personnel appropriations. The cost for providing peacetime support to combatant commands must be planned for and identified in the budget. Funding for planned operational missions could just as easily be funded in the guard/reserve personnel appropriations, hence reducing administrative complexities. As operational use of the reserves continues, planning for reserve employment will improve and budgeting in reserve appropriations should become the norm.

### **Other Characteristics**

Another characteristic of the system is use, which indicates the functions or types of activities in which the reservists are participating. These activities generally fall into the following categories: training, peacetime operations, mobilization, administration/staff, and receipt of health care. Changing statuses and issuing new orders each time the type of activity changes can create a significant administrative burden, disrupt the mission, and adversely affect a reserve member. A study of reserve duty conducted by CNA describes several examples of such cases and the problems that can emerge under the current system.<sup>133</sup> We summarize one of those examples here.

A guard member, while voluntarily serving on active duty to provide operational support, is required to train with his guard unit each month. Because different personnel appropriations are used for each activity, the member is on active duty for 28 days with the active command he is supporting, and spends two days performing inactive duty training with his guard unit. From the guardsman's perspective, his service is continuous. But from the perspective of the duty system, he changes "status" twice a month. So, over a six-month period, the guardsman receives six sets of orders for 28 days of operational support (plus or minus depending on the number of days in a month and when the weekend training is held), in between which he performs two days of drills. Because the operational support is not continuous, he and his family do not qualify for full benefits and entitlements—

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133. Dolfini-Reed and Stafford, *Identifying Duty Status Reforms Needed to Support an Operational Reserve*, 2010.

a source of justified frustration. A simpler duty system would significantly minimize these inherent complexities.

Duty can also be categorized as voluntary or involuntary. Minimal reserve service requirements are categorized as voluntary, but include participation in monthly drills and annual training. A duty type is involuntary if it is legally directed by the appropriate authority and is imposed “without consent of the person affected.” Some in the department have advocated for increasing the use of volunteers to reduce the number of involuntary mobilizations, but relying on volunteers can pose other challenges when the mission calls for larger units trained to operate as a cohesive team.

The bottom line is that a system that “stops and starts” for each change in type, purpose, or duration of duty impedes the seamless employment of guard and reserve members. The system was designed for two activities: training for mobilization and large-scale mobilizations during which the member would be on extended active duty. It was not designed to support the significant operational role being played by the reserves today, which combines a mix of training and operational missions for varying durations of time. As a result, to make the system work today, various authorities are “cobbled together” to support ongoing activation of reserve members. The duty structure should be designed to support access to reserve component personnel in as simple and rapid a fashion as possible. Instead, the system has become so complex that very few military leaders understand the system fully, and it is even confusing to reserve component members themselves. It is clear why a new approach is called for.

### **The Call for Change**

After detailed study of the reserve duty structure, the CNGR reported that “... the Commission has found indisputable and overwhelming evidence of the need for change. Policymakers and the military must break with outdated policies and processes and implement fundamental, thorough reforms.”<sup>134</sup> The commission noted that the personnel management strategies under which DOD works are old and are designed for a different era. DOD needs to develop a personnel management strategy for the new century—a strategy in which the active and reserve components are truly managed as a total force and “that fosters a true ‘continuum of service.’”<sup>135</sup> As part of that strategy, the commission called for a simplified duty system.

The U.S. House of Representatives Committee on Armed Services also recognized that the number of duty statuses posed numerous challenges and directed a review of all the duty statuses currently being used by the services and the department. The aim of the review was to develop a strategic plan that

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134. Commission on the National Guard and Reserves, 2008, 1–2.

135. Commission on the National Guard and Reserves, 2008, 16.

would significantly reduce the number of duty statuses, resulting in a clear, simple structure under which reserve members are called to serve.<sup>136</sup>

In support of the congressionally mandated reporting requirement, the CNA study of the reserve duty status system was conducted for the DOD.<sup>137</sup> As noted previously, CNA found that members often transition between duty statuses to support different requirements. Although the service is continuous, members are often issued new orders when there is a change in any number of factors, such as a change in work assignment, a change in purpose, a change in duration of duty, or a change in funding source. And with a change in orders, there may also be a change in pay and/or benefits.

The CNGR advanced a set of criteria for a new duty status system. The system should:

- ❖ Simplify the process of bringing a reservist on to active duty
- ❖ Engage reservists over a career in both active duty and reserve status
- ❖ Enable members and units to undertake duty for varying periods of time
- ❖ Take advantage of a reservist's willingness to serve

The duty system should also meet the following objectives: align with the current training and support requirements of the reserve components; provide the flexibility to meet emerging requirements; provide consistent compensation with respect to the work performed; support administrative clarity; and permit budgeting that is based on actual resource employment.<sup>138</sup> The QRMC agrees with these tenets and, along with a modernized reserve compensation system (discussed in Chapter 7), offers a new approach to support reserve duty.

### A New Duty System

Although simplification of the duty system is called for, challenges associated with restructuring the system have hampered progress. As noted in the CNGR report, the term frequently used to describe the needed change is “duty status reform.” But this term blurs and interchangeably uses four key components of the reserve duty system. The first component is the “authority” to order or call a member to perform duty.

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136. U.S. House, Committee on Armed Services, Duncan Hunter National Defense Authorization Act for Fiscal Year 2009, 110<sup>th</sup> Congress, 2d session, H. Rpt., 110–652. Washington DC: Government Printing Office, 2008.

137. Dolfini-Reed and Stafford, *Identifying Duty Status Reforms Needed to Support an Operational Reserve*, 2010.

138. The Wexford Group International, Reserve Component Military Duty Status Study, *Considerations on Changing the Reserve Component Duty Status System* (Phase II, Task 1), May 31, 2002, ii.

The second component, which is a necessary component for the guard and reserve, is the “purpose” of the duty. The third component is restrictions or limitations that may be associated with the duty. The fourth component is the funding source. The product of these components is a member’s “duty status.” A simplified system must recognize and be structured within the context of these four components.

**RECOMMENDATION: RESERVE DUTY SYSTEM**

Reduce the number of authorities to order a member to duty from 30 to 6.

The QRMC proposes six authorities under which a commander calls or orders a reserve component member to perform duty. These proposed authorities are clear and concise, align with the applicable title of the United States Code, and involve just three types of full-day duty—active duty, full-time National Guard duty, and federal service—and one type of duty for a partial day, inactive service. The six authorities are:

- ❖ Title 10, Armed Forces
  - Active duty
  - Inactive reserve service
  - Federal service
- ❖ Title 32, National Guard
  - Full-time National Guard duty
  - Inactive National Guard service
- ❖ Title 14, Coast Guard
  - Active duty

Some have suggested that the new duty structure should be taken to its most basic level—one in which a member is either performing military duty or not in a military status, which in effect would mean that there is only one duty status—“on duty,” mirroring the active component. However, the QRMC determined the minimum number of authorities to call or order a reserve component member to duty is six. This number is necessary because of the constitutional basis for the insurrection codified in title 10 and the fact that different titles of the United States Code are involved: titles 10, 14, and 32. But at its essence, a member is either performing military duty or is not; with most reserve duty performed as active duty and duty split between full-time National Guard duty and active duty for guard members.

Much of the complexity of the current system is derived because authority, purpose, and restrictions are intertwined. The QRMC construct separates authorities from purpose and restrictions. The distinction made by the QRMC is not tied to training versus operational duty, but rather whether the duty will be for a full day or a partial day. Compensation for each is discussed more fully in Chapter 7, but briefly described here.

- ❖ **Active duty.** The title 10 authority that would be used to order guard and reserve members to duty for a federal requirement—regardless of purpose, restrictions, or funding. It also is an authority under title 14 to order members of the Coast Guard Reserve to duty to augment the regular force. This authority would be used when the duty is for a full day, with the member receiving full pay and allowances.
- ❖ **Full-time National Guard duty.** The title 32 authority to order guard members to duty for training or to perform certain operational missions under the command and control of state authority. This authority would be used when the duty is for a full day, with the member receiving full pay and allowances.
- ❖ **Inactive reserve service.** The title 10 authority that would be used for reserve members when the duty is for a partial day. Compensation would be one day of basic pay.
- ❖ **Inactive National Guard service.** The title 32 authority that would be used for guard members when the duty is for a partial day. The member would be under the command and control of state authorities. Compensation would be one day of basic pay.
- ❖ **Federal service.** The title 10 authority that would be used (history shows that its use would be very rare) when the president exercises his constitutional authority to call forth the militia to execute the laws of the union, suppress insurrections, and repel invasions. Compensation would be full pay and allowances.

This simplified structure aligns the duty with the applicable title of the United States Code, while significantly minimizing the number of authorities to place a member on duty. Moreover, when looking individually at each reserve component, no component would use all six authorities—further simplifying the use of this system (Table 6-4). In fact, the Army and Air National Guard could utilize the most, at four, since they operate under both titles 10 and 32, with full-time National Guard duty and active duty the two authorities that would be used predominately. Similarly,



**Table 6-4. Authorities Available to Each Reserve Component**

	Army National Guard	U.S. Army Reserve	U.S. Navy Reserve	U.S. Marine Corps Reserve	Air National Guard	U.S. Air Force Reserve	U.S. Coast Guard Reserve
Active Duty (Title 10)	✓	✓	✓	✓	✓	✓	✓
Inactive Reserve Service (Title 10)		✓	✓	✓		✓	✓
Federal Service (Title 10)	✓				✓		
Full-Time National Guard Duty (Title 32)	✓				✓		
Inactive National Guard Service (Title 32)	✓				✓		
Active Duty (Title 14)							✓

*Note:* Larger checks indicate the statuses most likely to be used; smaller checks indicate infrequent use.

the Coast Guard would use three authorities, which includes the title 14 provision. The reserves of the four military departments would use two, with active duty being the authority predominately used, as the CNGR envisioned.

One of the most important attributes of this consolidated structure is that it separates the *authority* to order a member to duty from the *purpose* of the duty. As military warfare evolves, demands for new capabilities emerge, such as the extensive use of civil affairs, nation building, and psychological operations skills—drawn predominantly from the reserve components over the past decade of war in Iraq and Afghanistan. But conflicts in the future could have demands for entirely different skills. Furthermore, technology is evolving, probably the most visible of which is the far-reaching role of information technology on and off the battlefield in support of military operations. Changes such as these could impact how the reserve components are used or for what purpose, but should not require the creation of new duty authorities.

That said, establishing a structure based on authorities alone only addresses part of the issue. As previously described, the factor that has always complicated

reserve duty is caused by the very nature of reserve service—it is periodic. Also, unlike the active component, there are restrictions associated with certain duties. As such, resource managers must be able to determine the purpose of the duty in order to justify personnel appropriations, and then properly account for personnel in order to track execution of the budget. With funding, purpose, and restrictions separated from authority, they become transparent to the member and the commander, but continue to provide essential information to resource managers who must manage the budget and personnel managers who track manpower for strength accounting purposes.

However, authorities and funding, purpose, and restrictions must be used together: when an authority is exercised, these other elements must be identified (Table 6-5). One could question whether this is really the clear, simple structure called for by the House Armed Services Committee. But unlike the current system in which new orders are issued each time the purpose changes or the source of appropriation changes, under the proposed construct, orders are simply amended to cite a new purpose or funding source, enabling uninterrupted service for the member. Although a new order may be written each time an authority changes, this too could be done with an order modification if the period of service is continuous.

Designating a **single reserve component order writing authority**, which the QRMC recommends, would facilitate this new approach. Currently, it is not unusual for a new order to be issued when the purpose or funding changes, even though the period of service is continuous. This is particularly the case when the funding changes from military personnel appropriations to guard or reserve personnel appropriations, or vice versa, since different resource managers control those funds.

The approach recommended by the QRMC would give the designated order writing authority the ability to simply modify the existing order to reflect the new purpose or funding source, working in concert with the appropriate resource and personnel managers to ensure proper accounting and tracking. Thus, when the period of service is continuous, but the purpose or funding—or even the authority under the United States Code—changes, that change can be reflected in a modification to the current order. Tracking authority and purposes together—and managing any changes through order modifications—allows for proper oversight and accountability of the duty and funding while minimizing impact on the mission and the member. Further, the requirement for a member to out-process from one order simply to in-process under a new order, when in fact service is continuous, is eliminated.

A major benefit of “amending” orders vice “reissuing” orders is that the member’s pay and benefits do not change. If certain conditions change, pay and benefits can be

**Table 6-5. Alignment of Authorities and Purposes**

<b>Title 10. Armed Forces</b>	
1. Active Duty	1. Full mobilization
	2. Partial mobilization
	3. Presidential reserve call-up
	4. Major disaster/emergency response call-up
	5. Preplanned combatant command mission call-up
	6. Captive status
	7. Unsatisfactory participation (45 days)
	8. Unsatisfactory participation (24 months)
	9. Disciplinary action
	10. Annual active duty (up to 30 days)
	11. Additional training and operational support
	12. Duty at the National Guard Bureau
	13. Medical evaluation and treatment
	14. Medicare care (IDT & active duty < 30 days)
	15. Retiree recall
2. Inactive Reserve Service	16. Muster duty
	17. Additional training periods
	18. Additional flight training periods
	19. Readiness management periods
	20. Funeral honors
3. Federal Service	21. Aid for state governments
	22. Enforce federal authority
	23. National Guard call to federal service
<b>Title 32. National Guard</b>	
4. Full-time National Guard Duty	24. Required training/other duty
	25. Additional training/other duty
5. Inactive National Guard Service	26. Additional training periods
	27. Additional flight training periods
	28. Readiness management periods
	29. Funeral honors
<b>Title 14. Coast Guard</b>	
6. Active Duty	30. Emergency augmentation

disrupted when new orders are issued, as discussed previously. If orders were merely amended, pay and benefits would continue unchanged. Further, this simplified structure significantly limits the authorities a commander must contend with when using personnel resources from the reserves, so reserve members become easier to access. So, in the end, from the perspective of the member and operational commanders, the system is simplified. The complexities required for personnel and resource managers to plan and execute their utilization and budget plans remain, as they must, but in such a way that they are transparent to the member and commander.

### Conclusion

The new duty structure proposed by the QRMC sets the conditions for a continuum of service. It reduces complexity by separating authorities from purpose, funding streams, and other characteristics that combine together to create the arduous or—as the CNGR called it—“byzantine” system that exists today. With simplicity come fewer and more seamless transitions between duty statuses. Of fundamental importance is that a simpler system greatly increases the accessibility of reserve component personnel in a total force environment. It better enables operational commanders to acquire personnel resources when they are needed to support operational missions.

And, the system supports both training and operational missions based on a philosophy that duty is duty regardless of purpose. Although the trend is increased participation in operational roles, not all members of the reserves are extensively involved in operational support. Simplifying the system would allow flexibility to support the full range of reserve participation, essentially making the difference between training and support transparent, while recognizing the need for both.

The QRMC’s approach also creates a system that respects the many stakeholders who track the purpose of duty in order to prepare and justify budget requests, follow personnel movement, track budget execution, and specify restrictions, such as mobilization limits. The QRMC focused its recommendation on an overhaul of the authorities, simplifying the system from 30 authorities to 6. But we believe it is possible to further simplify the system by streamlining the purpose provisions. This approach is also consistent with other major reform initiatives, such as the consolidation of special and incentive (S&I) pay and the recent consolidation of travel and transportation authorities.

The simplified duty structure sets the conditions for transitioning to a total force pay structure that will lead to greater consistency in pay and benefits for reserve component members—the subject of the next two chapters.

## Chapter 7

# Modernizing Reserve Compensation

As mentioned at the outset of Part II, the reserve components have played a growing role in support of operational missions for the past two decades while simultaneously providing the nation with an economical and readily accessible manpower reserve. Yet as currently designed, the reserve pay system is optimized for only one of those roles—strategic depth—with pay optimized for training. Under the current system, the majority of required training is performed as inactive duty, typically with two training periods in a day. The balance of the annual training requirement is performed as active duty, or full-time National Guard duty in the case of the guard. Moreover, pay for active duty is different depending on whether the duration of duty is for 30 days or fewer, or more than 30 days. In addition, today many reservists are performing duty far beyond the minimum training requirement—participating in operational missions at home and overseas, and volunteering for other types of short- and longer-term active duty assignments. In addition, “typical training” may combine actual mission support with readiness training.

Yet, reserve compensation is not aligned with how the force is used.

**The reserve compensation system needs to be modernized to support both the strategic *and* operational roles of the reserve components, such that compensation can be targeted to improve readiness by rewarding those who commit to a heightened level of mission readiness and service.**

It is reasonable, however, to question whether the expanded operational role of the reserves, the principal motivation for compensation reform, is simply a wartime phenomenon. Will the reserves continue to play as prominent a role in operational missions in the future, now that the war in Iraq has drawn to a close and plans are in place to withdraw from Afghanistan? Recent reviews and departmental guidance suggest that the answer is yes, emphatically so.

The CNGR summed up the impetus for change in its report to the Senate and House Armed Services Committees on January 31, 2008:

The Commission concludes that there is no reasonable alternative to the nation’s continued increased reliance on reserve components as part of its operational force for missions at home and abroad. However, the Commission also concludes that this change from their Cold War posture necessitates fundamental reforms to reserve components’ homeland roles and missions, personnel management systems, equipping and training

policies, policies affecting families and employers, and the organizations and structures used to manage the reserves. These reforms are essential to ensure that this operational reserve is feasible in the short term while sustainable over the long term. In fact, the future of the all-volunteer force depends for its success on policymakers' undertaking needed reforms to ensure that the reserve components are ready, capable, and available for both operational and strategic purposes.<sup>139</sup>

More recently, the secretary of defense strategic guidance, released in January 2012, speaks to a continued operational role for the reserve components: "Over the past decade, the National Guard and Reserves have consistently demonstrated their readiness and ability to make sustained contributions to national security. The challenges facing the United States today and in the future will require that we continue to employ National Guard and Reserve forces."<sup>140</sup>

The QRMC's proposal to modernize reserve component compensation is an element of a larger movement aimed at transforming the policies and practices that support the nation's reserve forces. In 2006, the Defense Advisory Committee on Military Compensation talked about "[eliminating] compensation system differences that vary by reserve status, while ensuring competitive compensation at all levels." The CNGR wrote about the need for "... changes in reserve missions and force structure ... [and how] the requirements of an operational reserve ... have made the original design of IDT [inactive duty for training] obsolete: it does not support today's military."<sup>141</sup>

The Comprehensive Review of the Future Role of the Reserve Component, conducted in 2011, discussed the need for "simplifying incentives, pay, and allowances ..." and "modifying Titles 10, 14, and 32 to enable provision of consistent pay and benefits for active service across the Active and Reserve Components." The review recommended, "refining the current Reserve pay system so that it more closely mirrors that of the Active Component. ... In particular, consider compensating reservists with a day's pay for a day's work, including entitlements. To enable reservists to maintain current levels of compensation and improve unit readiness, consider use of end-of-year financial incentives based on satisfactory participation."<sup>142</sup>

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139. Commission on the National Guard and Reserves, 2008, page 2 of the transmittal letter from the commission to the secretary of defense.

140. U.S. Department of Defense, *Sustaining U.S. Global Leadership: Priorities for 21<sup>st</sup> Century Defense*, January 2012, 7.

141. Defense Advisory Committee on Military Compensation, *The Military Compensation System: Completing the Transition to an All-Volunteer Force*, April 2006.

142. U.S. Department of Defense, *Comprehensive Review of the Future Role of the Reserve Component*, Volume I: Executive Summary & Main Report, April 5, 2011.

**The motivation for change is clear. And the time for change is now.**

The DOD, along with the rest of the federal government, is entering a period of belt tightening as budgetary resources become increasingly constrained—with DOD expected to realize about \$487 billion in savings over the next ten years. At the same time, the department must sustain the superior military capability on which our nation depends in the face of serious threats that still exist in the world, and the continued fight against extremists in Afghanistan. One advantage of the QRMC’s proposal for modernizing the reserve compensation system is that it not only better corresponds to how the force is being used, it also frees up resources that can be applied to other personnel management goals. The remainder of this chapter discusses a “total force” compensation system that would better serve the military departments in recruiting and retaining a reserve force that is responsive to—and consistent with—mission needs. We begin our discussion with an overview of the current reserve compensation system.

## Overview of Reserve Compensation Today

The current reserve component compensation system is not well integrated with the active component system, nor is it well aligned with how the military departments are using reserve component personnel within the total force. Different types of reserve duty result in different levels of compensation, which in effect result in three different pay plans.

1. Selected reservists who are not activated typically participate in 38 days of required training per year. A portion of that training is usually performed one weekend a month on **inactive duty for training** (also called drills, unit training assemblies, battle assemblies). Each training period is a minimum of four hours, with a maximum of two periods per day. Reserve component personnel performing inactive duty receive 1/30<sup>th</sup> of monthly basic pay for each period for a total of four days of basic pay for the weekend.
2. Reservists also participate in **annual training**, typically for 14 days, historically conducted during the summer. These two weeks of training are performed on active duty,<sup>143</sup> generally referred to as active duty for training. For this duty, reserve component personnel receive one day of basic pay plus allowances—the subsistence allowance and a reduced housing allowance—for each day of service.<sup>144</sup>

143. Full-time National Guard duty for members of the guard.

144. Unless serving in support of a contingency operation, the reserve housing allowance is paid for all periods of active duty when the orders specify a period of 30 days or less.

3. Finally, reserve component members who are called to **active duty for 31 days or more** receive basic pay along with the subsistence allowance and full housing allowance. In this case, reserve members are paid the same as active component personnel.

At a minimum, pay for the reserve components is complicated and confusing. Reserve members receive different pay and benefits as they transition from one type of duty to another or between active duty assignments of different duration. The reserve components have long argued that they should receive the same pay and benefits as their active duty counterparts. Yet, reserve personnel may be paid more or less depending on the type or duration of duty even if performing the same work as a member of the active component. This pay structure is inconsistent with achieving a fully integrated total force and a continuum of service—both of which have been long-term objectives of the department.

A manifestation of the reserve pay structure is that the reserve and active component housing allowances differ. Whether a reservist receives a housing allowance, and how much, depends on the type and duration of duty. Reserve component members do not receive a housing allowance for inactive duty. Further, unlike the active component system, the reserve housing allowance is not based on location and, in general, is lower for reserve component members when on active duty for 30 days or fewer.

The reserve component retirement system also differs from the active component system. Members of the active component are eligible for retirement after 20 years of service and can claim benefits immediately upon retirement, often in their late 30s or early 40s. The reserve retirement system is based on a point system where members accumulate points based on participation, including time served in the active component, if any. Points are converted into years based on 360 days per year (rather than 365 days). Members also receive annual participation points (15 points per year).<sup>145</sup> Like their active component counterparts, reserve members vest at 20 years of service. However, unlike the active component, reserve component members do not begin receiving retirement benefits until age 60.<sup>146</sup>

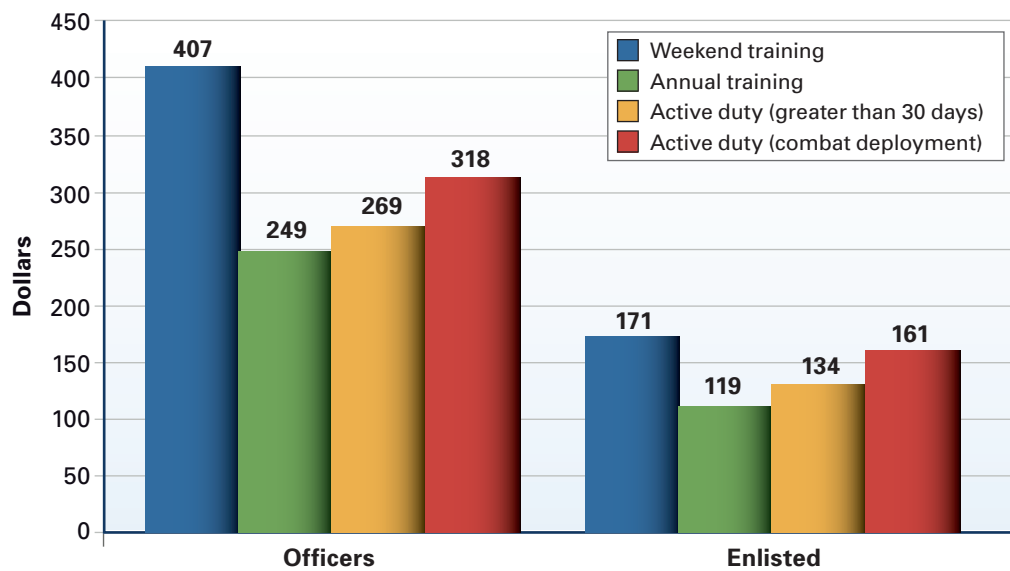
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145. This simple overview of the reserve compensation system leaves out many details on differences between the active and reserve retirement systems. Further elaboration on this topic can be found in Asch, Beth J., James Hosek, and David S. Loughran. *Reserve Retirement Reform: A Viewpoint on Recent Congressional Proposals*, TR-199-OSD. Santa Monica, CA: RAND Corporation, 2006.

146. As a result of recent legislation, a reserve component member who has performed qualifying active service after January 28, 2008 can begin drawing retired pay at an age that is decreased by three months for each aggregate of 90 days of qualifying service in any fiscal year.



What does this mean for reserve component compensation? While senior-level reviews and departmental guidance call for continued operational employment of the reserve component, the compensation system remains optimized for weekend training. As a result, *reserve members are paid more for a day of weekend training than for a day serving in combat* (Figure 7-1). And when ordered to active duty, members are paid less if the duration of active duty service is 30 days or fewer, and only receive the same pay as the active component if ordered to active duty for more than 30 days. This system of reserve compensation is misaligned with an operational force.



Note: Data reflect a composite weighted average.

