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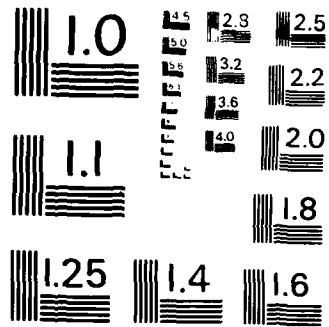
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STUDY BY THE STAFF OF THE U.S.

General Accounting Office

Military And Federal Civilian Disposable Income Comparisons And Extra Pays Received By Military Personnel

Special features of the military pay system, such as the nontaxable components and noncontributory health and retirement benefits, allow military personnel to take home a higher percentage of their gross earnings than federal civilian employees. Military personnel can also more easily establish and keep their legal residences in states which do not tax military pay and thus further their relative disposable income.

In addition, a large percentage of career military personnel receive pay in addition to their basic military compensation--some as much as an additional \$12,000 annually.

GAO believes comparisons of military and civil service disposable incomes can provide useful insights and a frame of reference, but such comparisons do not support specific conclusions about the adequacy, inadequacy, or generosity of compensation levels under either system.

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

NATIONAL SECURITY AND
INTERNATIONAL AFFAIRS DIVISION

B-215107

MAY 9, 1984

The Honorable J. James Exon
Ranking Minority Member
Subcommittee on Manpower and Personnel
Committee on Armed Services
United States Senate

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Dear Senator Exon:

Enclosed are 2 copies of a