Figure 7-1. Daily Reserve Pay under Various Types of Duty

### A “Total Force” Compensation System

Consistent with the objectives of military compensation described in Chapter 1, and to support the expanded operational role of the reserves, the QRMC recommends the department adopt a “total force” approach to pay and retirement. A modernized reserve component compensation system should provide incentives for reserve component members to serve at the required levels of participation and be clearly integrated with the active component system. Such an approach would facilitate transitions between the active and reserve components—under the philosophy of a continuum of service—and ensure equitable pay for similar service.

**RECOMMENDATION: “TOTAL FORCE” PAY STRUCTURE**

Transition reserve compensation to a “total force” pay structure:

- Pay Regular Military Compensation to reserve members for each day of reserve service, regardless of the type of duty.
- Augment with incentive pays to sustain and shape the force.

Under the total force pay approach, reserve component compensation would be more closely aligned with the approach used to compensate active component members. It is applicable to both the strategic and operational roles of the reserve components—not skewed to one role or the other, as is the case today—and can provide greater flexibility to manage the force. The total force pay approach has three primary elements.

- ❖ **Total force pay.** The basis for the total force pay approach is Regular Military Compensation (RMC): basic pay, allowances for housing and subsistence, and a tax advantage owing to the fact that allowances are not subject to taxation. Reserve members would receive a day of RMC for each day of reserve service, regardless of the type of duty. RMC would be computed in the same way as for the active component. We refer to this element as “total force pay.”
- ❖ **Incentive pay.** In addition to RMC, members would receive incentive pay that can be implemented in a variety of ways—for example, as a percent of annual basic pay, as a fixed amount and paid force-wide, or as a fixed amount that is targeted to a particular subset of the force. Other options, or a combination of these, are also feasible. Incentive pay is an essential means of sustaining the size and shape of the reserve force under total force pay. It also offers a flexible compensation tool for force managers.
- ❖ **Retired pay.** Reserve component members who have attained 20 qualifying years for retirement benefits could begin receiving retired pay on the 30<sup>th</sup> anniversary of their service start date or at age 60, whichever comes first. Reserve members would receive one retirement point for each day of service, and the points needed for a qualifying year would be reduced from the current 50-point requirement to 35. We refer to this element of the system as 30-year retirement.

Adopting the QRMC proposal means that pay would be consistent for both active and reserve components and would be consistent for the reserve member regardless of the purpose of duty performed. It is a comprehensive approach that addresses both current and deferred compensation. The total force pay approach creates an

opportunity to improve force management with targeted incentive pays that can be paid to members who accept challenging assignments, volunteer for operational assignments, or are mobilized; and used to improve staffing in grades or skills with shortfalls. It provides the opportunity to redress inequities such as different housing allowances and out-of-pocket travel expenses, as well as to enhance readiness using distributed learning or other electronic training options.

But the QRMC recognizes that many issues must be considered when contemplating such a transition. Can manpower objectives be achieved? Can readiness be maintained or improved? Can compensation be better aligned with operational priorities? Can equality between components be improved?

Previous studies have recommended compensation reforms, but none analyzed the effect of suggested changes. The QRMC undertook extensive analysis to understand the impact of the total force compensation approach on force structure in the active and reserve components and associated cost.<sup>147</sup> The analysis focuses on prior-service personnel—that is, individuals who began military service in the active component and then left it, perhaps choosing to participate in the reserve component and possibly choosing to move back and forth between the reserves and civilian status.<sup>148</sup> Most of the alternatives evaluated had little effect on the active component; thus the results discussed in the remainder of the chapter focus largely on the reserves. These analyses were instrumental in refining the QRMC’s recommended approach and clarifying how the elements of the strategy, individually and collectively, will affect force structure. The results of the analysis are presented in the sections below.

### **Regular Military Compensation**

As described above, the foundation of total force compensation is that both active and reserve members would be paid a day of RMC for each day of service, regardless of the type of duty. Currently, for the required 38 days of training, reserve component members receive up to 48 “days” of drill pay for 24 days of inactive duty training (with two drills per day) and 14 days of pay for annual training, during which the reserve housing allowance is paid. Together, this comprises 62 days of basic pay, plus 14 days of tax-free housing and subsistence allowances and the tax advantage associated with those allowances. Reserve members on active duty for more than

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147. The results shown in subsequent sections of this chapter and Appendix B are drawn from Michael Mattock, James Hosek, and Beth J. Asch, *Reserve Participation and Cost Under a New Approach to Reserve Compensation*, in the second volume of this report.

148. The model used for this analysis could be extended to include reserve personnel who do not have prior military service, but that was not done for this purpose. The data and methods used in this analysis are discussed in Mattock et al., in the second volume of this report.

30 days for training, operational missions, or combat receive the same pay as active duty members; thus the analysis here focuses on the component of reserve pay that differs from active duty pay rates.

Under the total force approach, pay is consistent for each day of duty, regardless of the purpose of the duty, and would result in guard and reserve members receiving the same pay as active duty members—one day of RMC for each day of duty (basic pay and allowances for subsistence and housing, computed using the schedule for active component members). Thus, over the course of a year, reserve compensation for required monthly and annual training would equal 38 days of RMC. Compared to the current system, most reserve component members would experience a reduction in pay for “weekend” training, but an increase in pay for annual training and other short periods of active duty (of 30 days or fewer). The combined effect is lower annual pay for 38 days of required training. For enlisted personnel, the reduction in pay is 1 percent at the first year of service, 14 percent at 10 years of service, rising to 20 percent at 30 years of service. For officers, the decrease is larger, ranging from 27 percent at one year of service to 38 percent at 30 years of service. These results illustrate the point that reserve compensation is focused on training activities, not operational missions.

Not surprisingly, the QRMC’s analysis showed that changing pay and allowances, with the resulting reduction in compensation, would not sustain the force (Figure 7-2).<sup>149</sup> When implementing only the RMC component of the proposed reforms, force size would decline, beginning primarily after 5 years of service and continuing through 30 years of service. It is important, therefore, to recognize that **the total force compensation approach recommended by the QRMC includes other compensation elements that offset the decrease in pay and restore the deficit in force structure illustrated here.**

The QRMC recognizes that inactive duty has a place in the compensation structure; specifically when a reserve component member is only available to perform duty for a few hours during a day, perhaps teleworking or completing a service-directed distributed learning course. Therefore, the QRMC also recommends retaining limited use of inactive service for reserve component members to support the occasional need to pay for a partial day or certain other duty. Under such circumstances, a partial day would be defined as a four-hour minimum, with only one inactive service period permitted per day. Using inactive service in special cases can, for example, avoid the legal complications associated with federal civilian employees performing active duty and working in their federal civilian job on the same day.

149. Throughout this chapter, results are presented for the Army Guard and Reserve, enlisted and officer force. Appendix B contains comparable results for the Navy, Air Force and Marine Corps reserve components.

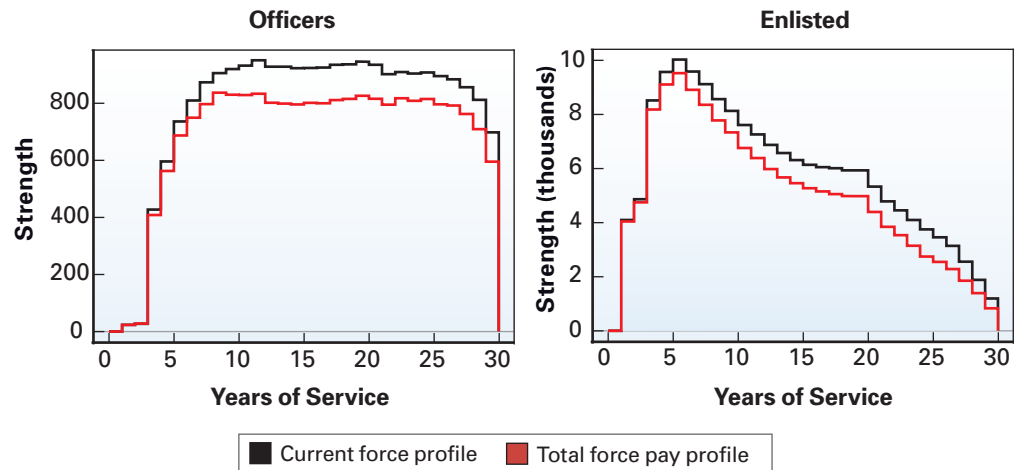


Figure 7-2. Total Force Pay with Age-60 Retirement—Army Guard and Reserve

### Incentive Pays

The second element of the total force pay approach is incentive pay. As the results above illustrate, a change to pay and allowances alone is not adequate to sustain the force, thus the use of incentive pay is essential to the success of the QRMC’s proposal. Not only can incentive pay be used to sustain the current force profile, it also offers flexibility to reshape the size or experience level in the force, should the need arise, or induce participation in other ways, as described below.

The military makes considerable use of S&I pays because of their flexibility to manage personnel and to address recruiting and retention shortfalls. For example, the reserve component compensation system currently includes affiliation and enlistment bonuses. Incentive pay, as part of the total force pay approach, could be used to manage and shape the force in a number of ways:

- ❖ A **participation** incentive paid for attending all required training
- ❖ A **readiness** incentive paid to complete and maintain all readiness requirements
- ❖ An **assignment** incentive for those who volunteer for more challenging assignments
- ❖ An **operational** incentive for members who prepare for and perform operational missions

The QRMC analysis included three options for providing an incentive pay:

1. A percentage of annual basic pay
2. A fixed annual amount paid to all reserve component members
3. A targeted amount paid only to reserve members in years of service 8–15

The percentage and dollar amounts evaluated by the QRMC varied depending on the other elements of the total force pay package, but the amounts were set at a level just high enough to sustain the current size of the force and maintain the profile close to the current shape. The results presented here show that incentive pay can be set at a level sufficient to maintain current force structure under the total force pay approach with no change to the current retirement program where reservists would remain eligible to receive retired pay at age 60 (Table 7-1).

Under the total force pay approach, the number of retirement points decreases, thus the monthly retirement benefit is lower. A lower retirement benefit also affects the shape of the force—that is, the number of members at a given year of service, which reflects the experience level of the force. Therefore, incentive pay will have to be sufficiently high to sustain the size and shape of the force in the face of no change to the retirement benefit.

**Table 7-1. Budget Impact of Incentive Pay Options with Total Force Pay and Age-60 Retirement**

Incentive Pay Option	Amount of Incentive Pay		Change in Annual Budget	
	Officers	Enlisted		
Percent of annual basic pay	7.9–8.6%	3.1–3.4%	-\$23M	1%
Fixed annual amount	\$4,600–5,500	\$940–1,030	-\$105M	4%
Targeted to 8–15 years of service	\$9,600–12,800	\$1,925–2,200	-\$216M	7%

Note: Results vary by service.

We illustrate the impact of alternative incentive pay options using the Army National Guard and Army Reserve enlisted and officer force. In the first case, incentive pay is set at 3.09 percent of basic pay for the enlisted force, which results in pay that is higher than baseline pay for the first 14 years of service.<sup>150</sup> With current compensation higher and retirement benefits lower, this policy results in an increase in participation in the first through tenth years of service, little change in the number

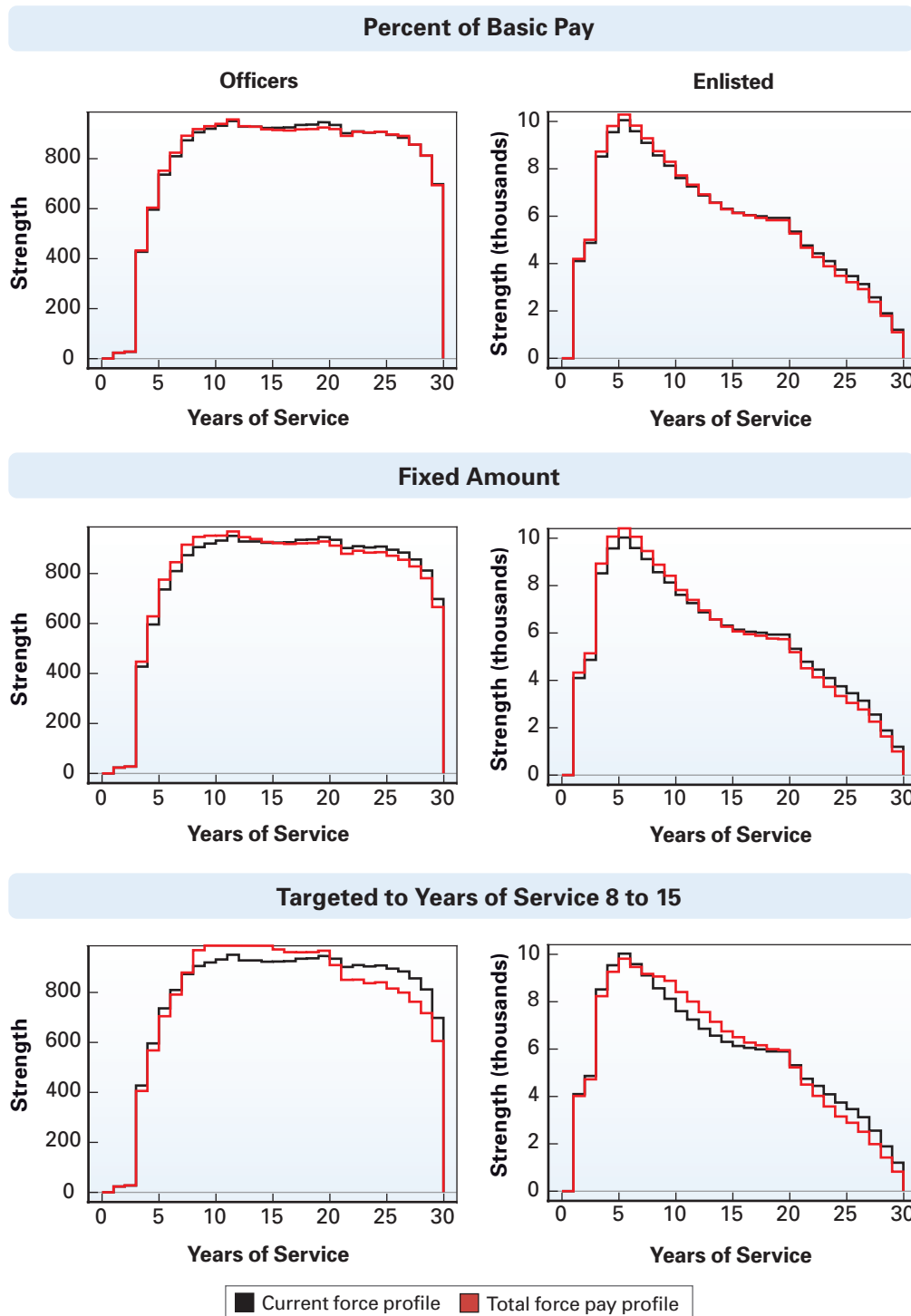
150. The cases described here correspond to alternatives 4, 5, and 6, as described in Mattock et al., in the second volume of this report.

of members serving for 11 to 20 years, and a decrease in members serving more than 20 years, with no change in total force size (Figure 7-3). As for savings, in this case, current compensation is “front-loaded,” which results in no savings in current cost, but retirement cost per member decreases by 18 percent, with total cost decreasing by 2 percent for the Army.

When the incentive pay is set at a fixed amount of \$939 for the enlisted force, current cost is 2 percent lower, retirement cost is 21 percent lower, and total cost is 3 percent lower. As in the previous case, overall force size for the reserve component is maintained at current levels, but participation among junior enlisted members increases, while participation decreases among those with more than 20 years of service. Total cost savings are greater when the incentive pay is a flat amount rather than a percentage of annualized basic pay. But savings grow even more if the incentive pay is targeted for participation between 8 and 15 years of service. The shape of the force differs as well. With targeted pay set at \$2,202, participation increases among mid-career personnel and decreases for junior personnel and those with more than 20 years of service.

For officers, the policy that offers incentive pay as a percentage of annualized basic pay (set at 7.96 percent) increases total cost by 2 percent. This increase is somewhat larger than the value for enlisted personnel because officer pay falls more than enlisted pay under the total force pay approach. The alternatives that set incentive pay at a flat amount decrease total cost—by 3 percent when the pay is offered to all officers and by 11 percent when targeted to those in years of service 8 to 15. In these cases, the incentive pay is set at \$4,946 and \$11,054 respectively. The difference in incentive pays between enlisted personnel and officers suggests that an incentive pay policy for these two communities should be based on different parameters. Under the targeted option for incentive pay, current cost falls by 8 percent and retirement cost falls by 17 percent. Thus, under the current retirement system, targeted incentive pay is the most cost effective in terms of holding force size constant.

How do targeted pays change the shape of the officer force? Participation in years of service 3 to 7 and after 20 years of service would decrease, and mid-career participation—between years of service 8 and 19—would increase. It was also observed that this pattern of participation is the same for Army enlisted personnel. The attractiveness of this policy option would depend to some degree on whether lower participation in the more junior and senior ranks, and increased participation in the mid-career years, would be acceptable to the Army. If not, the incentive pay parameters can be adjusted to obtain the desired shape of the force.



**Figure 7-3. Incentive Pay Options with Total Force Pay and Age-60 Retirement—Army Guard and Reserve**



While we show results for the Army here, the outcome across the services is generally the same. Targeted incentive pay is the most cost effective in maintaining the size of the force in all services. And its impact on the experience levels across the force is similar as well. Under the current retirement system, targeted incentive pay decreases participation between 3 and 7 years of service and after 20 years of service, but increases mid-career participation between 8 and 20 years of service. It is also important to note that this analysis is based on reserve component members with prior service who typically have 4 or more years of active duty before affiliating with the guard or reserve.

Although the cost-effectiveness and impact on the experience level of the force differ among the three incentive pay options, the QRMC's analysis supports the viability of the total force pay approach. Alone, basic pay and allowances (paid at the full active duty rate) will not sustain the current force. But the addition of incentive pay, set at an appropriate level to sustain force size, creates a feasible policy option that establishes a common compensation structure for the active and reserve force, is consistent with how the total force is used today, is cost effective, and provides an opportunity to target compensation to those guard and reserve members who are assuming a greater operational role.

### Effective and Flexible

Other research conducted for the QRMC further illustrates the utility of incentive pay—in this case, the impact of incentive pays on recruiting and retention decisions, as well as decisions related to how much time individuals are willing to spend on duty and how much time they are willing to be deployed.<sup>151</sup> Reserve component members have varying preferences for active duty time and deployment. Though participation decisions reflect more than compensation—civilian employment, commitments to family and community, among others—compensation does play a role. An examination of how plausible increases in deployment would impact participation decisions showed a sizeable reduction in accessions across all the services; decisions to join the reserve components showed a similar decline in response to a reduction in compensation.

The study also found evidence that, if offered a choice, prospective and current reservists would choose different commitment categories, some preferring higher levels of commitment, others lower—with substantial numbers in each

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151. This research is described in David R. Graham et al., *Tailoring Active Duty Commitments for Reserve Component Service Members*, in the second volume of this report.

category—thus illustrating varying tastes for service. To a certain degree, reserve components members are already making such choices with some members willing to affiliate with units known to have a high utilization rate, such as aviation units, while others seek units with training schedules more aligned with traditional reserve service. This analysis also confirmed that the number of individuals who choose the higher level of commitment can be increased when additional compensation is offered—and that the amount of additional compensation required was, in fact, quite modest in some components. Further, the analysis suggested that a sizeable number of recruits would choose reduced compensation if paired with a lower commitment. While the amount of compensation required to achieve specific results differed across the services, the overall correlation between increased compensation and a willingness to serve at higher levels of participation was consistent—thus illustrating how incentive pay can be used effectively in force management.

In addition, the study assessed the possibility of instituting tailored service commitments in which an individual would select the desired level of participation. These tailored commitments would replace the current contract under which all reserve component members serve, which is based on performing 48 drills and two weeks of annual training—a service paradigm associated with the strategic reserve of the past two centuries. The tailored commitment option could facilitate self-selection into units that are in high demand and be structured in such a way to assure access to those selecting the high level of commitment, while others may select units with more traditional utilization. Tailored contracts could also be coupled with incentive pay (an option previously mentioned) to help meet force management objectives.

### Reserve Retirement

The QRMC's analysis shows that the total force approach to current compensation—RMC for a day of service, whether active or reserve, combined with incentive pay—is viable irrespective of changes to the retirement system. But **retirement reform is an essential part of the transition to a total force compensation system**. Ideally, a single retirement system would serve both the active and reserve force. But the active and reserve components have substantially different force profiles, in part the result of the differences in the two retirement systems. So, any undertaking to establish a single retirement system must first determine if altering the force profile of one or both components is desirable and acceptable, or if the cost to maintain the current profile under a single retirement system is affordable. The effect of transitioning the reserve component to mirror the 20-year retirement system for the active component is described later in this chapter.

## Retirement Reform in the Spotlight

During the course of its deliberations, the QRMC was not alone in studying the merits of retirement reform—a longstanding topic in studies of the military compensation system. In July 2011, the Defense Business Board set out a proposal for “optimizing the Department’s military retirement system” in the context of the secretary of defense’s efficiency initiatives.<sup>152</sup> Though the primary concern has been with active duty retirement, the board took a total force approach and recommended an alternative that would apply to the reserve as well as active component—in effect proposing a single, non-disability military retirement system.

The board concluded that the current system is out of date: it has not changed for more than a century and was designed for an era when life spans were shorter, when military pay was not competitive with civilian pay, and when second careers for military members were rare. In addition, the cost of maintaining a defined benefit system is no longer affordable. Moreover, with benefits accruing only to those who serve 20 years or longer, the plan is unfair to personnel who do not reach this career milestone—which is the vast majority of those who serve. Thus, the board recommended that DOD shift to a defined contribution retirement system, which it believed would “enhance fairness and flexibility, and provide a more affordable cost structure.”

On the heels of the Defense Business Board’s report, the Office of the Secretary of Defense convened a Retirement Reform Review Group, which is assessing the options and costs associated with retirement reform. Still underway, this review is studying a range of options and the effect those options are likely to have on the force—the same approach used by the QRMC.

Moreover, any change to the retirement system affects other areas that must also be considered, such as disability and survivor benefits. Reserve retirement must also be included in the deliberations. Analysis in those areas conducted by the QRMC could help inform the ongoing deliberations. Irrespective of specific proposals, the focus of these groups on military retirement coincides with the QRMC’s belief that retirement reform is essential to a total force approach to modernizing military compensation and should be an integral part of any reform to the current compensation system.

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152. Defense Business Board, *Modernizing the Military Retirement System*, Report to the Secretary of Defense, Report FY11-05, 2011.

### The QRMC Proposal

Under today's active duty retirement system, members who retire after a minimum of 20 years of service begin drawing retirement pay immediately. In contrast, reserve members who retire after a minimum of 20 years of qualifying service do not begin drawing retirement pay until age 60.<sup>153</sup> The QRMC recommends aligning the active and reserve retirement systems more closely by allowing reserve component members who meet eligibility requirements to receive benefits sooner.

#### RECOMMENDATION: RESERVE RETIREMENT

Align reserve and active duty retirement systems more closely by allowing guard and reserve members to receive retired pay upon their 30<sup>th</sup> anniversary of service (having attained 20 qualifying years of service).

Under the total force approach, a reservist would be eligible for retirement pay after 30 years of service, having attained 20 qualifying years. This means that reserve members who joined the military at age 20 could begin receiving benefits as early as age 50. This change alone could increase the current value of retirement benefits relative to the system in place today. For members who are eligible to receive benefits prior to age 60, retirement benefits would be paid over more years, so the expected value would be higher. Members who enter military service later in life or have extensive breaks in service and would reach age 60 before the 30<sup>th</sup> anniversary of entering service, would be eligible to receive retired pay at age 60 provided they have 20 qualifying years of service.<sup>154</sup>

Accumulation of reserve retirement points would be based on one point per day of duty and would be prorated based on a 365-day year. Because reserve members would earn fewer retirement points, the QRMC also recommends reducing the number of points required for a qualifying year of reserve service from the current 50-point requirement to 35. Further, the QRMC recommends retaining the 15 membership points awarded to reserve members each year (see sidebar for discussion of origin and purpose of membership points). Options available to a member with 20 qualifying years of service would not change—he or she could continue to participate, could transfer to an inactive status or the retired reserve, or request to be discharged.<sup>155</sup> The QRMC acknowledges that reduced retirement-point accumulation in turn reduces

153. As noted earlier, recent legislation allows a reserve component member to begin receiving retired pay at an earlier age based on qualifying service.

154. Accompanying this change to the reserve retirement system would be the repeal of the early retirement authority.

155. A member who is discharged remains entitled to retired pay and other benefits based on receipt of retired pay, but is no longer subject to recall since he or she is no longer a member of the military.

the retirement annuity and the current value of the benefit. However, as mentioned above, under the 30-year option, reserve members could receive retirement pay for a longer period of time, offsetting the reduction in monthly annuity payments.

The net effect of these changes will depend on a number of factors, including the number of years of service a reservist accumulated in the active components and any change in the length of reserve service that the new policy might motivate. Changing the reserve component retirement eligibility to 30 years of service also changes the motivation to continue to participate. Members will have a greater incentive to reduce breaks in service and the length of those breaks, and those nearing the 30<sup>th</sup> anniversary of service will have an incentive to continue to participate and possibly increase their participation.

Why not adopt the 20-year retirement system currently in place for active duty members? The QRMC began its assessment of the reserve retirement system by evaluating the possibility of transitioning the reserve components to the active duty retirement system. However, instituting this change to reserve retirement, in combination with total force pay, caused considerable disruption in the force profile—for both the active and reserve components. For officers in the active component, participation increased before 15 years of service, but declined beyond that point through the 30<sup>th</sup> year of service. This pattern of participation was also observed in the enlisted force, but to a lesser degree.

In the reserve component, the force becomes much more senior up to the 20-year point; then, like the active force, reserve participation declines sharply. We see officer participation drop early in a career, from 3 to 10 years of service, except for the Marine Corps where participation continues to decline to the 13-year point. For all the services, participation then rises significantly to 20 years of service and then drops below current levels. The trend is the same for the enlisted force, but the decline in participation after 20 years is significantly sharper. In contrast, the 30-year retirement system resulted in participation far closer to that of the current force—with virtually no impact on the active component. Figure 7-4 illustrates these effects for the Army Guard and Reserve.

Thus, the QRMC determined that a closer alignment of deferred compensation would require some adjustments, and recommends transitioning the reserve component to the active duty retirement plan, with the exception that reserve retired pay would begin on the anniversary of the 30<sup>th</sup> year of service, assuming the member has completed 20 qualifying years. This approach has little impact on active duty force structure, and along with the other elements of the total force compensation approach, would maintain reserve force structure, as illustrated by the results below.

### Reserve Retirement: Membership Points

Since the inception of the reserve retirement system, all reservists in an active status have been awarded 15 points per year for membership. These points are separate from those earned through participation in training or active duty assignments. Many have questioned why they exist and speculated on their purpose. There is little documentation on the historical background of membership points, and most references to the points merely acknowledge them as an element of the reserve retirement system.

The Sixth Quadrennial Review of Military Compensation (6<sup>th</sup> QRMC) set out to understand the origin of the membership points, conducting extensive and exhaustive research of congressional hearings and committee reports; files from the Office of the Secretary of Defense and the Departments of Army, Navy, and Air Force; and records in the National Archives. Unfortunately, no documentation was available to explain the purpose or rationale for the 15 membership points. However, the 6<sup>th</sup> QRMC was able to gain considerable insight during interviews of three officials who worked closely with the drafting, evolution, and final passage of the law that first provided a retirement benefit for the reserve.

The following explanation was provided by those officials:\*

- **The reason.** The drafters of the legislation recognized that many reservists would be unable to earn the 50 points\*\* required for a satisfactory year by attendance at drills because the requirements of their civilian lives would frequently make this impossible. However, they felt that many would be able to earn a sufficient number of points by attendance at drills plus 15 points if they attended summer training (although no analysis was done to determine the percent of drill attendance which would result in a satisfactory year).
- **The incentive.** Further, when they thought about the new concept of earning points for retirement, they decided that part of the inducement given a reservist would be to credit him with 15 points for the simple act of allowing his name to be maintained on the roster, thereby subjecting himself to call for active duty; but, importantly, giving him a start toward the earning of his 50 points which would make his year a “satisfactory year” for retirement.
- **The number.** They chose 15 as the number of points because it had an established significance based on pre-enactment practices as active service credit. For many reservists, the only credit they could receive prior to enactment of the 1948 law—short of extended active duty—was the credit for 15 days of active duty obtained for attending the yearly summer camp. Thus, the 15 membership points was simply the number which corresponded with the active service credit reservists previously received for time spent on active duty for training.

\* Office of the Deputy Assistant Secretary of Defense for Reserve Affairs, *Reserve Compensation System Study*, Supporting Papers, Volume II – Deferred Compensation and Benefits, June 1978.

\*\* The 50-point qualification threshold was arbitrarily selected for a “satisfactory year” for purposes of reserve retirement since many reservists were members of units with 48 drills and two weeks of scheduled summer camp; others were members of units that drilled much less but did participate in the two-week summer camp.

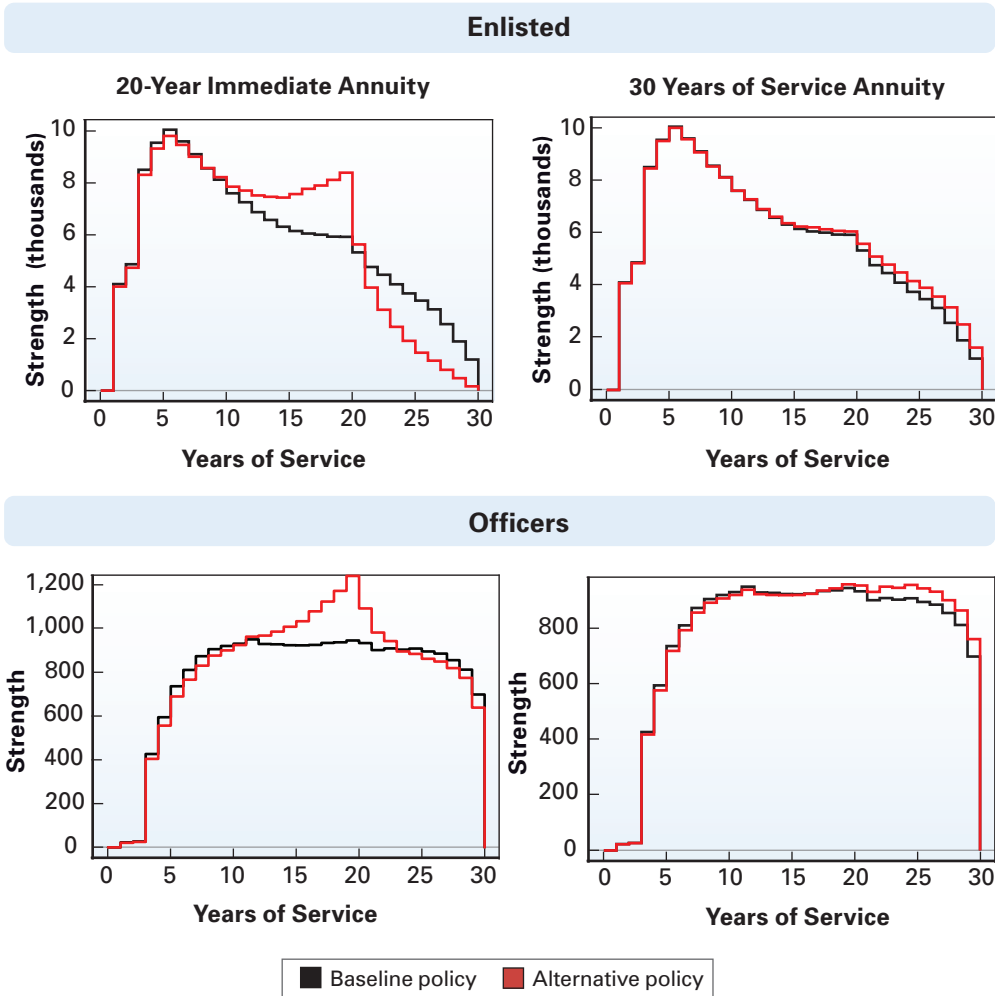


Figure 7-4. Retirement Options—Army Guard and Reserve

Again, the QRMC evaluated three incentive pay options, with pay set at a level just high enough to sustain the current size of the force. The results presented here show the required incentive pay levels needed to maintain current force structure with total force pay and the 30-year retirement system favored by the QRMC (Table 7-2).

**Table 7-2. Budget Impact of Incentive Pay Options with Total Force Pay and 30-Year Retirement**

Incentive Pay Option	Amount of Incentive Pay		Change in Annual Budget	
	Officers	Enlisted		
Percent of annual basic pay	5–7%	2.5%	-\$10M	<1%
Fixed annual amount	\$3,300–4,200	\$700–800	-\$79M	3%
Targeted to 8–15 years of service	\$8,100–8,900	\$1,175–1,450	-\$194M	7%

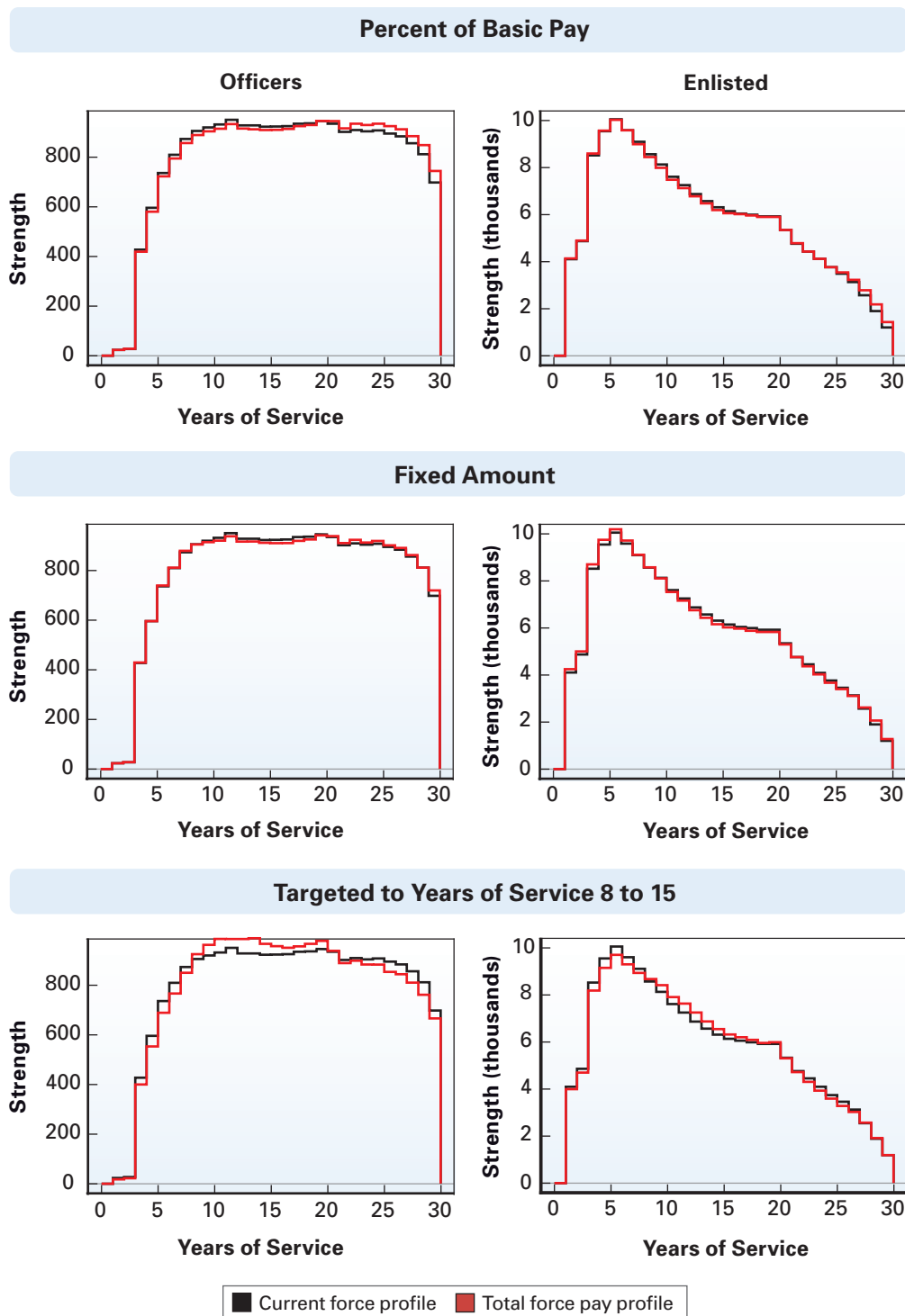
*Note:* Results vary by service.

How effective are the incentive pay options when combined with a 30-year retirement system? Results for the Army enlisted and officer force are illustrative of outcomes. The first option sets the amount of the incentive pay as a percent of annual basic pay (2.27 percent for Army enlisted). Under this option, personnel cost for current compensation decreases by 4 percent, but retirement cost increases by 7 percent. The increase in retirement cost is because the 30-year retirement system increases the number of years over which a member can expect to receive retirement benefits. Under the 30-year retirement plan, the increase in retirement cost from more years of benefits typically dominates the decrease in cost from fewer retirement points, so retirement costs increase. Although it is worth noting that whether retirement costs increase or decrease is sensitive to the number of years of active duty a member has accrued.

The impact on participation is such that participation increases at 20 or more years of service (Figure 7-5), which implies that more of the participating reservists qualify for retirement benefits. Still, even with the increase in participation and the higher retirement cost, total cost falls by 3 percent because the shift to RMC decreases pay by an amount that increases with years of service. Adding an incentive pay to RMC increases pay, with pay higher than under the current system at lower years of service, but lower at high years of service. However, the opportunity to retire at 30 years of service neutralizes the lower pay for more senior service members. In this alternative, cost decreases while force size remains the same.

Under the second option, incentive pay is set at a fixed amount, about \$700 for the Army enlisted force. This policy is more cost effective in terms of achieving force size, though the mix of junior and senior personnel changes a bit. Savings increase somewhat, with total cost per member falling by 4 percent. The third option, where incentive pay is targeted to members in mid-career (years of service 8 to 15), is the most cost effective of the three options in terms of maintaining





**Figure 7-5. Incentive Pay Options with Total Force Pay and 30-Year Retirement—Army Guard and Reserve**

current force size. In this case, current cost savings are even greater than in the previous case, with costs per member falling by 5 percent.

What differs among these options is the impact on the experience mix of the reserve force, though the changes are generally slight. Again, with the Army enlisted force as an example, those policy options that do not target the incentive pay result in greater participation among those with more than 20 years of service, and a slight decrease in participation prior to 20 years. In contrast, the targeted option increases participation in mid-career, prior to 20 years of service, but reduces participation of junior personnel and those with more than 20 years of service. Not surprisingly, this option produces a force more heavily weighted toward mid-career personnel.

While cost savings is a logical metric for choosing among these policy options, the impact on the experience mix of the force is also a relevant basis for decision. Of course, under any option the force shape can be further modified by combining the concepts presented here (such as targeting different levels of incentive pay to two or more groups) or by the use of other S&I pays. The discussion here illustrates the type of options available in implementing an incentive pay as one element of total force compensation.

The impact on costs for Army officers is similar. The policy that offers incentive pay as a percentage of annualized basic pay (6.1 percent) increases total cost by 1 percent; a flat amount for incentive pay (\$3,800) decreases total cost by 3 percent; and the highest cost savings are realized under targeted incentive pay (\$8,600), with cost decreasing by 10 percent. Thus, the targeted alternative is the most cost effective in terms of holding force size constant. As far as participation, this alternative results in lower participation between 3 and 7 years of service and after 20 years of service, and higher participation during mid-career (between years of service 8 and 19).

As in the previous cases, the results for this set of alternatives are highly consistent across the services both for the enlisted force and officers (complete results are available in Appendix B). Under the 30-year retirement system, savings are largest when incentive pay is targeted. The percent change in retirement cost differs by service, though offering retirement at 30 years of service consistently increases retirement cost per reservist. But when current and retirement costs are combined, the savings are largest for all services when using targeted incentive pays. The level of incentive pay required under each alternative is very similar across the services, which suggests that a common policy for enlisted personnel is feasible—that is, a common schedule or common parameters, although the services would have flexibility in setting the pay amount to meet their manning requirements.

The results shown here imply that the total force pay approach is viable, producing a cost savings or no change in cost under either the current or 30-year retirement system, provided incentive pay is set at a sufficient level. The more generous retirement policy, the 30-year system, allows incentive pay to be set at lower levels than under the current age-60 policy. While the results vary somewhat for each service, as a whole, the overall cost differences for the total force pay approach are remarkably similar—whether retaining the current retirement system or transitioning to the 30-year retirement system proposed by the QRMC. The savings as a percent of total personnel when retaining the current age-60 retirement system are 1 percent, 4 percent, and 7 percent respectively when incentive pay is set as a percent of basic pay, a fixed amount, and a targeted amount. The cost savings if transitioning to the 30-year retirement system are less than 1 percent, 3 percent, and 7 percent, respectively.

This analysis further reinforces the QRMC belief that a comprehensive approach to modernizing reserve compensation should be pursued—one that addresses current and deferred compensation. The system proposed here incorporates total force pay, incentive pay, *and* reform to the reserve retirement system. A 30-year retirement system is most consistent with today’s active duty retirement plan. But should that system change, the reserve retirement system should be changed as well to align as closely to the active system as possible, if not identical to it.

### **The Challenge of Transition**

Common among all these alternatives is the need to phase in a new compensation approach to ensure current military personnel are treated fairly. Speaking before an audience at the National Defense University on Fort McNair, Washington D.C., Secretary of Defense Panetta cautioned that retirement reform must be done “in a way that doesn’t break faith with our troops and with their families. If you’re going to do something like this, you’ve got to think very seriously about grandfathering, to protect the benefits that are there.”<sup>156</sup>

How would the department transition to such a system? Several options are offered for consideration. The first would be to grandfather all current reserve component members into the current compensation system—both the pay and retirement elements. The second option is to transition those with fewer than 18 years of qualifying service to the new pay and retirement structures. Those with 18 or more years of service could be grandfathered under the current system

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156. Jim Garamone, “Panetta: Congress must look at whole federal budget for cuts,” *American Forces Press Service*, August 16, 2011, [http://www.af.mil/news/story\\_print.asp?id=123268318](http://www.af.mil/news/story_print.asp?id=123268318) (accessed February 2012).

of pay and retirement.<sup>157</sup> Or, they could transition to the new pay structure, but members with 18 or more years of qualifying service would remain under the age-60 retirement. Everyone else would transition to the 30-year retirement system. Under this approach, members remaining under the age-60 retirement system would be awarded 24 additional retirement points for each qualifying year after the transition to compensate for the fact that fewer retirement points would be awarded under the new pay structure—thus maintaining the retirement benefit under the age-60 reserve retirement structure. In addition, the service secretary could award up to an additional 36 retirement points to members who were authorized additional drills under the old reserve compensation structure. This would ensure their retirement benefit would remain unchanged.

However strongly the QRMC believes the total force compensation approach is in the best interest of the uniformed services, such a transition is not without concerns. For one, higher compensation associated with weekend training is reduced. As a result, other incentives will be required to maintain current strength and force profile. Specifically, the use of an incentive pay can produce positive force management outcomes. Without a change in the reserve retirement system, retirement income is also reduced, since reserve members would receive one retirement point for each day of duty, instead of two points per day for two periods of inactive duty as under the current system. But this negative effect is countered with the QRMC's retirement reform proposal to allow reserve members to receive retired pay upon their 30<sup>th</sup> anniversary of service.

Thus, concerns associated with total force compensation can be ameliorated, as is illustrated by the results of the QRMC's analysis, such that the advantages of the recommended approach far outweigh the disadvantages. This pay structure better aligns compensation with current and planned use of the reserve component. Compensation becomes consistent across the total force. This approach also realizes cost savings that could be used for other force management goals, such as increasing readiness, encouraging greater participation, preparing for deployment, shaping the force, and improving staffing in high-demand units. In short, the force can be sustained under a total force pay structure.

Undertaking such a change is significant. Not only would legislative and policy changes be required, information systems would need to be upgraded. The most significant challenge would be the cultural change that must take place. Implementing a total force pay approach would fundamentally change how the guard and reserve

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157. Eighteen years of service was selected because that is the point when a reserve component member enters sanctuary (e.g., a member may not be discharged or involuntarily transferred from an active status without being given the opportunity to complete 20 years of qualifying service).

have been compensated for over a century. But it is a necessary change in light of the evolving role of the reserve component. Such a transformation cannot occur without strong, bold leadership. Embarking on this path would be a monumental step toward realizing the total force concept and achieving a continuum of service.

## Related Compensation Issues

In addition to its analysis on modernizing reserve component compensation, the QRMC investigated several related compensation issues that, while narrower in scope, are important elements of the overall system. We discuss three: travel expenses, housing expenses, and prorating S&I pays.

Two of these issues relate to the travel regulations, which are designed for an active force that is routinely on the move: whether for temporary duty or to transfer to a new assignment. While some accommodations have been made for the unique circumstances of reserve service, there are members who incur out-of-pocket expenses to meet their military service obligations—expenses active component members typically do not experience.

### Housing Expense

As previously noted, the active component is a mobile force whose members routinely move from one assignment to another. A permanent change in assignment often results in moving to a new location. But this is not the norm for reserve component members. Upon release from duty, they return to their civilian life and their hometown residence. A permanent relocation is more likely to be associated with a change in civilian employment or other personal reasons—not because of a military assignment, unless they volunteer for a period of extended active duty. The laws and policies governing entitlements for a temporary or permanent change in assignment are designed to support the active component with limited accommodations made for the unique nature of reserve service. This area is one where the distinction between active and reserve service must be recognized.

Members reassigned to a new permanent duty location are entitled to move their household goods at government expense. If the service member's dependents are not allowed to accompany the member to the new duty location, the member may receive a family separation housing allowance in addition to a housing allowance at the member's new duty location. From a reserve component perspective, this practice is appropriate when a member volunteers for extended active duty. But while such an approach accommodates the active component and, possibly, reserve component members with dependents, it does not adequately address the expenses incurred by reserve component members without dependents who may continue to maintain

their civilian residence while on active duty. And for reserve component members with dependents, the norm is to authorize dependents to accompany the member to the new assignment location, even when the duty is of limited duration. However, with the family rooted in the community the member plans to return to, it is less likely that reservists will opt to move their family.

The problem was recognized during the first Gulf War and the law was amended to allow guard and reserve members who maintained their civilian residence to receive a housing allowance at their home of record (provided they remained responsible for mortgage or rental payments) and a housing allowance for their deployed duty location (if not assigned to government quarters). The provision was later expanded to include members attending accession training, on active duty in support of a contingency operation, or on active duty for a period of more than 30 days.

It would appear that the problem has been addressed. But the provision stipulates that it no longer applies when a member is entitled to travel and transportation allowance for the movement of family and household effects—a permanent change of station move. As a result, if a reserve component member without dependents must be issued a permanent change of station order to attend a school or training course that is more than 20 weeks, there is no mechanism to help defray costs associated with his or her permanent residence.

The secretaries of the military departments may retain a member in a temporary duty status beyond the normal limit when the member is performing an operational mission. But this authority is much more restrictive when a member is ordered to active duty for the purpose of attending a school. Even if the secretary was able to meet the conditions to retain the member in a temporary duty status, thus allowing for payment of two housing allowances, it also creates an entitlement to per diem for the entire period of duty—an outcome that is costly and not appropriate.

**RECOMMENDATION: HOUSING EXPENSE**

Establish a *Permanent Change of Assignment* travel status for reserve component members, which would allow members to receive two housing allowances—one for their permanent residence and a second at the assignment duty location.

To bridge this gap, the QRMC recommends a new *Permanent Change of Assignment* travel status be established.<sup>158</sup> Under this new travel status, the secretaries of the military departments would be able to order reserve component members to

158. Such a status—“permanent change in assignment”—is already cited in United States Code, Section 403(d)(3)(C), title 37.

active duty with a permanent change in assignment but not change their permanent duty station. The member would be permanently assigned to a school or training command and upon completion of the period of service, the member would return to his or her permanent duty location. The permanent change of station rules would apply, except the member would not be entitled to per diem or be authorized to move household goods at government expense.<sup>159</sup> But the member would be eligible for a housing allowance at the location where he or she maintains a permanent residence and a housing allowance at the training site, unless provided government quarters. Because the provision is intended to defray the housing costs associated with maintaining a permanent residence, if the member chooses to rent his or her house while on active duty or sublet his or her apartment, the member would not be eligible for the permanent residence housing allowance.

### **Reimbursement for Travel Expenses**

Traditionally, reserve component units were comprised of men and women who resided in the local area. As such, travel to evening assemblies or weekend training was never an issue. But times have changed. We live in a much more mobile society and today many reserve component members travel a great distance to attend weekend training. Analysis conducted by the QRMC shows that over 100,000 guard and reserve members live more than 150 miles from where they routinely train.

Until fairly recently, there was no authority for the government to reimburse guard and reserve members who travel a long distance for their weekend training, resulting in reservists incurring an out-of-pocket cost. To address this issue, in 2008 the secretaries of the military departments were given discretionary authority to reimburse a reserve component member for travel to inactive duty training. Yet some reservists continue to incur an expense for traveling to meet their monthly training obligation, either because they do not meet the eligibility criteria for reimbursement or the service has not had the resources to fund the travel reimbursement.

These out-of-pocket expenses are largely mitigated under the total force pay approach since most duty would be either active duty or full-time National Guard duty for which there is a travel entitlement. However, paying the travel entitlement introduces a new cost for the services since reserve component members would now be reimbursed for expenses to travel to weekend training. One approach to mitigating this added expense is to apply the existing travel authority for inactive duty training to all reserve component travel—whether active duty or inactive service—unless the member is ordered to extended active duty, in which case the regulations governing permanent duty travel would apply. Travel expenses would be reimbursed up to the

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159. The travel and transportation allowances are authorized under United States Code, Section 474, title 37.

authorized limit for members who reside outside the local commuting distance,<sup>160</sup> while continuing to control cost because of the limit set on the amount that can be reimbursed.<sup>161</sup>

The QRMC's analysis of commuting distances suggests that reimbursement to those who reside outside the local commuting area could be fully absorbed by the cost savings achieved with a total force pay approach using targeted incentive pay. This approach treats guard and reserve members who live within the local commuting distance the same as their active duty counterparts and provides a travel reimbursement only for those who travel a longer distance to meet their monthly training obligation.

### **Prorating Special and Incentive Pays**

Prorating monthly incentive pays has been a longstanding issue for some reserve component members—the so called “1/30<sup>th</sup> rule.” This is the same rule that governs basic pay and allowances. Under this construct, the applicable monthly pay or allowance is divided by 30 to produce the daily rate paid to reserve component members—for each day of active duty and each period of inactive duty. While this is not an issue for active duty members who are always “on duty,” it does affect reserve component members who, as a result of their part-time service, routinely transition between being on duty and off duty. Guard and reserve members view the application of this practice to S&I pays as unfair—arguing that they maintain the same proficiency level and perform the same, or in some cases, more duty for which the incentive pay is intended. Maintaining proficiency in a foreign language and accumulating more flying hours than active duty aviators are commonly pointed to as examples. Therefore, reserve members feel they should receive incentive pays at the full monthly rate, as do their active duty counterparts.<sup>162</sup>

### **The Purpose of Special and Incentive Pays**

Understanding the purpose of incentive pays in general helps to put concerns over the 1/30<sup>th</sup> rule in context. As described in the introduction to Chapter 3, S&I pays are targeted to specific segments of the force to achieve particular force management goals. Some S&I pays are stable pays used to supplement military

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160. “Outside the local commuting area” is defined as the local travel area but not less than 150 miles one-way. An exception to the 150-mile distance exists for non-contiguous states and U.S. territories and possessions requiring off-island travel/inter-island travel to the duty location that is not normally served by boat/ferry.

161. Currently, reimbursement for travel to inactive duty is limited to \$300 round trip.

162. The validity of the 1/30<sup>th</sup> rule was previously addressed by the Sixth and Ninth Quadrennial Reviews of Military Compensation.



earnings on an ongoing basis to keep compensation competitive in certain high-wage careers, such as health care professionals and nuclear power specialists. Others compensate for onerous or hazardous careers or assignments, such as duty involving demolition of explosives, parachute jumping, or working on the flight deck of an aircraft carrier. Incentive pays can also be used to encourage personnel to acquire priority competencies critical to mission goals, such as maintaining proficiency in a foreign language.

Within the broad category of S&I pays, an important distinction exists between bonuses and other S&I pays. Bonuses are used to gain a commitment to serve in the military or in a particular specialty or skill. Reserve component members receive the full bonus amount as long as they fulfill the service obligation, regardless of duty status. Other S&I pays are based on the actual performance of duty and, much like pay and allowances, the reserve member must be performing duty to be entitled to the pay.<sup>163</sup> This is where the “part-time” status of the reserve member comes into play.

### Special and Incentive Pay Consolidation

The recent consolidation of S&I pays into broad categories provides clarity regarding the purpose of S&I pays. These categories are as follows:

- ❖ Bonuses for
  - agreeing to enter or continue to serve in a uniformed service or critical skill
  - agreeing to assignment or service in a high-priority unit
  - maintaining proficiency in a particular skill
  - serving in a career field with lucrative civilian job opportunities
- ❖ Incentive pays for
  - duty involving exposure to a hazard
  - serving in a particular assignment or duty
  - duty involving a particular skill
  - serving in a career field with lucrative civilian job opportunities

The S&I consolidation reform also provides more uniform language regarding the applicability of incentive pays for reserve component members, though the concept of disbursing an incentive pay proportional to the duty performed is retained. How and whether proportional pay is applied ultimately should be considered in light of the

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163. Until a recent change in law, the one exception was Hostile Fire Pay which can be paid at the full monthly rate, regardless of duty status, if the service member was exposed to hostile fire or a hostile mine explosion event during that month. New legislation allows for prorating Hostile Fire Pay.

impact on readiness and operational capability—whether paying proportional pay versus full monthly pay achieves manpower objectives *and* enhances force capability. The 1/30<sup>th</sup> rule applies to career incentive pays; hazardous duty pays; and assignment, special duty, and skill incentive pays, as described below.

**Career incentive pays.** Some members choose to serve full time while others choose to serve less than full time. The 1/30<sup>th</sup> rule reflects this career decision and compensates a member proportional to participation. Therefore, compensation is higher the closer a member comes to performing duty full time. Thus, the 1/30<sup>th</sup> rule encourages participation.

**Hazardous duty pay.** In the case of hazardous duty pay, the military cannot put a member in a situation where he or she would be exposed to a relevant hazard unless he or she is “on duty.” Therefore, it is not appropriate to compensate reserve members for a hazard they cannot be exposed to unless they are on duty—either for training or operational support. In this case, the argument made for eliminating the 1/30<sup>th</sup> rule falls short.

**Assignment or special duty and skill incentive pay.** Manpower objectives relevant to filling assignments, special duty, or encouraging skill proficiencies can be achieved by using either a bonus or a monthly incentive pay. A bonus is the more effective and efficient approach if the manpower objective is not linked to increased participation. Such is the case for maintaining proficiency in a foreign language. Most reserve component members maintain proficiency by practicing and using a foreign language while not on duty. In fact, this logic recently motivated the department to change foreign language incentive pay to a bonus. In contrast, if the goal is to increase the level of participation, paying the full monthly rate will not help achieve that objective. Instead, paying an incentive pay proportional to participation is a better approach. The more a member participates, the more pay he or she will earn, thus encouraging higher levels of participation.

### Achieving Manpower Objectives

Whether the 1/30<sup>th</sup> rule is eliminated or not should ultimately rest on the impact such a decision has on readiness or operational capability. If receiving the full monthly incentive pay encourages reserve component members to increase participation, then it is reasonable to expect an improvement in readiness and/or operational capability. Alternatively, if participation does not increase, the only outcome would be an increase in personnel costs.

Extensive research and years of practical experience show that individuals respond to changes in compensation designed to achieve particular manpower objectives, as

previously discussed in this chapter. Reserve component members establish a level of participation by taking into consideration the demands of their civilian job, family obligations, and military requirements. Experience and research suggest that absent an increase in compensation, most reserve members will not change their level of participation. The 1/30<sup>th</sup> rule, by providing an incentive to increase participation, allows the compensation system to operate more effectively and efficiently.

Arguments to eliminate the 1/30<sup>th</sup> rule have always focused on “equity,” without regard for other force management goals. And while equity is a relevant consideration in evaluating elements of a military pay structure, the effectiveness and efficiency of the pay system in maintaining readiness and operational capability is an important concern as well, and will take priority in many circumstances. Eliminating the 1/30<sup>th</sup> rule is likely to increase personnel costs with no commensurate increase in readiness or operational capability—an outcome that argues against such a policy change. That said, as mentioned previously, some incentive pays are being used to address manpower objectives that might be better achieved with use of a bonus (where the 1/30<sup>th</sup> rule would not apply). Sorting out and resolving these cases might well address the vast majority of equity concerns associated with the 1/30<sup>th</sup> rule without losing the value this policy has with respect to increased participation and, in turn, improvements in readiness and operational capability. The recent consolidation of the S&I pay system offers the military services the needed flexibility to implement such changes.

## Conclusion

The QRMC’s review of reserve compensation joins a long tradition of policy debate and analysis about the structure of military compensation—a structure that should enable the active and reserve components to meet their manpower requirements and facilitate total force operations. The analysis conducted by the QRMC and the proposals put forth to modernize the reserve compensation system support that premise. More specifically, the recommendations of the QRMC are based on a desire to better align the compensation system with current and anticipated use of the reserve components and to establish a system where pay is consistent regardless of component or type of duty.

Consistent pay is an essential element in setting the conditions for a continuum of service—one in which a member can easily move between active, guard/reserve, and civilian service as personal circumstances and military requirements change. While such changes are increasingly common in the civilian workplace, the nature of military service in most career fields limits lateral transfers. But creating the capacity for seasoned military professionals to more seamlessly navigate among military

options will become ever more important as the military sizes and shapes the force to achieve future strategic goals.

Furthermore, the policy options proposed by the QRMC are consistent with the principles of compensation set forth earlier in this report and those espoused by the CNGR, as follows:

- ❖ **Force management.** Reforming reserve compensation, as described in this chapter, results in cost savings to the department that could be used for S&I pays, professional military education and development programs, and reserve family support programs that address persistent and emergent high-priority reserve force management objectives. Savings could also be directed toward enlistment and affiliation bonuses to sustain participation when shifting to a total force pay approach.
- ❖ **Flexibility.** The incentive pay element of the total force pay approach increases flexibility. The QRMC's analysis indicates that a supplemental pay such as incentive pay must be part of a total force pay approach. The incentive pay can be used to support flexibility within the context of a continuum of service.
- ❖ **Simplification.** The total force pay approach is clearly a step toward simplifying the reserve compensation system—one system for both active and reserve components, based on paying RMC for a day of service. It eliminates the difference in pay rates and the need to learn a new pay system for reservists who transition from the active component.
- ❖ **Transparency.** The total force pay approach would put active and reserve service members on the same pay schedules, which are widely available to service members and easy to understand.
- ❖ **Fairness.** The proposed total force pay approach would be as fair, or likely more so, to service members and their families as the current system. The proposed system would have pay schedules that are common across specialties, units, and components. By paying reserve and active members in the same fashion, the equality of payment for service from either component is highlighted. Although the total force pay approach could lead to greater differentiation in pay among reservists, incentive pays can be structured to maintain participation without overpaying some individuals unnecessarily—also leading to a fairer system.

- ❖ **Efficiency.** A direct measure of efficiency is meeting an objective at the least amount of cost, though applying the concept to objectives that have many dimensions and costs can be complex. That said, at the most basic level, the total force pay approach can keep reserve force strength at current levels and does so at the same or lower personnel cost. While some changes in force shape may occur, these changes are small and do not detract from the overall efficiencies gained.
- ❖ **Market-based compensation.** The CNGR described market-based compensation as the ability to attract service members, retain them as long as desired, motivate them to exert effort and direct that effort where desired, reveal their abilities, communicate information to their supervisors and fellow workers, provide incentives and opportunities for advancement, treat workers in similar circumstances similarly, and separate workers efficiently. The total force pay approach has the potential to add flexibility to reserve compensation and better serve reserve force manning objectives. In this sense, the QRMC proposals respond to the idea of market-based compensation.

The QMRC's proposed structure for reserve compensation—based on a consistent pay philosophy, augmented by appropriate incentive pays, and coupled with retirement reform—will better serve the military departments in the era ahead. It is an approach that maintains the size of the current force, at lower cost, with sufficient flexibility through incentive pays to achieve future force management goals, as mission needs evolve. It is designed to support a future in which the reserve components will continue to play a prominent role in operational missions while serving as a strategic reserve.

The department is entering a period of transition following the end of two decades of operations in the Middle East and a commensurate decline in resources. It is a time for regrouping: an ideal opportunity to assess the adequacy of personnel systems that were developed for a different era and no longer support the way the military services do business today. It is the right time to embrace change: to modernize the compensation system in a way that furthers DOD's ability to manage its forces, not as separate components, but as a total force.



## Chapter 8

# Reserve Component Benefits

Benefits are another important element of compensation that affect recruiting and retention—with health and education benefits being among the most valuable. Because most reserve component members perform duty less than full time, the benefits they receive are often based on the level of participation and, for some benefits, the training category of the member. The QRMC examined the breadth of reserve benefits and found that, in general, these benefits are robust and consistent with reserve utilization. In a large number of cases reserve benefits are the same benefits afforded to active component members. The QRMC identified two areas, however, where improvements could enhance the current benefit structure. After an overview of the benefits available to reserve members and their families, we discuss each of these areas and the QRMC’s recommendations in turn.

## Overview

The military compensation system incorporates a number of benefits that, over the years, have become important for the morale of members of the uniformed services and their families. They also aid in recruitment and retention of personnel. Health care and education are among the most highly valued benefits by guard and reserve members and can influence their decision whether to join the guard or reserve, continue to serve, or separate or retire.

Generally, benefits fall into six broad categories:<sup>164</sup>

- ❖ **Health care** benefits include comprehensive health care at no cost to members on active duty, various health insurance programs available to service members and their dependents through TRICARE, and the provision of in-kind health care through military treatment facilities on a space available basis.
- ❖ **Education** benefits support voluntary education and training. Principle programs in this category include tuition assistance and loan repayment programs for off-duty education, the pre-discharge education program, and educational assistance programs available under the GI Bill. GI Bill

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164. Appendix C contains a detailed list of reserve component benefits and eligibility. In the second volume of this report, the *Overview of Reserve Component Compensation and Benefits* documents the basic compensation, special and incentive pays, benefits, and protections available to reserve component members.

benefits are administered by the Department of Veterans Affairs (VA), and are principally designed for veterans; but recent provisions have made these benefits available to dependents, when the member commits to additional military service.

- ❖ **Morale, welfare, and recreation** (MWR) benefits are designed to “promote esprit de corps and provide for the physical, cultural, and social needs; general well-being; quality of life; and hometown community support of service members and their families.”<sup>165</sup> Programs such as physical fitness centers and services, libraries and information services, community and recreation centers, golf courses and bowling centers, and sports and athletics programs are examples of the many MWR programs and activities available to military personnel and their families.
- ❖ **Commissary and exchange** privileges, a component of MWR benefits, have a long history in the military. Their purpose is to allow items of “convenience and necessity” to be purchased by military personnel and their dependents at convenient locations and reasonable prices. The discounted prices offered in these facilities provide an income benefit to members and their families. Commissaries, usually located on military installations, are supermarkets that sell food, sundry, and cleaning products; exchanges serve as military department and drug stores.
- ❖ **Family programs** are a component of MWR benefits that cater especially to children and spouses of service members. These programs include family support services such as relocation assistance, personal financial management, crisis assistance, career resources, and individual and family counseling programs. Family programs also include childcare and youth programs.
- ❖ **Miscellaneous** benefits include programs such as life, traumatic injury, and long-term care insurance; leave and liberty; space available travel; and legal assistance.

Since the September 2001 terrorist attacks, there have been significant improvements in both health care and education benefits for members of the guard and reserve. Previously, full health care benefits were only available to reserve component members and their families when the member was on active duty for more than 30 days. Similarly, members of the Selected Reserve were eligible for a modest education benefit if they agreed to serve in the Selected Reserve for six years. Reservists could qualify for the active duty benefit—the Montgomery GI Bill—

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165. DOD Instruction 1015.10, Military Morale, Welfare, and Recreation (MWR) Programs, July 6, 2009 (Incorporating Change 1, May 6, 2011).



if they served on active duty for 24 continuous months (18 months if they had an obligation to serve for 24 months but were released early by their service). A major improvement in the commissary category occurred in 2004 when members of the Ready Reserve and gray area retirees were given unlimited access to commissaries, having previously been restricted to 24 visits a year unless on active duty, during which they had unlimited access.

The QRMC's review of reserve component benefits found that, in general, these benefits are comparable to reserve utilization and in a large number of cases are the same as benefits afforded to active component members. We did, however, identify several cases in health care and education benefits where adjustments could be made to improve the current benefit structure to either provide consistency or better align the benefit with current and planned use. The following sections summarize our assessments in these areas.

### Health Care Benefits

This section examines reserve health and disability benefits and concludes that the health and disability benefits available to reserve personnel are generally comparable to those provided to active duty personnel. The QRMC did, however, identify a few areas where continuity of care could be improved with minimal additional resources.

#### Background<sup>166</sup>

Members of the active component as well as guard and reserve members on active duty (and guard members on full-time National Guard duty) for more than 30 days, and their dependents, are eligible for comprehensive health care services through TRICARE, with all members enrolled in the program's health maintenance organization option, TRICARE Prime. Health care services are generally provided at military treatment facilities (MTFs), but can also be accessed through a network of civilian health care providers when appropriate MTF care is not available. The cost of care, regardless of where it is provided, is fully covered for active duty personnel and their families if the family members are enrolled in TRICARE Prime or TRICARE Prime Remote (active duty family members have the option of choosing TRICARE Standard or TRICARE Extra, which have deductible and copayment requirements).

Survey results show that approximately 70 percent of selected reserve members had civilian health insurance coverage in 2011—generally mirroring coverage

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166. This discussion of reserve health insurance coverage and the potential impact of federal health care reform, as well as a later discussion on the military Disability Evaluation System, are drawn from Susan D. Hosek, *Healthcare Coverage and Disability Evaluation for Reserve Component Personnel*, in the second volume of this report.

rates among comparable adults in the general population.<sup>167</sup> This level of coverage continued a trend over the past two decades of declining health care coverage for reserve personnel. Coverage rates among reservists were generally higher among more senior personnel and those with full-time employment. Reserve members without insurance tended to be in the junior enlisted ranks, less well educated, single, lower income, and working part time or for a small employer (Figure 8-1).<sup>168</sup>

Reserve component personnel and their families have access to a range of military health benefits, which vary based on activation status and other factors. Reserve component members on active duty for more than 30 days and their dependents are eligible for the same TRICARE coverage provided to active duty personnel. Reserve component members who have been notified that they will be activated are eligible for TRICARE coverage when their orders are issued (or up to 180 days before activation). They also have transitional health care for 180 days after release from active duty that was in support of a contingency operation.

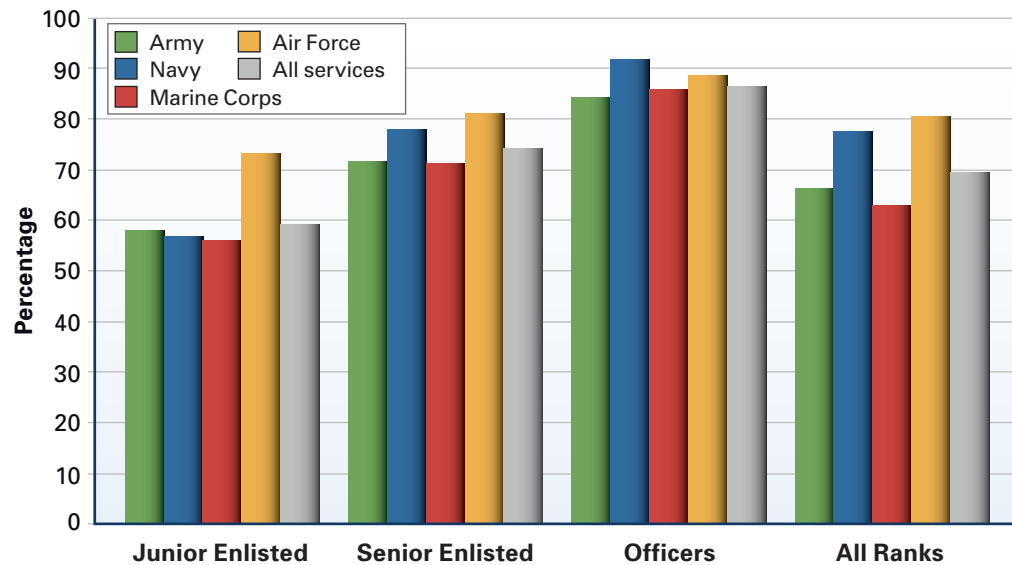
In addition to those reserve members activated for more than 30 days, health care is also available to other reserve personnel for injuries or illnesses sustained in the line of duty; but in those instances, coverage does not extend to dependents. If not retained on active duty or not residing near an MTF, treatment for the injury or illness is usually provided through TRICARE's civilian provider network. That network is extensive in geographic areas that have sizable TRICARE populations, but less so in other regions.

Until recently, non-activated reservists and their dependents did not have access to TRICARE health benefits. But beginning in 2004, premium-based coverage—TRICARE Reserve Select (TRS)—was made available to non-activated reservists who were unemployed or ineligible for employer-sponsored insurance. Between 2005 and 2007, TRS eligibility was progressively broadened, finally opening enrollment for individual or family coverage to all Selected Reserve members, except those who are eligible for the Federal Employee Health Benefits Program. TRS allows members to use the TRICARE Standard or Extra options, and requires a premium contribution equal to 28 percent of the estimated total plan cost.

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167. A comparison of 2008 military survey and Current Population Survey data found that coverage rates among reservists were 76 percent, roughly the same portion of the comparable general adult population that had insurance coverage.

168. Survey results from earlier years found that the most junior enlisted personnel (E-1–E-3) had the lowest health insurance coverage rates. However, in 2011, coverage rates among this group were somewhat higher than rates in the next higher rank (E-4). They were also the only group that did not experience a decline in coverage rates between 2008 and 2011. This may be due to a provision in the recently enacted federal health reform legislation (Patient Protection and Affordable Care Act) that extended dependent coverage to age 26, allowing many younger reservists to remain insured under their parents' plans.



Source: Status of Forces Survey of Reserve Component Personnel

**Figure 8-1. Selected Reserve Members with Health Insurance Coverage, 2011**

The premium contribution required under TRS is what differentiates it from the TRICARE benefit available to active duty personnel and activated reservists, which is provided at no cost. However, the premium amounts—\$652 for individual coverage and \$2,315 for family coverage in 2012—are considerably lower than typical premium contribution in the civilian sector.<sup>169</sup> While TRS does allow an enrolled member to receive care at an MTF on a space-available basis, limited availability at these facilities means that TRS participants normally receive care through TRICARE-authorized civilian providers (network or non-network), where they have the same out-of-pocket costs as active duty dependents using the preferred provider organization option.

Expanded eligibility, as well as changes to enhance the program's affordability, has increased participation in TRS. At the end of 2010, more than 67,000 members were enrolled in the program, up from just 25,000 in 2008, when premiums for individual and family coverage were more than 30 and 20 percent higher, respectively. This represents approximately 8 percent of the eligible reserve population. Participation tends to be highest among officers and those who are married with children under age 14. Interestingly, this does not correspond to the reserve population without insurance.

169. In 2010, the average annual premium across all firms was \$900 for single coverage and \$4,000 for family coverage. See Kaiser Family Foundation and Health Research Educational Trust, *Employer Health Benefits: 2010 Annual Survey*. 2010. <http://ehbs.kff.org/2010.html>.

TRS has clearly increased health coverage among reserve component members. Survey results indicate that 31 percent of participating reservists had no other health care alternative. Yet while TRS is an attractive option for members who lack insurance, a substantial portion of participants who are enrolling in TRS already have access to employer-based or other insurance coverage in the civilian sector. These reservists likely choose TRS because TRS premiums are nearly one-third to almost one-half lower than the average contribution for employer plans in the civilian sector. In fact, 69 percent of participants cited affordability as the reason for enrolling in TRS.

Hence, while the program has improved health insurance coverage among members of the Selected Reserve, the program does not appear to be effectively targeting those most likely to be uninsured. Rather, most of the program's budget goes toward providing coverage to reservists who have other insurance coverage options but choose to enroll in TRS because it is less expensive. Given the affordability of coverage under TRS, particularly in comparison to the ever-increasing costs of civilian health plans, participation is likely to continue to increase.

From the military's perspective, TRS represents a significant increase in the compensation of reservists who opt into the program. DOD's annual TRS cost per enrolled member is \$2,300 for single coverage and nearly \$8,500 for family coverage. To put this into context, an enlisted member at grade E-4 who joins the reserves after an initial term of active service is paid a little over \$5,000 annually for participation in a typical training schedule.<sup>170</sup>

### Federal Health Care Reform

The health insurance landscape for reserve component personnel—and for the rest of the U.S. population—should change substantially beginning in 2014, when the health insurance reforms included in the Patient Protection and Affordable Care Act (PPACA) begin to be phased in.<sup>171</sup> PPACA offers individuals and businesses a range of new coverage options, and also includes mandated coverage for both individuals and businesses that employ more than 50 workers.

Under current law, those who fail to insure will be subject to a penalty of \$695 (or 2.5 percent of income) for individuals, or up to \$2,085 for families.<sup>172</sup> This mandate will likely promote increased participation in TRS, as reservists without insurance

170. A typical training schedule for reserve component personnel is drill training one weekend a month and 14 days of active duty each year.

171. The individual mandate is being challenged in the federal courts. Differing decisions at the lower court levels will require a Supreme Court decision about the provision's constitutionality. That decision is expected in June 2012.

172. Individuals who cannot find coverage at a cost of less than 8 percent of income, or who have incomes below the threshold for paying taxes, are exempt from the penalties.

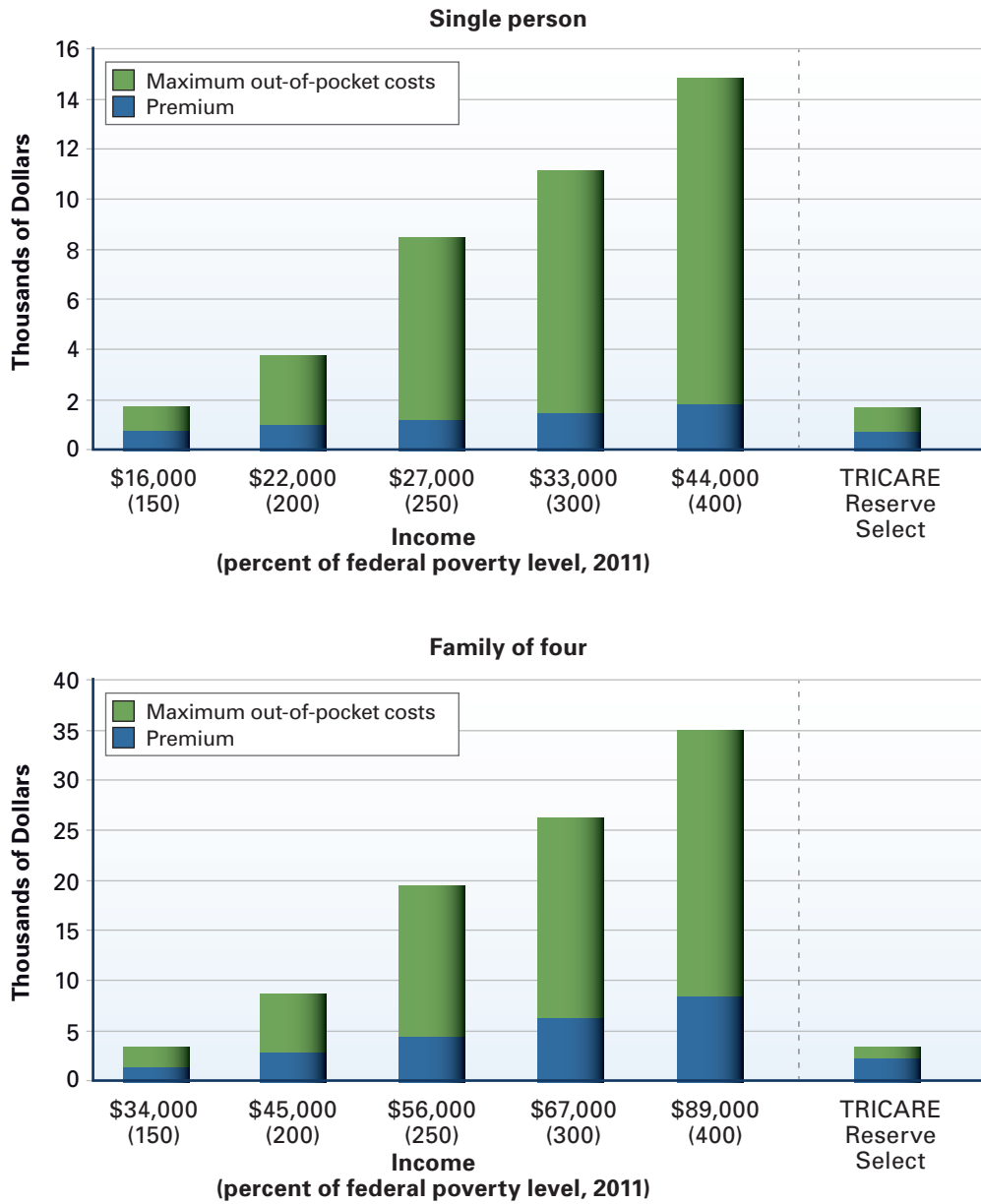
opt for the affordable coverage available through that program. However, other affordable insurance options, created as part of PPACA, could provide reservists with attractive alternatives. These include:

- ❖ Medicaid coverage for individuals with an income up to 133 percent of the federal poverty level
- ❖ Health insurance exchanges offering a choice of standardized plans to small businesses and individuals without employer coverage
- ❖ Sliding-scale subsidies for insurance purchased through exchanges for families with incomes up to 400 percent of the poverty level
- ❖ Mandated eligibility for coverage through parents' health plans for children up to age 26

The federal reform legislation also requires businesses with at least 50 employees to provide insurance, which will result in increased access—and likely increased coverage—for reservists employed by firms of this size that currently do not offer insurance. This provision, however, is not likely to have a significant effect on overall health coverage among reservists.

Even when compared to the subsidized coverage options that will be available through PPACA, TRS remains an affordable alternative. Currently, TRS costs are lower than the subsidized costs in the health exchanges at all income levels above 150 percent of poverty (Figure 8-2). For many, TRS premiums will be less expensive than the penalty for not having insurance, with the current TRS premium for single coverage about \$100 lower than the penalty for no coverage, and the premium for family coverage approximately \$300 more. This continued affordability, in combination with the new individual coverage mandate, could lead to further increases in program participation and cost.

Like the rest of the general population, reserve force personnel will experience increased rates of health care coverage as the various insurance opportunities and mandates included in PPACA are fully implemented. Analysis conducted for the QRMC estimates that 89 percent of reserve component members will have insurance coverage (up from an estimated 76 percent under this analysis)—a 17 percent increase. Moreover, this analysis did not factor in the availability of TRS, suggesting that coverage rates could increase even more for reservists who have access to an extremely affordable coverage option in TRS.



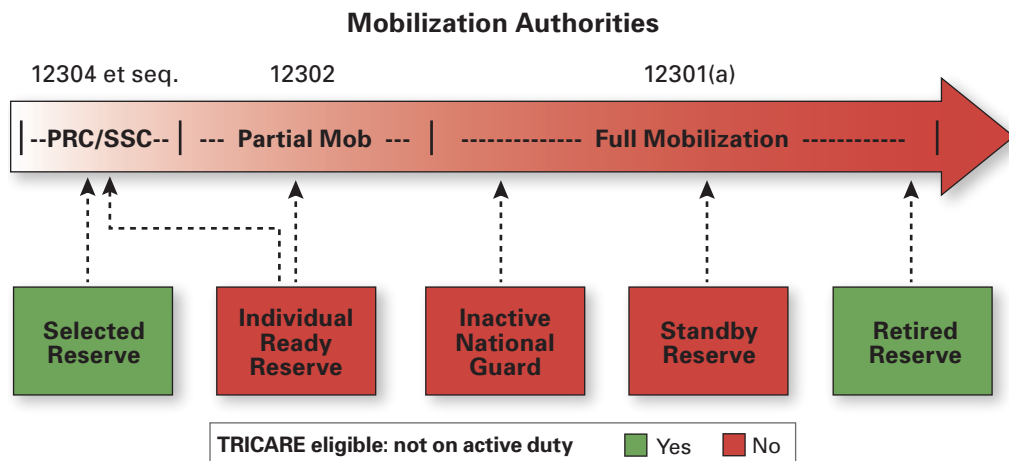
**Figure 8-2. Costs for Subsidized Insurance Exchanges and TRICARE Reserve Select**

### Continuity of Care

TRICARE provides guard and reserve members with a valuable health care benefit. TRICARE Reserve Select allows reservists to maintain continuity of care within the military health care system, by simply transitioning between TRICARE programs when moving on and off duty. Yet there are gaps and lapses in coverage for some members of the reserves that could be addressed at little cost to the government.

All reserve component members are subject to involuntary mobilization. Yet reserve TRICARE programs only cover members at the far ends of the mobilization spectrum—the Selected Reserve and the Retired Reserve (Figure 8-3). Today, reserve component members on extended active duty (greater than 30 days) are automatically covered under TRICARE Prime. Members of the selected reserve have the option of enrolling in TRICARE Reserve Select. And gray area retirees (members who have qualified for a reserve retirement but are not yet age 60) may enroll in TRICARE Retired Reserve.

While cost to a member differs somewhat for each program, these members are eligible for a TRICARE benefit. Most reserve component members are in the Selected Reserve (850,000)<sup>173</sup> and therefore eligible for TRS. However, another 245,000 reserve component members in the Individual Ready Reserve (IRR), the Inactive National Guard, and the Standby Reserve do not have this opportunity. Yet these members are subject to mobilization; in fact, since September 2001, more than 20,000 IRR members have been mobilized for the ongoing war effort. Additionally, a few Standby Reserve members have volunteered and deployed to Iraq



Note: PRC – Presidential Reserve Call-up; SSC – small-scale contingencies

**Figure 8-3. TRICARE Coverage for the Reserve Component**

173. Excludes active guard and reserve personnel.

and Afghanistan. Yet these members are not eligible for TRICARE except while on extended active duty. Further, in the mobilization hierarchy, they have a higher mobilization priority than gray area retirees, who are the very last category of reserve component members who can be mobilized, yet the retirees are eligible to enroll in a TRICARE program.

The QPMC recommends the department establish a program to provide TRICARE to reserve component members who are currently not eligible for a reserve TRICARE program, with the full cost of coverage paid by the member. This program—using the TRICARE Retired Reserve as the model—would allow those members, who are all subject to mobilization and some of whom have been mobilized for contingency operations in Iraq and Afghanistan, to have a choice of TRICARE coverage. This coverage would provide them with continuity of care within the military health care system with participants paying premiums equal to the full cost of the coverage—just as retirees enrolled in TRICARE Retired Reserve must pay for the full cost of the coverage.

The second issue identified by the QPMC involves members involuntarily transferred from the Selected Reserve to the IRR who would then fall into the coverage gap described above. The QPMC recommends that a member enrolled in TRS who is involuntarily transferred to the IRR be allowed to retain TRS coverage for up to three years. In order to remain enrolled in TRS, however, the member would be required to participate in monthly training while assigned to the IRR. To ensure continued eligibility, the components would verify satisfactory participation each year. If the member lets coverage lapse or stops participating, TRS eligibility would be terminated and the member could only become eligible for the benefit by once again affiliating with the Selected Reserve. Based on the current number of participating IRR members and the enrollment rate for TRS, it is estimated that fewer than 700 IRR members might be eligible for this benefit. The department would incur a cost for allowing a member to retain TRS coverage for the additional period; but the cost for so few members would be modest.

**RECOMMENDATION: HEALTH CARE BENEFIT**

Address continuity of health care:

- Establish a TRICARE program for reserve component members not covered by TRICARE Reserve Select or TRICARE Retired Reserve.
- Allow members enrolled in TRICARE Reserve Select to remain enrolled for up to three years, if they are involuntarily transferred to the Individual Ready Reserve and participate in monthly training.



## Disability Evaluation System

Critical benefits are also provided through the military disability system—of particular importance during a time of war. Active and reserve component personnel who are injured or have a medical condition that may interfere with their ability to serve are referred to their service’s disability evaluation system for further evaluation. Members who are deemed medically fit are returned to duty, while personnel determined to have a disability that renders them unable to serve are either separated or retired from the military. Generally, separated members are provided a lump-sum payment upon separation, while those retired with a disability receive a life-long monthly annuity.

The disability evaluation process involves several steps, and is generally similar for members of both the active and reserve components. However, there are some key junctures early in the process where reserve members’ experiences may differ from those of their active duty counterparts, potentially affecting outcomes between the two populations.

The evaluation process typically begins with a referral from a medical provider at the facility where the member is being treated. Active duty members are nearly always cared for in MTFs, where military medical providers are trained to identify individuals with potentially duty-limiting conditions. Reserve component members, in contrast, are less likely to be treated by a military provider; and the civilian health care providers who often care for reserve personnel may be less likely to identify duty-limiting conditions or refer reserve members for disability evaluations.

As a precondition to the disability evaluation process, reserve component members may also have to establish that their condition occurred (or was aggravated) in the line of duty.<sup>174</sup> Active component personnel, in contrast, are considered to be continuously on duty, so injuries or health problems that arise while they are in service are nearly always presumed to have occurred in the line of duty unless the injury or illness is the result of the member’s misconduct. Similarly, medical conditions of reserve component personnel on active duty for more than 30 days are generally presumed to have occurred in the line of duty. In fact, a 2008 policy change regarding these activated reserve personnel now requires “compelling” evidence to set aside the presumption that a condition or injury occurred in the line of duty. No such presumption, however, exists for reserve component personnel who are not on extended active service.

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174. Procedures for making line-of-duty determination are established by each service, with the unit commander typically making the determination.

Once a condition is determined to have occurred in the line of duty, a member is referred to the Disability Evaluation System (DES) for a determination of fitness for duty and, if warranted, a disability evaluation. The probability that a member will be referred to the DES, however, varies considerably across the services and between the active duty and reserve components (Table 8-1). The higher referral rates for the Army—and, to a lesser extent, the Marine Corps—are not surprising, given that personnel from those services have been more involved in combat operations than have Air Force and Navy personnel. There are also substantial differences in referral rates among the active duty and reserve components, with referral rates among deployed reserve component members only about one-third as frequent as referral rates for active duty members of the same service.

Do these lower referral rates suggest that some reserve members with line-of-duty conditions are being overlooked? There could be several reasons for the lower referral rates among reserve members. As discussed above, those reserve members who are not serving on active duty may have more difficulty meeting (or simply be deterred by) the line-of-duty requirement. They also are more likely to be treated by civilian health care providers who may be less apt to identify duty-limiting conditions and issue disability referrals. Further, because they may find it easier to perform the less frequent duties of part-time service when not activated, reservists may be less likely to seek a disability evaluation referral.

While these factors may account for some of the difference in referral rates, they do not necessarily explain all the variation. For example, studies have found that reserve members are more likely to have conditions linked to combat exposure, such as post-traumatic stress disorder (PTSD). In fact, rates of combat-exposure conditions are 25 to 50 percent higher among reserve personnel than among active duty members. Thus, one would expect that the portion of reserve component

**Table 8-1. Disability Cases, Fiscal Year 2009**

	Active	Guard/Reserve
	(per 1,000 deployed) <sup>a</sup>	
Army	17.7	5.4
Navy	7.4	2.8
Marine Corps	9.3	2.5
Air Force	5.0	1.8
Cases involving PTSD	3.0	1.4

a. Includes members who have been deployed at least once since 2001.

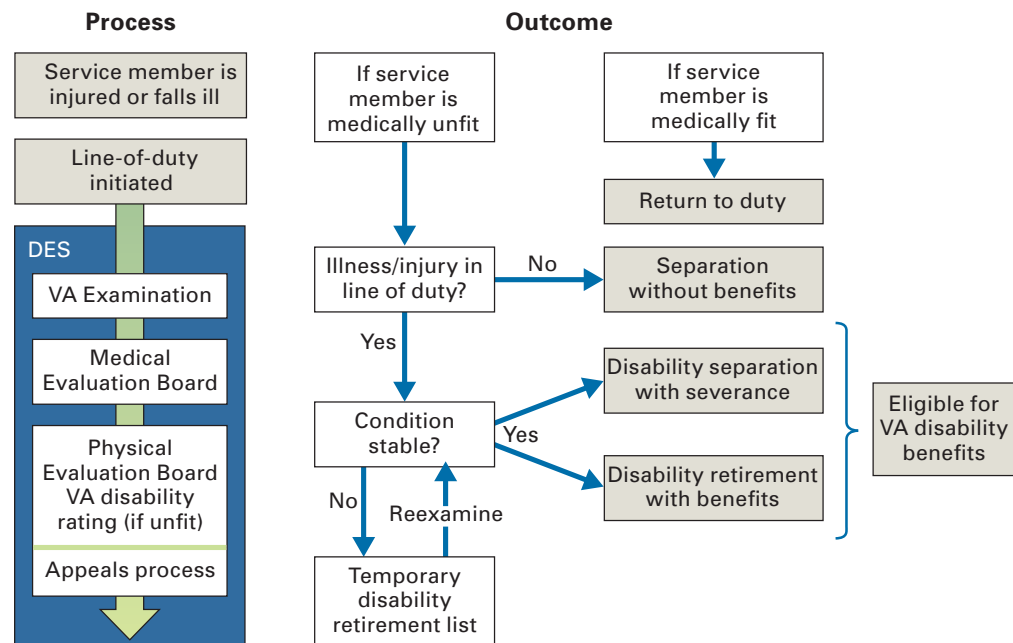
members referred to the DES with a PTSD diagnosis would be considerably higher, not half the rate of active duty PTSD referrals.

**RECOMMENDATION: DISABILITY EVALUATION REFERRAL DETERMINATION**

Conduct a comprehensive review of each service’s process for referring members to the Disability Evaluation System to ensure consistency among components, focusing particularly on the line-of-duty determination process.

While the likelihood of referral to the DES varies considerably between the active and reserve components, once a member is referred for disability evaluation, the process is the same across components and outcomes are generally similar—there are only minor differences in disability rates and dispositions, and the time to complete the evaluation process is similar between the two components.

Once referred to the DES, a Medical Evaluation Board reviews physical examination results to determine whether a member should return to full or limited duty, or be referred to the Physical Evaluation Board, which assesses fitness for duty and—in many cases—conducts a disability evaluation (Figure 8-4). The Medical Evaluation Board process is the same for all military personnel, regardless of component or duty status. A review of cases from 2007 through 2010 found modest



**Figure 8-4. Disability Evaluation System**

differences in the process times between components, with reserve members in the Army experiencing shorter process times, while those in the Navy and Marine Corps encountered slightly longer process times.<sup>175</sup>

The Physical Evaluation Board determines a member's fitness to continue in military service. For those found unfit for duty, the Physical Evaluation Board assigns a disability rating using the Veterans Affairs Schedule of Rating Disabilities (VASRD).<sup>176</sup> The VASRD rates service members' disability from 0 to 100 percent with only conditions affecting fitness to serve rated. Those with a disability rating between 0 and 20 percent (and less than 20 years of service) receive a lump-sum payment based on years of service<sup>177</sup> and monthly base pay.<sup>178</sup> An enlisted member at the grade of E-4 (the grade most commonly referred to the DES) with four years of service would receive a severance pay of approximately \$17,000 at separation (at 2011 base pay rates). An officer at the most common rank, O-3, with eight years of service would receive a severance payment of \$83,000.

Members with disability ratings of at least 30 percent receive lifelong monthly disability retirement compensation, usually based on the severity of the disability and monthly pay levels.<sup>179</sup> The value of disability retirement compensation is substantially higher than the separation payment provided to those with lower disability ratings. Under disability retirement, for example, the same E-4 who is separated in 2011 with four years of service would receive a monthly benefit ranging from \$600 per month with a 30 percent disability rating to a maximum of \$1,500 per month if rated totally disabled.<sup>180</sup> The range for an O-3 with eight years of service is \$1,550 to \$3,900.

Service members with disabilities may also be placed on the Temporary Disability Retired List (TDRL) if their condition has not stabilized enough to evaluate the permanent degree of disability. This allows members more time for recovery before a final disability determination is made. Personnel on the TDRL

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175. Air Force data were only available for 2009 and 2010. Because of the more limited time period and smaller sample size, results from that service are not presented here. For a discussion of the Air Force results, see Susan D. Hosek, *Healthcare Coverage and Disability Evaluation for Reserve Component Personnel*, in the second volume of this report.

176. The Department of Veterans Affairs is currently updating the VASRD, which was last revised in 1945.

177. The minimum years of service for a member separated for a disability incurred in the line of duty in a combat zone or incurred during the performance of duty in combat-related operations is six. For all other members, the minimum years of service is three.

178. The lump-sum payment formula is equal to: "years of creditable service" x "highest monthly base pay" x 2.

179. The monthly benefit is the higher of: (1) percent disability rating x monthly base pay or (2) years of creditable service x 2.5 percent x monthly base pay. For most disabled retired members, the first formula yields a larger benefit. An individual with a 30 percent rating would have to have more than 12 years of service to benefit from the second method.

180. Benefit levels are based on the fiscal year 2012 pay table. Disability retirees also receive the other benefits of military retirement, including lifetime TRICARE for themselves and their dependents.

are reexamined after 18 to 24 months, with a final disposition mandated within five years.<sup>181</sup> A review of cases put on the TDRL over the 2000–2003 period found that about 60 percent ultimately ended up as disability retirements and another 25 percent as disability separations.

Until recently, military personnel with a line-of-duty or service-connected disability had to navigate the DOD and VA systems sequentially, undergoing two comprehensive medical examinations. To simplify the overall process, the departments developed the Integrated Disability Evaluation System (IDES), which they piloted in 2008 and phased in at other locations between 2009 and 2011. The IDES involves a single medical examination and disability rating procedure for use in the DES and by the VA. The examination and rating are currently being done by VA personnel or by staff under VA contract. The results are submitted to an MEB, and a PEB determines whether the member is fit to continue in service. The DOD disability rating is based on the ratings established for all disabling conditions incurred or aggravated in the line of duty, and the VA rating is based on the ratings for all service-connected conditions—thus ensuring consistency in the rating of individual medical conditions. Members who are medically separated or retired from service leave with their VA disability rating established.

In conclusion, the QRMC's analysis found that in terms of disability outcomes—and, in turn, disability benefits—only modest differences exist between reserve and active duty personnel.<sup>182</sup> Reserve component members are slightly more likely to receive a temporary disability retirement than a permanent disability retirement, and—in the Navy—somewhat more likely to receive a disability separation. As noted above, the size of the benefit for those on disability retirement is partly based on the severity of the disability, that is, the disability rating. Analysis of disability ratings indicates that reserve personnel in the Army, Navy, and Marine Corps have modestly higher disability ratings than the ratings of active duty members. However, there appears to be some disparity in the proportion of reserve component personnel who enter the disability system, which warrants further investigation as recommended.

## Education Benefits

Educational assistance is another valuable benefit for reserve members. We describe below the key educational programs available to reserve component members and then discuss areas where eligibility criteria could be made more consistent.

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181. Personnel on the TDRL with a diagnosis of PTSD are reexamined for that condition after six months on the list.

182. The cited comparisons of disability outcomes and rates control for differences in VASRD codes.

## Current Programs<sup>183</sup>

Education programs available to members of the reserve components include the Post-9/11 GI Bill, the Reserve Educational Assistance Program, the Montgomery GI Bill Active Duty, and the Montgomery GI Bill–Selected Reserve.

### The Post-9/11 GI Bill

In 2008, Congress greatly expanded educational benefits available to military personnel with enactment of the Post-9/11 GI Bill. This benefit provides financial assistance for education and housing costs to personnel with 90 days or more of active duty service since September 11, 2001. (Individuals who are separated from service after 30 days due to a service-related disability are also eligible.) Guard and reserve members who meet the 90-day service requirement are eligible for the same benefits as active duty personnel.

For 15 years after discharge, the Post-9/11 GI Bill benefit is available to provide eligible veterans with tuition assistance for up to 36 months. Training covered under the Post-9/11 GI Bill includes undergraduate and graduate degree programs, on-the-job training, vocational and technical training, correspondence courses, flight training, licensing and other testing programs, entrepreneurship training, and tutorial support.

The program covers full tuition and fees at any qualifying public or private institution. For members no longer on active duty, the program pays full tuition and fees for public school in-state students and up to \$17,500 annually for those attending private or foreign schools. Participants no longer on active duty are also eligible for a monthly housing allowance, as well as up to \$1,000 annually for books and supplies.<sup>184</sup> A \$500 rural benefit payment is also available to those residing in a county with six or fewer individuals per square mile and who move at least 500 miles for school. While educational assistance programs have historically been designed to assist veterans after they leave the military, the Post-9/11 GI Bill allows service members to transfer their benefits to family members, provided they have completed six years of service and enter into an agreement to serve at least four more years (or the years of service as determined by the secretary of defense).

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183. The program descriptions contained in this section are based on information provided on the Department of Veterans Affairs website, Post-9/11 GI Bill and other programs (<http://www.gibill.va.gov/benefits/index.html>).

184. The housing allowance is based on the Basic Allowance for Housing for an E-5 with dependents.

### Reserve Educational Assistance Program

The Reserve Educational Assistance Program (REAP) was created in 2004 to recognize the sacrifices of Ready Reserve members who have been ordered to active service in response to a war or national emergency. Under REAP, guard and reserve members activated for 90 days or more after September 11, 2001 under a contingency operation are eligible for education benefits or increased benefits. Members of the National Guard are also eligible for benefits with 90 or more days of consecutive service performed under section 502(f) of title 32, provided the service was authorized by the president or secretary of defense in response to a national emergency and supported by federal funds. Members separated from active service prior to 90 days due to a line-of-duty condition are also eligible for educational assistance through REAP. The program provides educational assistance for up to 36 months.

The REAP benefit is a percentage of the Montgomery GI Bill-Active Duty rate, with the amount based on the number of continuous days or cumulative days of active service, as well as course load. In fiscal year 2012, those with two or more consecutive years of qualifying service, or three cumulative years of qualifying service and enrolled full-time in an educational institution, are eligible for monthly benefits of up to \$1,178. Smaller monthly benefits are available to those with less than two years of service or who are attending school less than full time. Personnel serving in the Ready Reserve may participate in the \$600 Buy-Up program, by making contributions up to \$600 in order to receive up to \$5,400 in additional REAP benefit payments. Like the Post-9/11 GI Bill, members who have completed six years of service and enter into an agreement to serve at least four more years can transfer their unused benefits to their dependents.

Educational assistance is provided for college, technical or vocational courses, apprenticeship or job training programs, correspondence courses, flight training, licensing and certification tests, and entrepreneurship training. Members remain eligible for the benefit while serving in the Selected Reserve or the IRR. Members who separate from the Selected Reserve or members separated from the Ready Reserve because of a disability remain eligible for benefits for ten years from the date of separation. A member who separates from the IRR (other than those separated because of disability), immediately loses REAP eligibility on the date of separation.

Many features of REAP and the Post-9/11 GI Bill are very similar, but there are some key differences. Most notably, under the Post-9/11 GI Bill, tuition is paid directly to the educational institution, while under REAP the benefit is paid to the member. REAP has been used effectively as a retention incentive for members enrolled in college where they have low or no tuition expenses—a benefit some

states provide to members of the National Guard, allowing them to use the benefit payments for other expenses.

### Montgomery GI Bill Active Duty

The Montgomery GI Bill Active Duty (MGIB-AD) program, also known as Chapter 30, provides up to 36 months of educational assistance to eligible veterans for up to ten years after discharge from active duty service. Covered types of education include college, technical or vocational courses, apprenticeship or job training programs, correspondence courses, flight training, licensing and certification tests, and entrepreneurship training. Benefit amounts vary, based on course load (full or part time) and length of service. As of October 2011, full-time students are eligible for monthly benefits of up to \$1,437. Benefits can be even higher for members who qualify for additional educational assistance through the College Fund program.

Those wishing to participate in the MGIB-AD are required to contribute a \$1,200 buy-in to the system, typically by having their pay reduced by \$100 per month during their first year of service.<sup>185</sup> Under the \$600 Buy-Up program, members who increase their contribution from \$1,200 to \$1,800 can receive up to \$5,400 in additional GI Bill benefits. Eligible veterans must also have been honorably discharged and hold a high school diploma (or GED). Length-of-service requirements to qualify for MGIB-AD vary somewhat, depending on when a member began his or her military service. In general, those who began service after June 30, 1985 must have three years of continuous active duty service (two years if that was the initial service commitment), or two years if combined with four years in the Selected Reserve, with such reserve service commencing within 12 months of separating from active duty (the “2 by 4” program).<sup>186</sup>

### Montgomery GI Bill–Selected Reserve

Reserve component members who commit to serve in the Selected Reserve for six years are eligible for the Montgomery GI Bill–Selected Reserve (MGIB-SR) program, which provides up to 36 months of educational assistance for degree programs, correspondence courses, independent study, certificate programs, apprenticeship and on-the-job training, cooperative training, and vocational flight training programs. Eligible personnel must have completed their initial active duty for training, have a high school diploma (or equivalent), and be in good standing in the Selected Reserve. MGIB-SR benefits are available to qualified personnel for 14 years after completing their initial service commitment in the Selected Reserve.

185. The \$1,200 buy-in does not apply to members whose service began prior to July 1, 1985.

186. See the Department of Veterans Affairs website, Montgomery GI Bill Active Duty (MGIB-AD) for a description of additional MGIB eligibility categories.



The benefit for a member enrolled full time in an educational institution is \$345 a month, with smaller benefit payments for students enrolled less than full time. Generally, reserve personnel who leave reserve service are no longer eligible to receive benefits. However, eligibility for mobilized reservists may be maintained during the mobilization period plus four months. In addition, members whose units are deactivated between fiscal years 2008 through 2014, or who are involuntarily released (not for misconduct), do not lose eligibility.

### Consistency in Eligibility Criteria

Educational programs should treat similar service in a consistent manner. The QRMC has identified inconsistencies with respect to eligibility for the Post-9/11 GI Bill. Today, the service performed by members of the National Guard and reserve who are ordered to active duty without their consent under one of several provisions of law (sections 12301(a), 12302 and 12304 of title 10) qualify for the Post-9/11 GI Bill. Further, reserve component members who are ordered to active duty for any purpose under section 12301(d) of title 10 also qualify for Post-9/11 GI Bill benefits. Finally, National Guard members ordered to full-time National Guard duty under section 502(f) of title 32, when authorized by the president or the secretary of defense in response to a national emergency declared by the president and supported by federal funds, qualify for Post-9/11 GI Bill benefits.

Yet members of the guard and reserve who perform similar involuntary and voluntary service, as described here, do not qualify for the benefit:

- ❖ Reserve component members involuntarily called up for preplanned missions in support of combatant commands, as provided for in a recent amendment to title 10.<sup>187</sup>
- ❖ Involuntary call up of the Army, Navy, Marine Corps, and Air Force reserves to provide assistance in response to a major disaster or emergency (another new title 10 provision).<sup>188, 189</sup>
- ❖ National Guard members who are involuntarily ordered to full-time National Guard duty under section 501(f)(1)(A) of title 32, to respond to a major disaster or emergency, which is similar to the reserve provision, but with the member serving under the command of the state governor.

187. United States Code, Section 12304b, title 10.

188. United States Code, Section 12304a, title 10.

189. Disaster or emergency as defined in the Robert T. Stafford Disaster Relief and Emergency Assistance Act; United States Code, Section 5122, title 42.

- ❖ Members of the Coast Guard Reserve involuntarily ordered to active duty for emergency augmentation of the regular Coast Guard.<sup>190</sup> (An example is the recent oil spill in the Gulf of Mexico, when Coast Guard Reserve members were called up to assist the regular Coast Guard in responding to that disaster.)

The QRMC believes that all involuntary service to support operational requirements should qualify for Post-9/11 GI Bill benefits. Expanding qualifications in this manner would treat all periods of involuntary service performed by guard and reserve members in a consistent manner. However, we would caveat that the service by the guard to respond to a disaster or emergency should only be authorized if it is at the request of the president or secretary of defense when responding to a disaster or emergency declared by the president under the Stafford Act.

The QRMC also identified circumstances in which some voluntary service is treated in an inconsistent way but should be treated similarly, and recommends expanding eligibility for the Post-9/11 GI Bill to include them. As previously noted, active duty performed by reserve component members under section 12301(d) of title 10—which is voluntary—is qualifying service for the Post-9/11 GI Bill. However, the following voluntary service currently does not qualify, but should:

- ❖ Reserve component members ordered to active duty for authorized health care<sup>191</sup> or receiving treatment for or recovering from an injury, illness, or disease.<sup>192</sup> It should be noted that the period active component members are recovering from an injury or illness is qualifying service.
- ❖ National Guard assistance to other federal agencies in performing their federal mission (at the request of the president), but conducted under title 32 status and under the command and control of the governor of the state. An example is support from the guard to the border patrol in securing the southwest border—support deemed covered under the current national emergency. However, in the future such service may not be eligible for education benefits if the country is not under a national emergency or the national emergency does not cover the duty's purpose.
- ❖ National Guardsmen performing DOD missions such as drug interdiction and counter drug activities or authorized to maintain various programs

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190. United States Code, Section 712, title 14.

191. United States Code, Section 12301(h), title 10.

192. United States Code, Section 12322, title 10.

such as the National Guard youth challenge program—duty performed under section 502(f) of title 32. Again, noting that operational missions performed by the active component or the reserves under section 12301(d) of title 10 is qualifying service for Post 9-11 GI Bill benefits.

We caveat the above criteria in that operational missions performed by the National Guard must be at the request of the president or secretary of defense.

**RECOMMENDATION: EDUCATION BENEFIT**

Amend Post-9/11 GI Bill eligibility to treat similar service consistently by including all involuntary service performed by a member as qualifying service.

## Conclusion

Over the last decade, there have been many improvements in the benefits available to guard and reserve members, and their families. The QRMC's health care recommendations are intended to facilitate continuity of health care while only marginally affecting the health budget. The recommended expansion of educational benefits would enable consistent treatment for similar service, whether voluntary or involuntary. Ultimately the goal is to ensure that benefits for reservists are in line with how the reserve components are being used in support of departmental missions. And within that overarching goal, that individual benefits are structured in a consistent manner, such that members performing similar service receive the same benefits. The department should weigh such considerations, as new benefits are added or current benefits revised. It would also be prudent for personnel managers to regularly review the slate of benefits offered to active and reserve component members to ensure they remain aligned with use and are consistent in application, as missions and requirements evolve over time.





Part IV

**Conclusion**



## Summary of Recommendations

The Eleventh Quadrennial Review of Military Compensation (11<sup>th</sup> QRMC) took a strategic, long-term approach to its evaluation of the military compensation system while also considering current conditions. The recommendations that result from this review not only respond to challenges today but also will support changing requirements in the future. The 11<sup>th</sup> QRMC concludes the following.

**Military compensation remains competitive.** Regular Military Compensation compares favorably with civilian wages for comparable education and experience. Other areas of compensation, such as those addressed by this QRMC, should be the focus of attention.

**Technology has given rise to new missions, resulting in new, high-demand skills.** Targeted incentive pays provide flexibility and are part of the solution for increasing supply and enhancing retention. The application of incentive pays should be subject to periodic, rigorous assessment using a standardized evaluation tool.

- ❖ Establish and utilize an evaluation tool that will model the effect of incentive pay options on staffing objectives to aid in determining the most effective and efficient incentive pay strategies.
- ❖ Provide authority for a career incentive pay structure, similar to the career pays for aviators and health professionals, which could be used for other communities or career fields.

**Over time, the relationship between combat compensation and the degree of danger to which a member is exposed has eroded.** Members most likely to be exposed to the hazards of combat are typically more junior personnel, who also receive the smallest benefit. Thus, combat compensation needs to be restructured so that those who are exposed to the greatest danger receive higher compensation, regardless of grade.

- ❖ Establish differentials in hazardous duty pays:
  - Set Hostile Fire Pay at an amount higher than Imminent Danger Pay.
  - Establish more than one level of Imminent Danger Pay to recognize different levels of exposure to danger.

- ❖ Institute two tax credits to replace the Combat Zone Tax Exclusion:
  - Establish a refundable Combat Tax Credit for which eligibility is contingent upon receipt of Hostile Fire Pay.
  - Establish a separate Direct Support Tax Credit for which eligibility is contingent upon receipt of Imminent Danger Pay.
- ❖ Require annual recertification of combat zones.

**Severely injured service members may face financial challenges when they return to civilian life. Caregivers and survivors of members who die in the line of duty may also face financial challenges.** Current programs adequately replace compensation lost under each of these circumstances. But further study is needed to understand how well these benefit programs perform in the longer term.

- ❖ Continue to examine wounded warriors' earnings and disability payments in order to monitor the long-term financial well-being of the wounded.
- ❖ Facilitate a more seamless transition between the Departments of Defense and Veterans Affairs by making eligibility criteria, disbursement policies, and the tax treatment of caregiver compensation consistent between the two programs.
- ❖ Once the caregiver compensation programs mature, conduct further analysis to better understand the financial implications for caregivers.
- ❖ Modify the Dependency and Indemnity Compensation and Survivor Benefit Plan offset to allow the surviving spouse to receive that portion of the Survivor Benefit Plan annuity funded by retiree premiums (approximately 50 percent).
- ❖ Calculate Survivor Benefit Plan benefits for a reservist who dies while performing inactive duty training using the same criteria as for a member who dies while on active duty.

**The reserve components will continue to be used to achieve national security objectives.** Yet reserve compensation is not well aligned with current and planned use of the reserves. Simplifying reserve duty and modernizing reserve compensation and benefits will help to improve consistency between compensation and utilization, and achieve a continuum of service. To accomplish this:



- ❖ Reduce the number of authorities to order a member to duty from 30 to 6.
- ❖ Transition reserve compensation to a “total force” pay structure:
  - Pay Regular Military Compensation to reserve members for each day of reserve service, regardless of the type of duty. Augment with incentive pays to sustain and shape the force.
  - Align reserve and active duty retirement systems more closely by allowing guard and reserve members to receive retired pay upon their 30<sup>th</sup> anniversary of service (having attained 20 qualifying years of service).
- ❖ Establish a Permanent Change of Assignment travel status for reserve component members, which would allow members to receive two housing allowances—one for their permanent residence and a second at the assignment duty location.
- ❖ Address continuity of health care:
  - Establish a TRICARE program for reserve component members not covered by TRICARE Reserve Select or TRICARE Retired Reserve.
  - Allow members enrolled in TRICARE Reserve Select to remain enrolled for up to three years, if they are involuntarily transferred to the Individual Ready Reserve and participate in monthly training.
- ❖ Conduct a comprehensive review of each service’s process for referring members to the Disability Evaluation System to ensure consistency among components, focusing particularly on the line-of-duty determination process.
- ❖ Amend Post-9/11 GI Bill eligibility to treat similar service consistently by including all involuntary service performed by a member as qualifying service.

The uniformed services are facing new threats, performing new missions, employing advanced technology, and responding to adaptive adversaries. New and innovative approaches to managing the force will be required to meet these challenges and prepare service members to operate in an increasingly complex environment. The goal of this QRMC has been to evaluate whether or not the current compensation system supports the way the force is being used today and its anticipated use in the future. Are compensation elements being used the way they were intended? Do they support force management requirements? Do they align with planned utilization of the total force? The recommendations put forward in this report are alternatives that better align compensation with the realities of 21<sup>st</sup> century warfare and the ways in which the total force is being used to meet our nation’s security challenges.



## Appendix A

# Distribution of Disability Compensation Payments

A number of disability compensation programs are available to service members who retire or separate from the military due to a disability. Administered by the Department of Defense, Department of Veterans Affairs, or the Social Security Administration, these programs offer a range of recurring and one-time payments designed to replace income losses resulting from disabilities suffered in the line of duty. Table A-1 shows the percent of personnel receiving various disability compensation payments, based on injury status. Table A-2 summarizes average payments by program and injury status.

Table A-1. Recipients of Disability Compensation

	DOD						VA				SSA	
	Retirement		Disability		CRSC		Disability		TSGLI		SSDI	
	Active Duty	Reserve	Active Duty	Reserve	Active Duty	Reserve	Active Duty	Reserve	Active Duty	Reserve	Active Duty	Reserve
<b>No injury</b>												
<i>Years since deployment</i>												
Year 1	2.1%	0.6%	0.1%	0.0%	0.0%	0.0%	4.0%	6.1%	0.0%	0.0%	0.5%	1.2%
Year 2	3.4	1.1	0.3	0.1	0.0	0.0	8.3	9.2	0.1	0.0	0.8	1.6
Year 3	4.9	1.7	0.5	0.2	0.1	0.1	13.3	11.6	0.1	0.0	1.2	2.2
Year 4	6.3	2.3	0.7	0.3	0.2	0.1	17.2	14.0	0.1	0.0	1.6	2.9
<b>Health worsened</b>												
<i>Years since deployment</i>												
Year 1	3.4	0.8	0.3	0.4	0.0	0.0	8.2	13.6	0.0	0.1	0.7	2.0
Year 2	5.0	1.4	0.6	0.6	0.1	0.1	15.1	20.3	0.1	0.0	1.2	2.9
Year 3	6.7	2.0	0.9	0.7	0.2	0.2	21.8	24.5	0.1	0.0	1.8	4.0
Year 4	8.2	2.6	1.1	0.9	0.3	0.3	27.0	27.4	0.1	0.0	2.4	5.1
<b>Referred</b>												
<i>Years since deployment</i>												
Year 1	4.9	0.9	0.7	0.5	0.0	0.0	12.7	20.1	0.0	0.1	1.1	3.0
Year 2	6.8	1.6	1.2	1.1	0.2	0.1	22.5	30.5	0.1	0.1	2.0	4.5
Year 3	8.9	2.2	1.5	1.3	0.4	0.2	30.0	35.8	0.1	0.1	3.0	6.2
Year 4	10.7	3.0	1.6	1.5	0.7	0.5	35.6	39.3	0.1	0.0	4.0	7.8
<b>Non-serious casualty</b>												
<i>Years since deployment</i>												
Year 1	0.7	0.4	2.7	2.6	0.1	0.0	15.3	27.7	5.3	4.5	3.5	5.7
Year 2	1.1	0.6	3.6	3.7	0.6	0.3	29.0	44.0	2.5	1.5	5.2	8.1
Year 3	1.7	0.7	3.3	3.6	2.1	1.6	38.4	51.5	1.2	1.1	6.7	10.4
Year 4	2.2	0.9	3.1	3.4	3.5	3.3	43.9	55.4	0.6	0.9	7.8	11.4
<b>Serious casualty</b>												
<i>Years since deployment</i>												
Year 1	0.8	0.3	10.3	10.4	0.1	0.0	23.9	38.5	24.7	20.2	11.1	18.3
Year 2	1.3	0.0	10.2	12.6	1.5	0.6	45.7	63.5	14.0	14.6	13.2	22.5
Year 3	1.9	1.1	7.6	11.0	4.7	5.3	57.8	71.6	3.7	2.2	14.5	23.6
Year 4	2.4	1.1	5.8	9.6	8.7	13.2	62.2	75.6	1.6	3.4	15.9	25.0
<b>Very serious casualty</b>												
<i>Years since deployment</i>												
Year 1	0.6	0.0	12.2	17.6	0.0	0.0	33.7	49.6	53.3	52.7	39.0	41.2
Year 2	0.6	0.0	14.0	14.5	4.2	3.1	59.5	77.1	17.4	16.0	41.1	47.3
Year 3	1.2	0.0	8.4	8.4	14.6	18.3	72.1	86.3	4.2	3.1	43.5	46.6
Year 4	1.2	0.0	6.2	8.4	25.1	29.8	75.8	84.7	1.4	4.6	42.7	44.3

**Table A-2. Average Disability Compensation Benefits**

	DOD						VA				SSA	
	Retirement		Disability		CRSC		Disability		TSGLI		SSDI	
	Active Duty	Reserve	Active Duty	Reserve	Active Duty	Reserve	Active Duty	Reserve	Active Duty	Reserve	Active Duty	Reserve
<b>No injury</b>												
<i>Years since deployment</i>												
Year 1	\$ 343	\$ 96	\$ 5	\$ 4	\$ 0	\$ 0	\$ 170	\$ 258	\$ 25	\$ 7	\$ 62	\$ 170
Year 2	707	211	19	11	2	1	577	578	49	22	111	253
Year 3	1,027	335	36	19	5	3	1,124	938	43	28	187	381
Year 4	1,356	464	51	34	11	8	1,782	1,332	50	21	275	542
<b>Health worsened</b>												
<i>Years since deployment</i>												
Year 1	552	132	20	25	1	1	398	703	50	38	88	309
Year 2	963	257	43	65	5	3	1,242	1,664	56	31	170	488
Year 3	1,283	385	68	73	10	10	2,177	2,569	81	35	301	739
Year 4	1,595	480	91	93	19	20	3,221	3,356	49	37	442	1,015
<b>Referred</b>												
<i>Years since deployment</i>												
Year 1	726	124	41	39	2	1	670	1,103	42	34	149	457
Year 2	1,256	267	88	104	12	3	2,121	2,610	65	57	301	800
Year 3	1,601	385	119	153	36	12	3,493	4,021	61	52	519	1,197
Year 4	1,956	498	138	190	59	33	4,870	5,226	45	37	757	1,618
<b>Non-serious casualty</b>												
<i>Years since deployment</i>												
Year 1	117	80	131	177	2	0	1,126	2,019	4,808	4,209	546	1,078
Year 2	199	120	226	335	27	12	3,597	5,242	2,179	1,328	892	1,709
Year 3	277	130	248	414	103	57	5,864	8,351	752	692	1,237	2,249
Year 4	370	163	234	421	197	166	7,646	10,266	317	381	1,507	2,627
<b>Serious casualty</b>												
<i>Years since deployment</i>												
Year 1	114	6	559	627	6	0	3,375	5,769	23,338	19,841	1,824	3,928
Year 2	201	0	726	1,227	33	2	9,507	13,307	13,705	15,718	2,431	4,764
Year 3	304	19	635	970	190	151	13,740	18,102	2,941	1,414	2,788	5,257
Year 4	362	76	463	850	389	523	16,506	20,925	839	2,215	3,070	5,729
<b>Very serious casualty</b>												
<i>Years since deployment</i>												
Year 1	110	0	684	1,283	0	0	9,393	16,849	65,282	66,838	6,809	8,595
Year 2	86	0	1,149	1,595	238	18	22,103	29,755	19,647	21,296	8,091	10,302
Year 3	101	0	1,042	1,086	840	699	30,193	38,831	4,114	4,582	8,444	10,381
Year 4	158	0	837	1,037	1,419	1,618	33,673	41,379	995	3,169	8,621	10,064



## Appendix B

# Navy, Air Force, and Marine Corps Results of Total Force Pay Analyses

Chapter 7 of this report presented the results of the QRMC's analysis of a total force approach to pay and retirement. As the chapter details, the total force pay approach has three primary elements: total force pay, incentive pay, and retirement reform. The QRMC undertook extensive analysis to understand the impact of the total force compensation approach on cost and force structure in the active and reserve components. The QRMC also conducted specific analysis of the impact on force size of two retirement programs for the reserve components. Results for the Army were presented in Chapter 7. This appendix shows results for the Navy, Air Force, and Marine Corps reserve components.

## Alternative Scenarios for Structuring Total Force Pay

This section shows results for various combinations of total force pay, incentive pay, and retirement pay. Three figures are presented for each service. The first shows force profiles for officers and enlisted personnel for total force pay (Regular Military Compensation) with the current age-60 retirement program. The second figure shows force profiles for officers and enlisted personnel for total force pay, age-60 retirement (the current program), and three alternatives for incentive pays. The third figure is similar to the second, but the current retirement program is replaced with a policy that allows reserve members to begin receiving retired pay at 30 years of service (assuming 20 qualifying years).

Before turning to the individual service results, the tables below show the levels of incentive pay for each service and each alternative. These amounts are the levels required to sustain the current size of the force. Table B-1 shows pay levels for scenarios that include total force pay and the age-60 retirement program. Table B-2 shows pay levels for scenarios that include total force pay and retired pay beginning at 30 years of service.

**Table B-1. Service-specific Incentive Pay Levels and Annual Cost Savings with Age-60 Retirement**

Service	Percentage of Annual Basic Pay			Annual Fixed Amount			Annual Fixed Amount for Members Between 8–15 Years of Service		
	Incentive		Annual Cost Savings (\$M)	Incentive		Annual Cost Savings (\$M)	Incentive		Annual Cost Savings (\$M)
	Officer	Enlisted		Officer	Enlisted		Officer	Enlisted	
Army	7.96%	3.09%	\$14	\$4,946	\$939	\$51	\$11,054	\$2,202	\$96
Navy	8.56	3.14	+7	5,294	938	20	12,195	2,075	55
Air Force	8.41	3.05	18	5,460	967	30	12,756	2,107	53
Marine Corps	7.87	3.39	+2	4,582	1,029	4	9,603	1,925	12
TOTAL DOD			\$23 (-1%)			\$105 (-4%)			\$216 (-7%)

Note: Percent savings is calculated based on total military personnel costs.

**Table B-2. Service-specific Incentive Pay Levels and Annual Cost Savings with 30-Year Retirement**

Service	Percentage of Annual Basic Pay			Annual Fixed Amount			Annual Fixed Amount for Members Between 8–15 Years of Service		
	Incentive		Annual Cost Savings (\$M)	Incentive		Annual Cost Savings (\$M)	Incentive		Annual Cost Savings (\$M)
	Officer	Enlisted		Officer	Enlisted		Officer	Enlisted	
Army	6.18%	2.27%	\$27	\$3,812	\$697	\$59	\$8,604	\$1,611	\$104
Navy	5.94	2.49	+17	3,806	747	1	8,869	1,671	41
Air Force	5.04	2.37	3	3,264	717	18	8,099	1,642	37
Marine Corps	7.00	2.50	+3	4,191	788	1	8,498	1,441	12
TOTAL DOD			\$10 (0%)			\$79 (-3%)			\$194 (-7%)

Note: Percent savings is calculated based on total military personnel costs.



### Navy Reserve

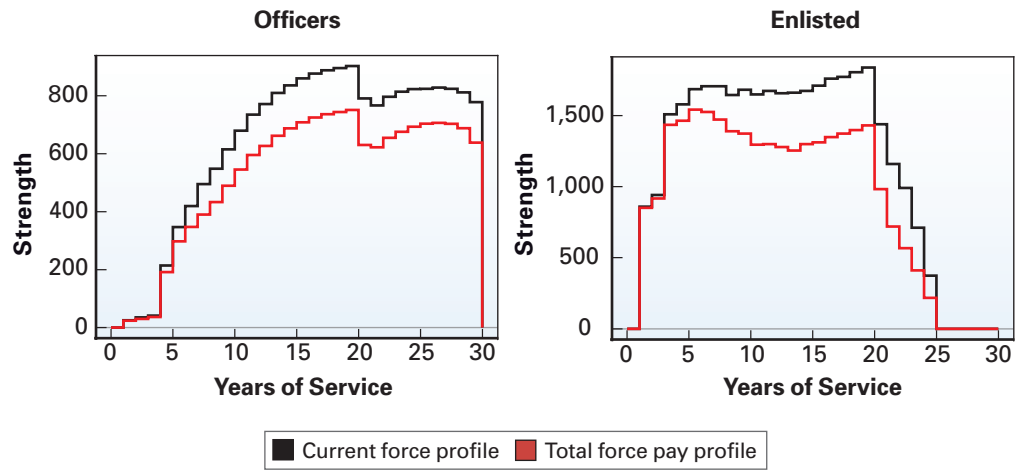
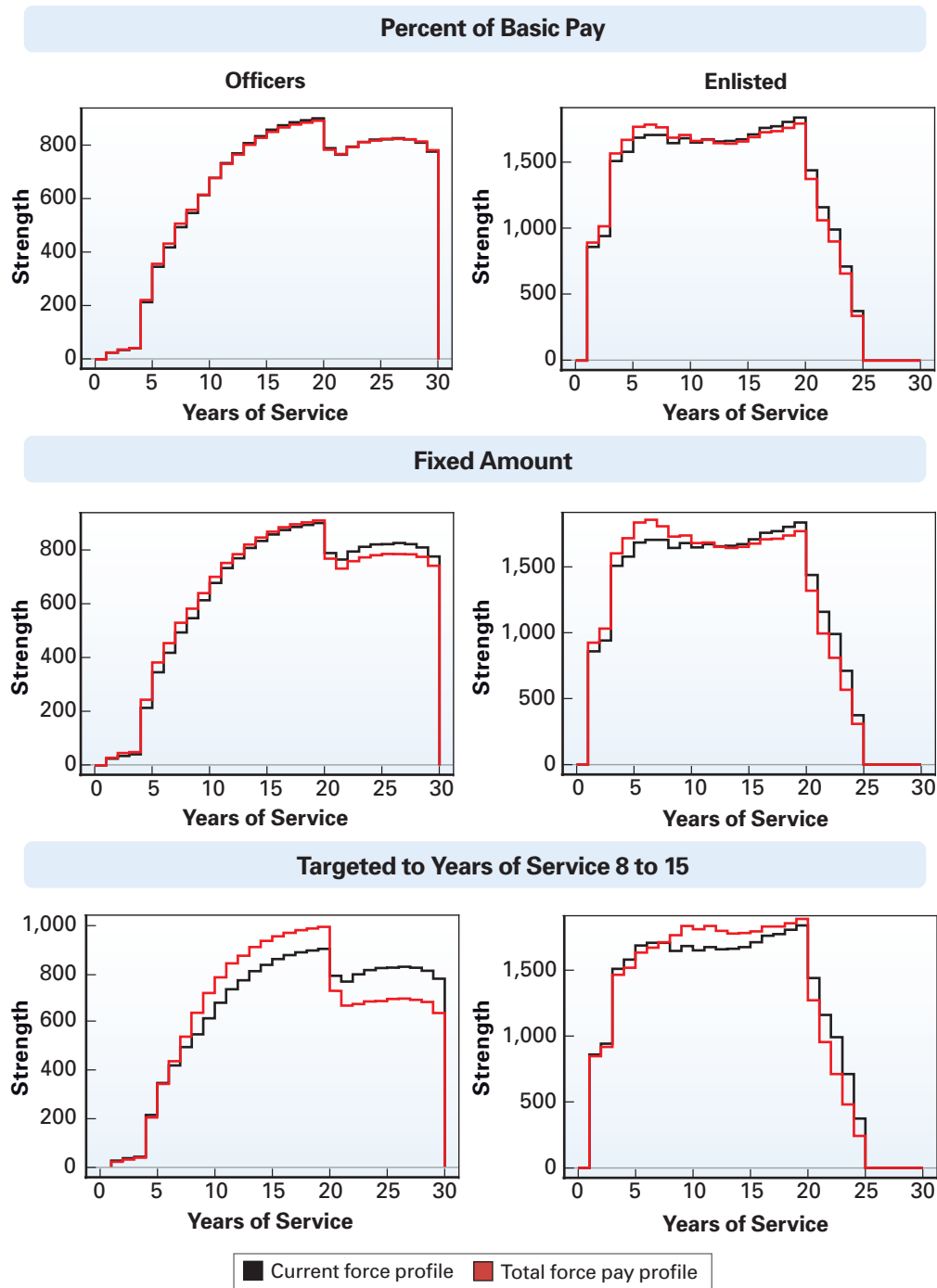
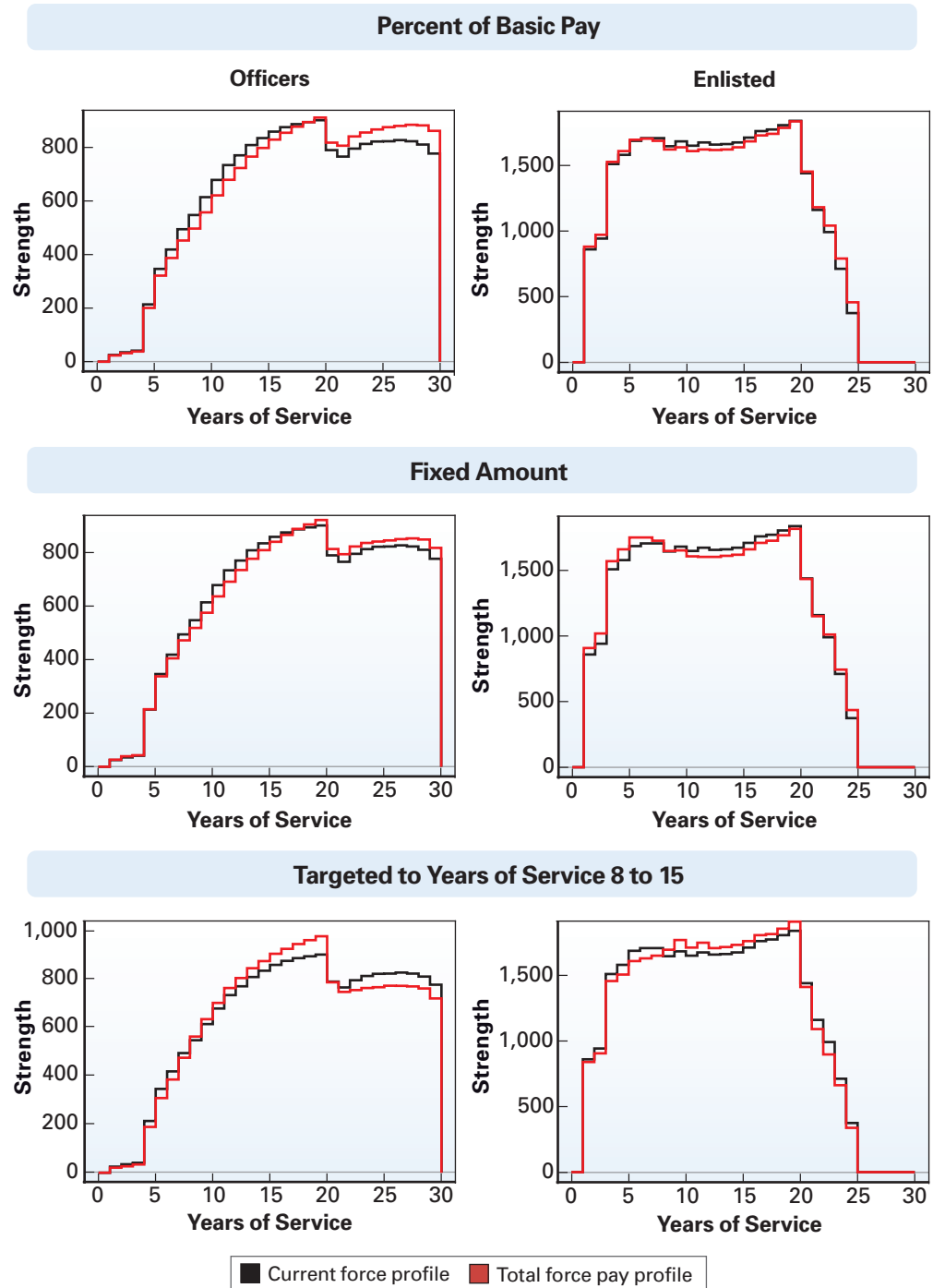


Figure B-1. Total Force Pay with Age-60 Retirement—Navy Reserve



**Figure B-2. Incentive Pay Options with Total Force Pay and Age-60 Retirement—Navy Reserve**



**Figure B-3. Incentive Pay Options with Total Force Pay and 30-Year Retirement—Navy Reserve**

### Air Guard and Reserve

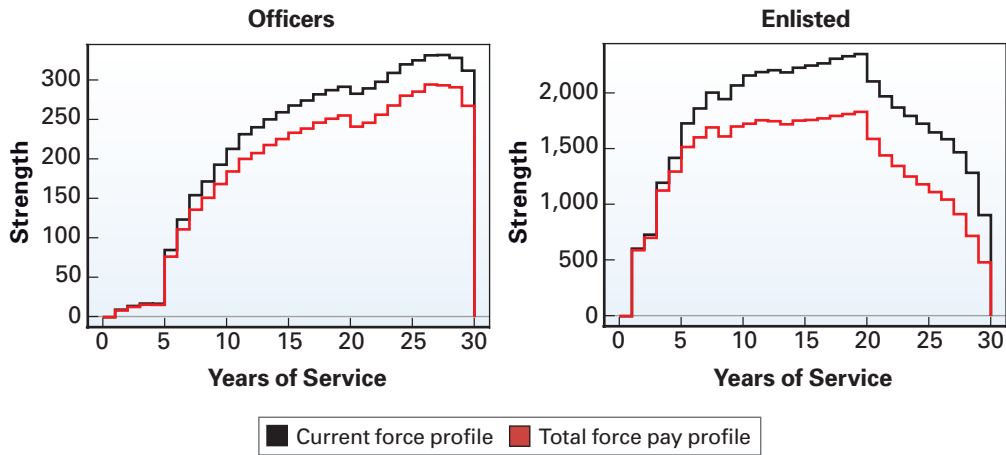
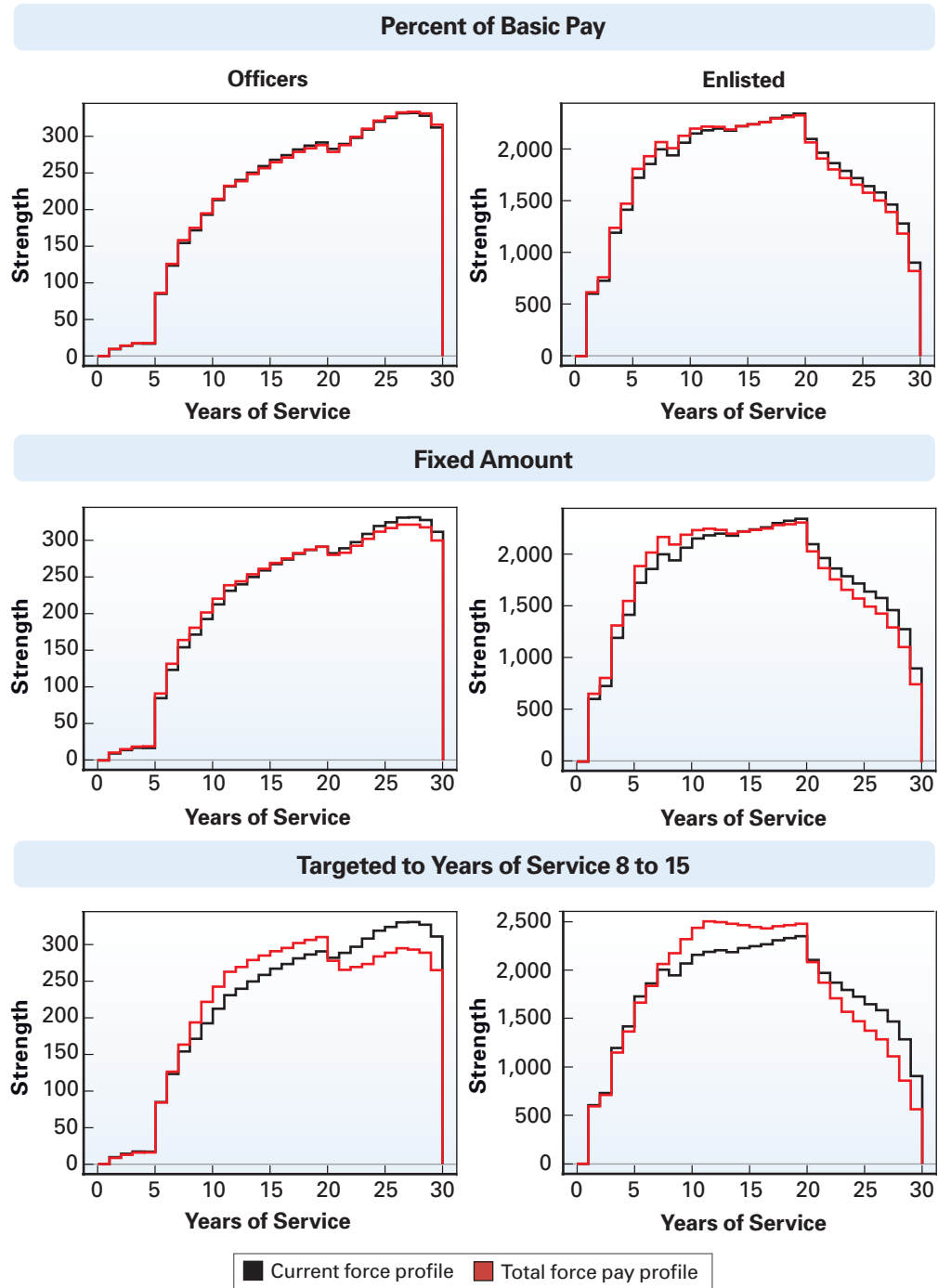
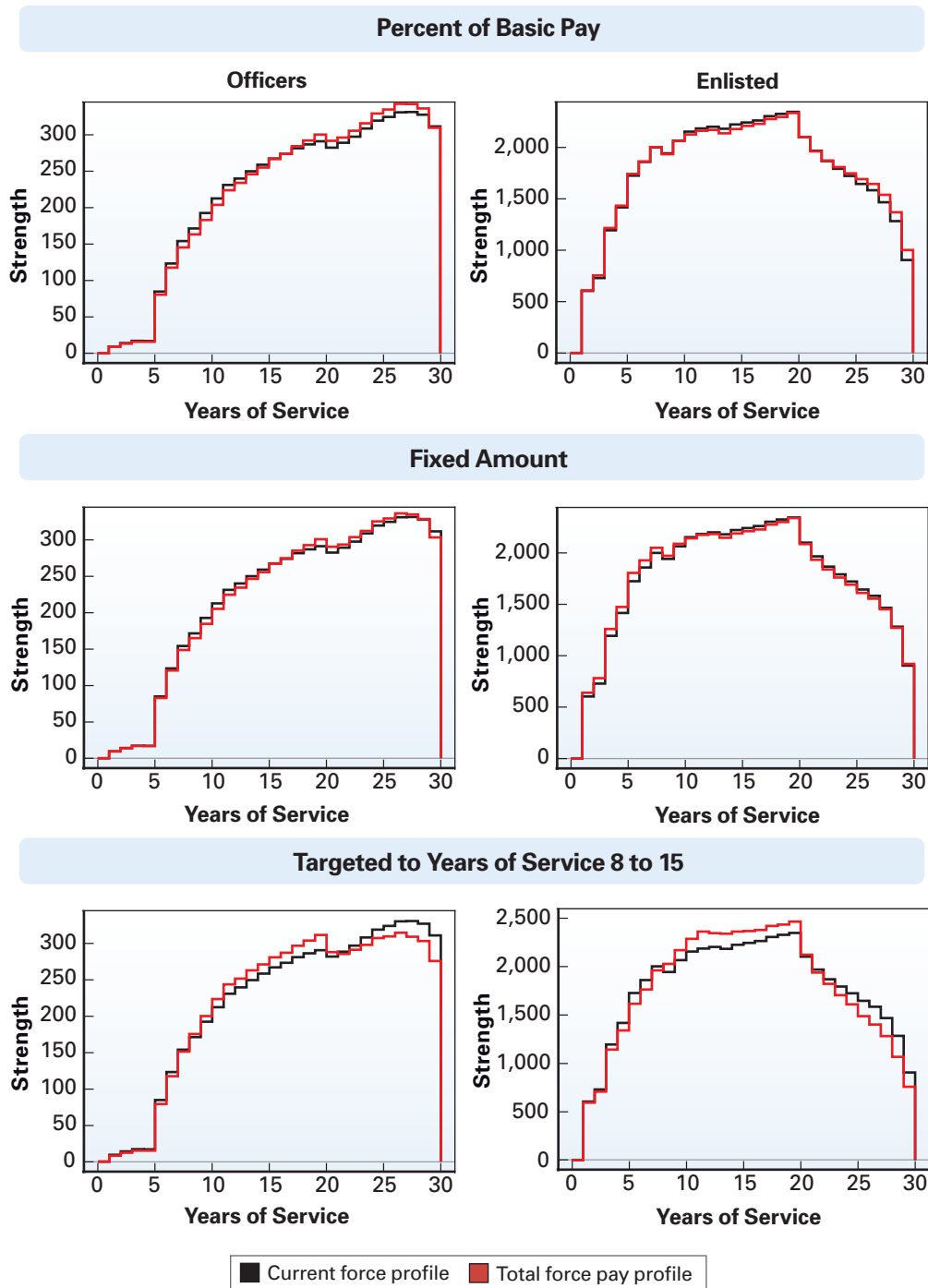


Figure B-4. Total Force Pay with Age-60 Retirement—Air Guard and Reserve



**Figure B-5. Incentive Pay Options with Total Force Pay and Age-60 Retirement—Air Guard and Reserve**



**Figure B-6. Incentive Pay Options with Total Force Pay and 30-Year Retirement—Air Guard and Reserve**

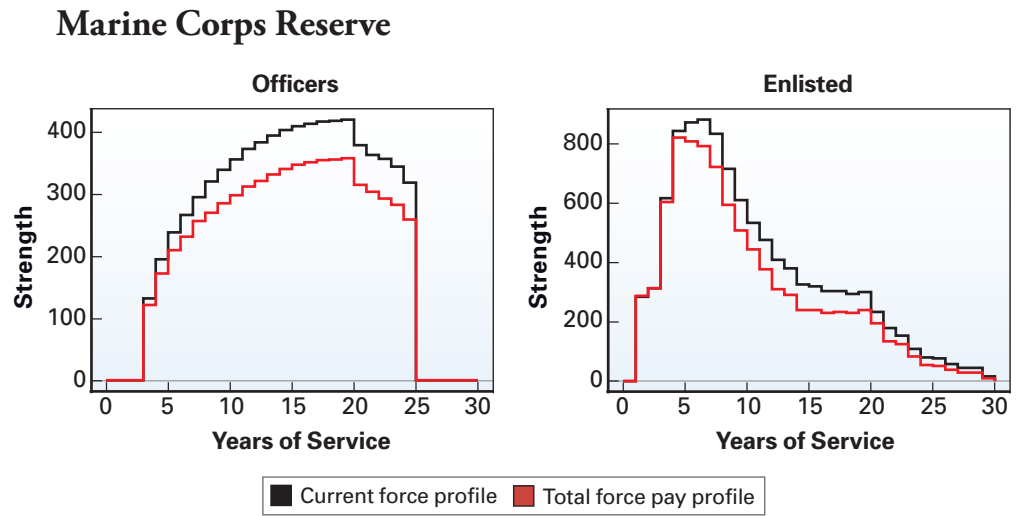
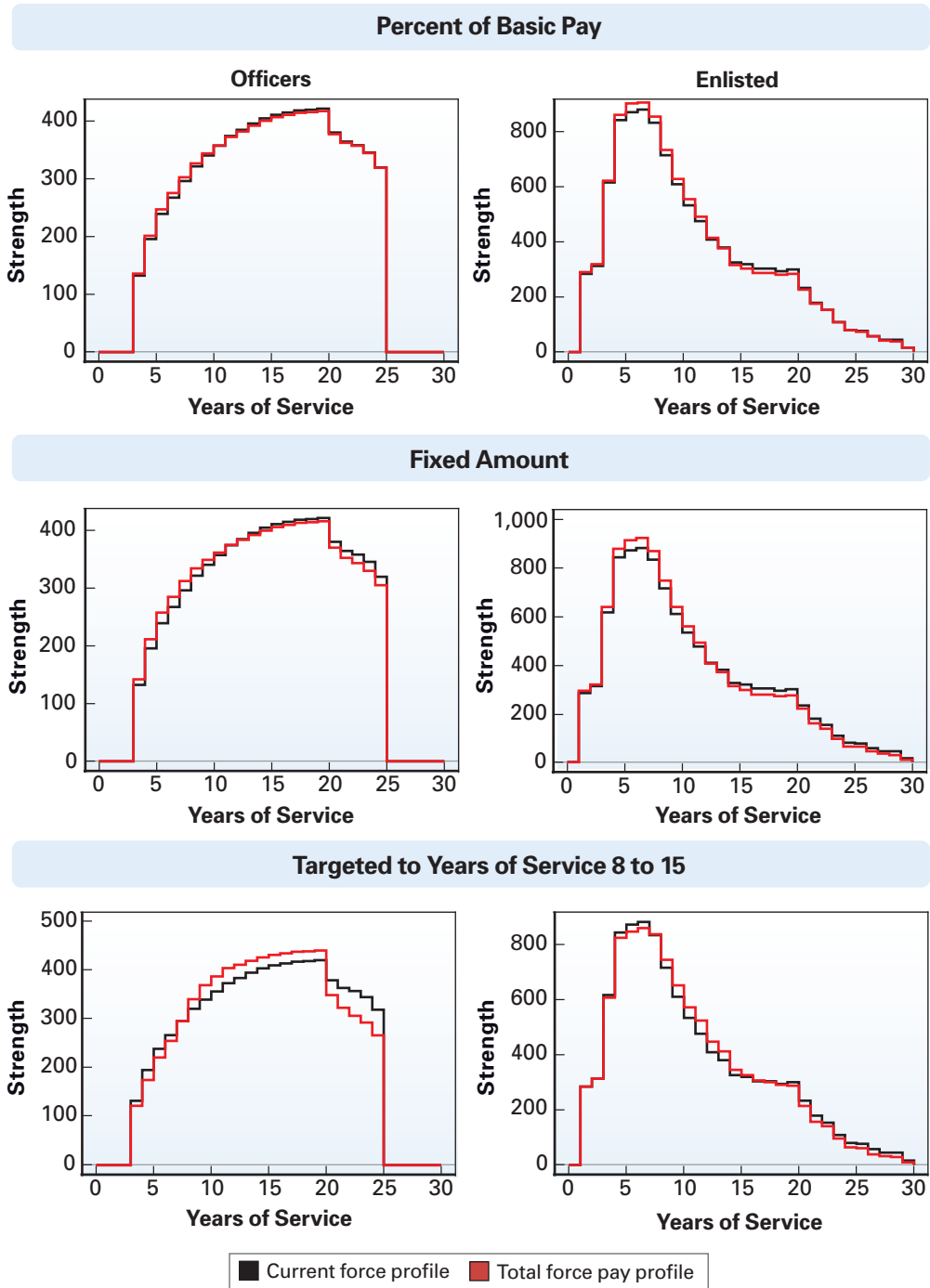


Figure B-7. Total Force Pay with Age-60 Retirement—Marine Corps Reserve



**Figure B-8. Incentive Pay Options with Total Force Pay and Age-60 Retirement—Marine Corps Reserve**



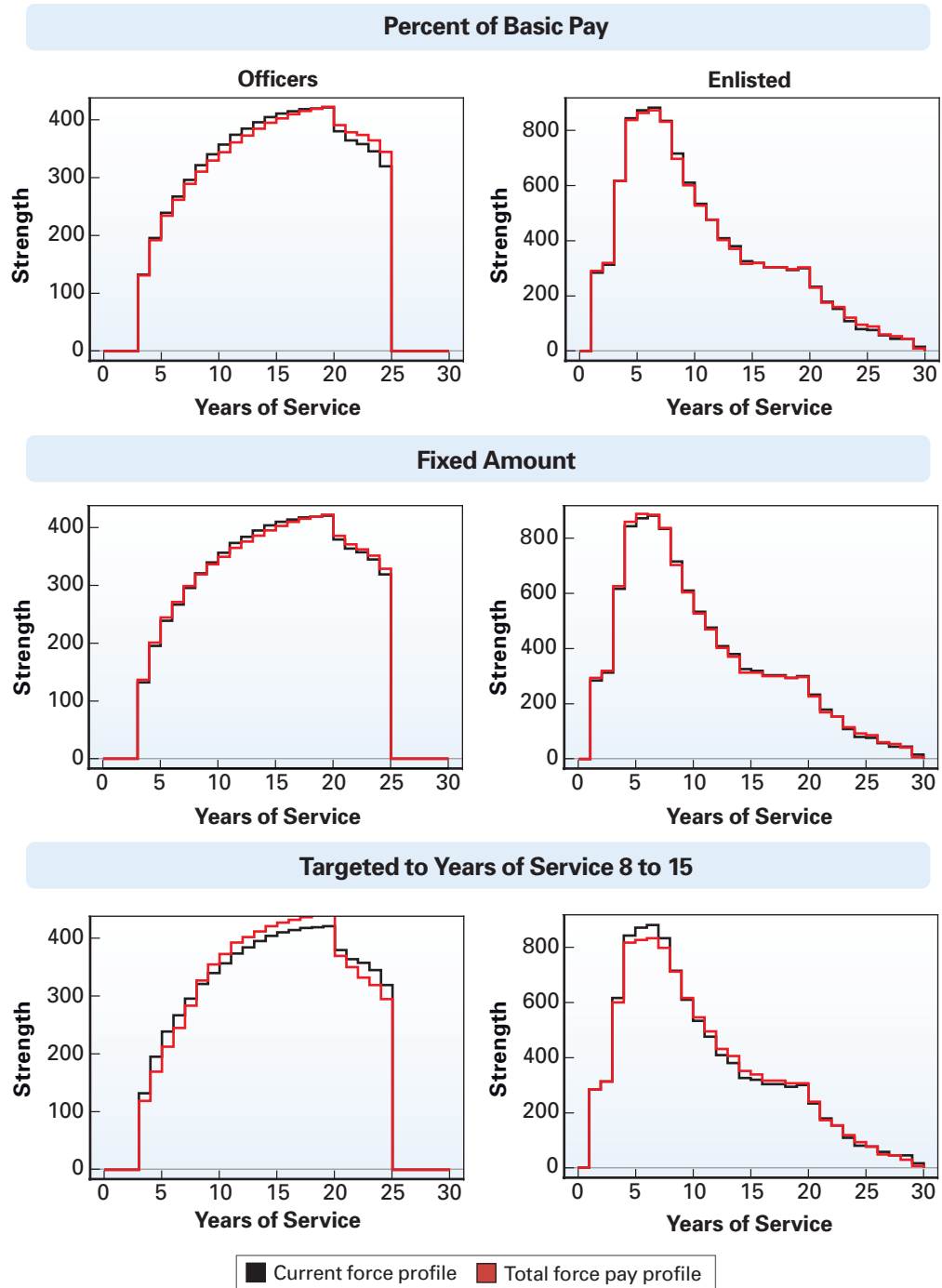


Figure B-9. Incentive Pay Options with Total Force Pay and 30-Year Retirement—Marine Corps Reserve

## Analysis of Alternative Retirement Annuities

The QRMC also conducted specific analysis of the impact on force size of two retirement programs for the reserve components. The first is the current active duty retirement system, which pays an immediate annuity if a member separates after 20 years of service. The second allows reserve component members to receive a retirement annuity after their 30<sup>th</sup> year of service, assuming they have accumulated 20 qualifying years. Figures B-10, B-11, and B-12 show the results of this analysis for the reserve components of the Navy, Air Force, and Marine Corps. Results for the Army are in Chapter 7.

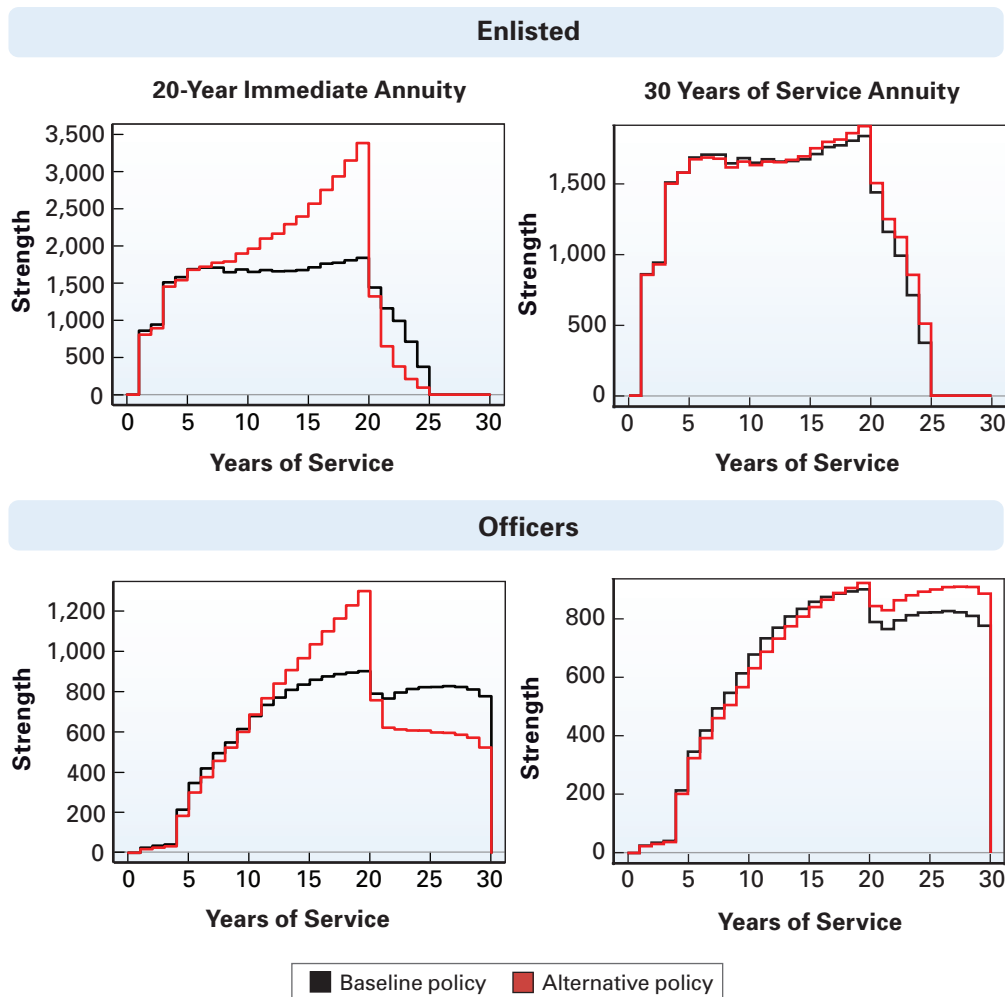


Figure B-10. Retirement Options—Navy Reserve

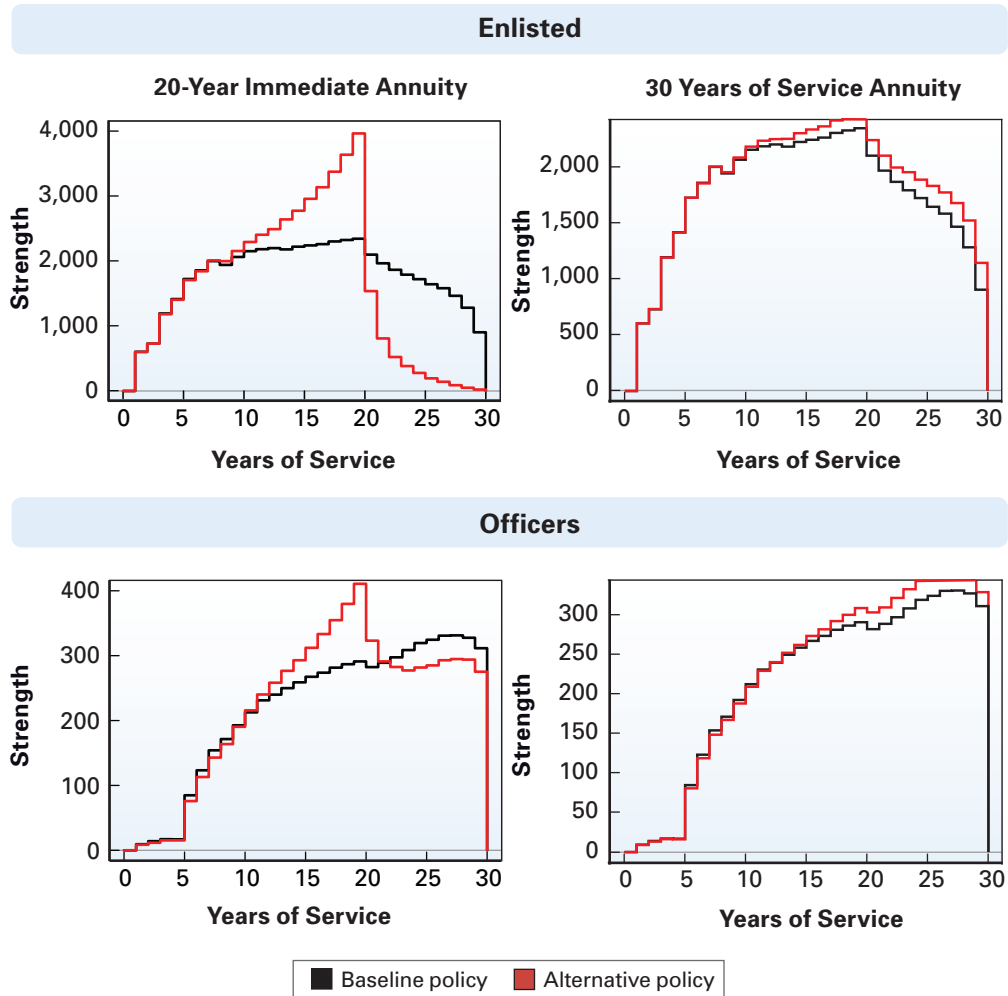


Figure B-11. Retirement Options—Air Guard and Reserve

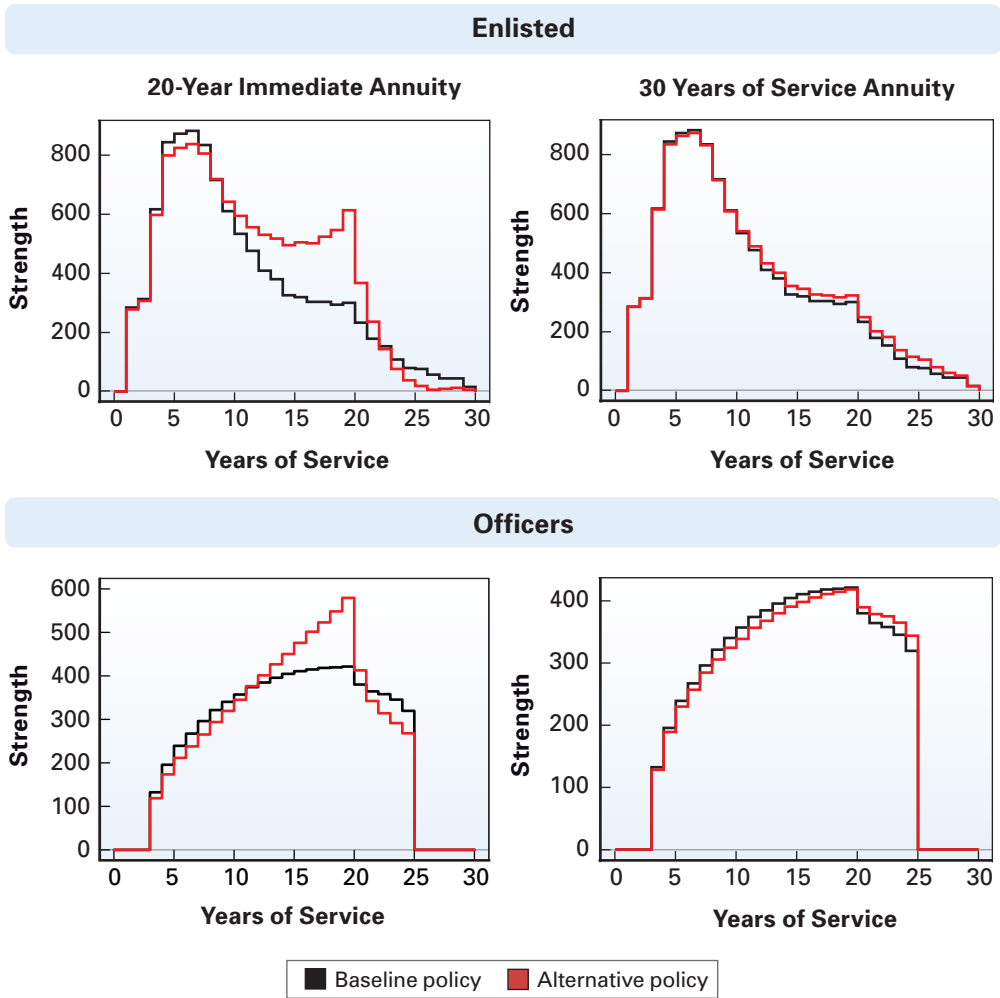


Figure B-12. Retirement Options—Marine Corps Reserve

## Appendix C

# Overview of Reserve Component Benefits

Chapter 8 introduces the benefits available to the members of the reserve components. This appendix includes further detail on these benefits, including eligibility for members and their dependents.

**Table C-1. Benefits for National Guard and Reserve Members, and Their Eligible Dependents**

Benefit	References	Description	National Guard and Reserve				Contingency Operation	Active
			Inactive Duty	Annual Training	Active Duty/ FTNGD 30 days or fewer	Active Duty/ FTNGD 31 days or more		
<b>Health Care</b>								
Medical and Dental Benefits: Member	10 USC 1074	Comprehensive care for members on active duty for more than 30 days	Not eligible	Not eligible	Not eligible	Yes	Yes	Yes
Medical and Dental Treatment: Member	10 USC 1074a	Treatment for injury, illness or disease incurred or aggravated in line of duty for members on active duty for 30 days or fewer or performing inactive duty	Yes	Yes	Yes	No	No	No
Medical Care (delayed-effective-date active-duty order)	10 USC 1074	Medical and dental care for reserve component members and dependents up to 180 days before commencement of active duty when the member is covered by an order to active duty in support of a contingency operation	No	No	No	No	Yes	No
Transitional Health Care	10 USC 1145	Medical and dental care for 180 days following release from active duty, or for 180 days following the diagnosis of the condition that was identified during the member's 180-day transition period (but only for the post-release condition)	No	No	No	Yes, if: • involuntarily separated from active duty • discharged because of sole survivorship • a member of the Individual Ready Reserve and agrees to serve in the Selected Reserve	Yes, if period of active duty is greater than 30 days	Yes, if: • involuntarily separated • separated and agrees to serve in the Selected Reserve • discharged because of sole survivorship
TRICARE Reserve Select (TRS)	10 USC 1076d	TRICARE for Selected Reserve members and their eligible dependents. Must not be eligible for, or enrolled in, the Federal Employees Health Benefits Program	Eligible	Eligible	Eligible	No (covered under comprehensive active duty health care)	No (covered under comprehensive active duty health care)	No

Source: United States Code (USC), Joint Federal Travel Regulations (JFTR), DOD Financial Management Regulation (FMR) 7000.14-R, DoD Directives (DoDD), DoD Instructions (DoDI).

Note: Current as of May 2012; FTNGD – full-time National Guard duty.

Table C-1. Benefits for National Guard and Reserve Members, and Their Eligible Dependents (Continued)

Benefit	References	Description	National Guard and Reserve					Active
			Inactive Duty	Annual Training	Active Duty/ FTNGD 30 days or fewer	Active Duty/ FTNGD 31 days or more	Contingency Operation	
TRICARE Dental Program: Member	10 USC 1076a	Premium-sharing, cost-sharing dental insurance program for reserve component members not on active duty for greater than 30 days	Eligible	Eligible	Eligible	No (covered under comprehensive active duty health care)	No (covered under comprehensive active duty health care)	Extended Active Duty
Medical Care: Dependents	10 USC 1076	TRICARE and space available care at a military treatment facility	No	No	No	Yes	Yes	Yes
TRICARE Dental Program: Dependents	10 USC 1076a	Premium-sharing, cost-sharing dental insurance program for dependents of active duty and reserve component members	Eligible					Eligible
TRICARE For Retirees	10 USC 1097	TRICARE plan options for retired members and their eligible dependents	Eligible, if receiving retired pay and under age 65					Eligible, if receiving retired pay and under age 65
TRICARE Retired Reserve (TRR)	10 USC 1076e DoDI 1241.03	A premium-based health plan under TRICARE for retired reserve component members under age 60 and their eligible dependents. Must not be eligible for, or enrolled in, the Federal Employees Health Benefits Program	Eligible	Eligible	Eligible	Eligible, but would have comprehensive health coverage while on active duty and TRR would be suspended	Eligible, but would have comprehensive health coverage while on active duty and TRR would be suspended	No
TRICARE For Life	10 USC 1086	TRICARE (as a second payer) for retirees who have both Medicare Parts A and B	Eligible, if enrolled in Medicare Parts A and B					Eligible, if enrolled in Medicare Parts A and B
<b>Educational Assistance</b>								
Montgomery GI Bill—Selected Reserve	10 USC, Ch 1606 DoDI 1322.17	Education financial support for members who agree to serve six years in the Selected Reserve	Eligible	Eligible	Eligible	Eligible, but if enrolled, entitlement would be suspended while on active duty	Eligible, but if enrolled, entitlement would be suspended while on active duty	Not eligible
Reserve Educational Assistance Program	10 USC, Ch 1607 DTM-08-040	Education financial support for Ready Reserve members called or ordered to active duty in response to a war or national emergency (contingency operation)	Not qualifying service	Not qualifying service	Not qualifying service	Not qualifying service	Yes	No

**Table C-1. Benefits for National Guard and Reserve Members, and Their Eligible Dependents (Continued)**

Benefit	References	Description	National Guard and Reserve					Active
			Inactive Duty	Annual Training	Active Duty/ FTNGD 30 days or fewer	Active Duty/ FTNGD 31 days or more	Contingency Operation	
Montgomery GI Bill—Active Duty	38 USC, Ch 30 DoDI 1322.16	Education financial support for members who did not decline Montgomery GI Bill and who fulfill the required number of months on active duty	Not qualifying service	Not qualifying service	Not qualifying service	May qualify if orders specify a minimum active duty service obligation of at least 24 months	May qualify if orders specify a minimum active duty service obligation of at least 24 months	Extended Active Duty May qualify for benefits
Post-9/11 GI Bill	38 USC, Ch 33 DTM-09-003	Education financial support and housing financial support for members with at least 90 days of aggregate service after September 10, 2001, or members discharged with a service-connected disability who served at least 30 days	Not qualifying service	Qualifying service only if ordered to active duty under 10 USC 12301(d)	Qualifying service only if ordered to active duty under 10 USC 12301(d) or full-time National Guard duty under 32 USC 502(f) as an Active Guard Reserve or for the purpose of responding to a national emergency	Qualifying service only if ordered to active duty under 10 USC 12301(d) or full-time National Guard duty under 32 USC 502(f) as an Active Guard Reserve or for the purpose of responding to a national emergency	Qualifying service	Qualifying service
Frye Scholarship	38 USC 3311	Post-9/11 GI Bill benefits for the children of members who died while serving on active duty	No	Yes, if meet eligibility criteria	Yes, if meet eligibility criteria	Yes, if meet eligibility criteria	Yes, if meet eligibility criteria	Yes, if meet eligibility criteria
Tuition Assistance	10 USC 2007 DoDD 1322.08E	Financial assistance for voluntary off-duty civilian education programs in support of a soldier's professional and personal self-development goals	Eligibility subject to availability of funding and service policy restrictions					Eligibility subject to availability of funding and service policy restrictions



Table C-1. Benefits for National Guard and Reserve Members, and Their Eligible Dependents (Continued)

Benefit	References	Description	National Guard and Reserve				Active
			Inactive Duty	Annual Training	Active Duty/ FTNGD 30 days or fewer	Active Duty/ FTNGD 31 days or more	
<b>Morale, Welfare, and Recreation (MWR)</b>							
Morale, Welfare, and Recreation Services	10 USC 1065 DoDI 1015.10	<b>Category A – Mission-Sustaining Programs:</b> Programs that promote physical and mental well-being such as physical fitness centers, aquatic training, libraries, recreational programs, quality-of-life programs, etc.	Eligible				Eligible
	DoDI 1015.10 DoDI 6060.2 DoDI 6060.3 DoDI 6060.4	<b>Category B – Basic Community Support Programs:</b> Programs that provide for the basic physiological and psychological needs of service members and their families with childcare and youth programs, community programs, outdoor recreation programs, recreational skill programs, bowling, intramural sports programs, etc.	Eligible, but availability may be limited for child care services				Eligible, but availability may be limited for child care services
	DoDI 1015.10 DoDI 1015.11 DTM-07-023 (lodging)	<b>Category C – Revenue-Generating Programs:</b> Programs that provide recreational activities such as lodging and hospitality, and special interest programs such as flying, rod and gun, scuba diving, bowling, golf, base theater, etc.	Eligible				Eligible
<b>Commissary and Exchange</b>							
Commissary Privileges	10 USC 1063 10 USC 1064 DoDI 1330.17 DoDI 1330.21	A worldwide system of stores that sells food and other merchandise at reduced prices to eligible patrons	Unlimited				Unlimited
Military Exchange Privileges	DoDI 1330.9	A worldwide system of stores that sells merchandise at reduced prices to eligible patrons	Unlimited				Unlimited

Table C-1. Benefits for National Guard and Reserve Members, and Their Eligible Dependents (Continued)

Benefit	References	Description	National Guard and Reserve				Active
			Inactive Duty	Annual Training	Active Duty/ FTNGD 30 days or fewer	Active Duty/ FTNGD 31 days or more	
<b>Miscellaneous</b>							
<i>Insurance</i>							
Servicemembers' Group Life Insurance (SGLI)	38 USC 1965 et seq. FMR, Vol 7A, Ch 47 DVA SGLI Handbook H-29-98-1	Term life insurance policy available to military members	Eligible for full-time coverage if assigned to a unit/position which requires active duty or training and each year will be scheduled to perform at least 12 periods of inactive duty training	Eligible for full-time coverage if assigned to a unit/position which requires active duty or training and each year will be scheduled to perform at least 12 periods of inactive duty training	Eligible for full-time coverage if assigned to a unit/position which requires active duty or training and each year will be scheduled to perform at least 12 periods of inactive duty training	Eligible for full-time coverage	Eligible for full-time coverage
Traumatic Servicemembers' Group Life Insurance (TSGLI)	38 USC 1980A FMR, Vol 7A, Ch 47 DVA SGLI Handbook H-29-98-1	Insurance benefit payment for severely injured members	Automatically covered while in service	Automatically covered while in service if member has SGLI	Automatically covered while in service if member has SGLI	Automatically covered while in service if member has SGLI	Automatically covered while in service if member has SGLI
Family Servicemembers' Group Life Insurance	38 USC 1965 et seq. FMR, Vol 7A, Ch 47 DVA SGLI Handbook H-29-98-1	Term life insurance for the spouse and unmarried dependent children of members insured under SGLI	Eligible, if a member of the Selected Reserve	Eligible, if a member of the Selected Reserve	Eligible, if a member of the Selected Reserve	Eligible, if a member of the Selected Reserve	Eligible, if member has SGLI
Long-term Care Insurance	5 USC, Ch 90	Insurance to help pay for the cost of long-term care services at home, in a nursing home, or at a long-term care facility	Eligible, if a member of the Selected Reserve	Eligible, if a member of the Selected Reserve	Eligible, if a member of the Selected Reserve	Eligible, if on active duty for more than 30 days, otherwise eligible if a member of the Selected Reserve	Eligible

**Table C-1. Benefits for National Guard and Reserve Members, and Their Eligible Dependents (Continued)**

Benefit	References	Description	National Guard and Reserve				Contingency Operation	Active
			Inactive Duty	Annual Training	Active Duty/ FTNGD 30 days or fewer	Active Duty/ FTNGD 31 days or more		
<i>Leave and Liberty</i>								
Leave; Chargeable	DoDI 1327.06	Leave accrued at a rate of 2 ½ days per month	No leave is accrued	No leave is accrued	No leave is accrued	Yes, may carry any accumulated leave to the next period of active service subject to leave accrual limit	Yes, may carry any accumulated leave to the next period of active service subject to leave accrual limit	Yes
Leave; Non-Chargeable	DoDI 1327.06	Leave that is not charged to the leave balance includes convalescent, maternity, recruiting assistance program, adoption, paternity, graduation, and excess leave	No	Possibly for certain types of leave	Possibly for certain types of leave	Yes	Yes	Yes
Payment for Unused Leave	37 USC 501 FMR, Vol 7A, Ch 35	Paid at the daily basic pay rate for each day of leave	No	No, unless selling leave accrued during a previous period of active service	No, unless selling leave accrued during a previous period of active service	Yes	Yes	Yes
Liberty (pass)	DoDI 1327.06	Authorized absence, not chargeable as leave, granted for short periods, not to exceed three days unless the president authorized four days	No	Yes	Yes	Yes	Yes	Yes
Administrative Absence	DoDI 1327.06	A period of absence not charged as leave for events such as professional development, legal witness, house hunting, competing in sporting events, etc.	No	Possibly for some purposes	Possibly for some purposes	Yes	Yes	Yes

**Table C-1. Benefits for National Guard and Reserve Members, and Their Eligible Dependents** (Continued)

Benefit	References	Description	National Guard and Reserve					Active
			Inactive Duty	Annual Training	Active Duty/ FTNGD 30 days or fewer	Active Duty/ FTNGD 31 days or more	Contingency Operation	
Post-Deployment Mobilization Respite Absence (PDMRA)	DoDI 1327.06	Days of administrative absence awarded to members who are deployed or mobilized beyond established DOD rotation frequency thresholds	No	No	No	No	Yes, under certain circumstances, a reserve component member may be paid for each PDMRA day a rate of \$200/day in lieu of administrative absence days	Yes
<i>Travel and Legal Assistance</i>								
Space-Available Travel	DoD 4515.13-R	Travel on DOD aircraft, at no cost to the traveler, after all space-required passengers have been accommodated	Member only (only in the continental United States and territories)	Eligible, except for members of the Standby Reserve in an inactive status	Eligible, except for members of the Standby Reserve in an inactive status	Eligible	Eligible	Eligible
Space-Required Travel	10 USC 8505 DoD 4515.13-R	Mission essential travel on DOD aircraft	Yes, when traveling to inactive duty training	Yes, when traveling to active duty for training	Yes, when traveling to active duty for training or under official PCS, TDY, or TAD orders	Yes, when traveling to active duty for training or under official PCS, TDY, or TAD orders	Yes, when traveling under official PCS, TDY, or TAD orders	Yes, when traveling under official PCS, TDY, or TAD orders
City Pair Travel Program	10 USC 12603 DoDI 4515.16	Selected Reserve members may use the General Services Administration City Pair Program to obtain commercial air transportation at the government rate for travel to the inactive duty training sites	Yes	No	No	No	No	No

**Table C-1. Benefits for National Guard and Reserve Members, and Their Eligible Dependents (Continued)**

Benefit	References	Description	National Guard and Reserve					Active
			Inactive Duty	Annual Training	Active Duty/ FTNGD 30 days or fewer	Active Duty/ FTNGD 31 days or more	Contingency Operation	
Legal Assistance	10 USC 1044 DoDD 1350.4	Assistance in preparing legal documents in connection with the member's personal civil legal affairs	Yes, subject to availability of legal staff	Yes, subject to availability of legal staff	Yes, subject to availability of legal staff	Yes, subject to availability of legal staff	Yes, subject to availability of legal staff	Yes, subject to availability of legal staff
							Yes, subject to availability of legal staff; if ordered to active duty for more than 30 days under a mobilization authority, eligible for legal assistance for not less than twice the length of active duty following release	



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# Glossary

10 <sup>th</sup> QRMC	Tenth Quadrennial Review of Military Compensation
11 <sup>th</sup> QRMC	Eleventh Quadrennial Review of Military Compensation
ACIP	Aviation Career Incentive Pay
ADL	activities of daily living
AIP	Assignment Incentive Pay
AP	Aviator Pay
BAH	Basic Allowance for Housing
BAS	Basic Allowance for Subsistence
BEAR	Bonus Extension and Retraining
CEFIP	Career Enlisted Flyer Incentive Pay
CI/HUMINT	counter intelligence/human intelligence
CNGR	Commission on the National Guard and Reserves
CRDP	Concurrent Retirement and Disability Pay
CRSC	Combat Related Special Compensation
CSAB	Critical Skills Accession Bonus
CSRB	Critical Skills Retention Bonus
CZTE	Combat Zone Tax Exclusion
DES	Disability Evaluation System
DIC	Dependency and Indemnity Compensation
DLPT	Defense Language Proficiency Test
DOD	U.S. Department of Defense
DoDD	Department of Defense Directive
DoDI	Department of Defense Instruction
EAP	Enlisted Aviator Pay
FICA	Federal Insurance Contributions Act
FLPB	Foreign Language Proficiency Bonus
FMR	Financial Management Regulation
FTNGD	full-time National Guard duty

FY	fiscal year
GAO	U.S. Government Accountability Office
GRB	Graduated Retention Bonus
HFP	Hostile Fire Pay
HFP/IDP	Hostile Fire Pay/Imminent Danger Pay
IDES	Integrated Disability Evaluation System
IDP	Imminent Danger Pay
IDT	inactive duty for training
ILR	Interagency Language Roundtable
IRR	Individual Ready Reserve
JFTR	Joint Federal Travel Regulations
MAVNI	Military Accessions Vital to the National Interest
MGIB-AD	Montgomery GI Bill-Active Duty
MGIB-SR	Montgomery GI Bill-Selected Reserve
MOS	military occupational specialty
MTF	military treatment facility
MWR	morale, welfare, and recreation
PCS	permanent change of station
PDMRA	Post Deployment Mobilization Respite Absence
PPACA	Patient Protection and Affordable Care Act
PRC	Presidential Reserve Call-up
PTSD	post-traumatic stress disorder
QRMC	Quadrennial Review of Military Compensation
REAP	Reserve Educational Assistance Program
RMC	Regular Military Compensation
RPA	Remotely Piloted Aircraft
RPAIP	Remotely Piloted Aircraft Incentive Pay
RPV	remotely piloted vehicle
RSFPP	Retired Serviceman's Family Protection Plan



S&I	special and incentive
SBP	Survivor Benefit Plan
SCAADL	Special Compensation for Assistance with Activities of Daily Living
SDAP	Special Duty Assignment Pay
SGLI	Servicemembers' Group Life Insurance
SOF	special operations forces
SRB	Selective Reenlistment Bonus
SSC	small-scale contingencies
SSDI	Social Security Disability Insurance
SSIA	Special Survivor Indemnity Allowance
TAD	temporary active duty
TDRL	Temporary Disability Retired List
TDY	temporary duty
TRR	TRICARE Retired Reserve
TRS	TRICARE Reserve Select
TSGLI	Traumatic Injury Protection under Servicemembers' Group Life Insurance
TSP	Thrift Savings Plan
USC	United States Code
USSOCOM	U.S. Special Operations Command
VA	U.S. Department of Veterans Affairs
VASRD	Veterans Affairs Schedule for Rating Disabilities





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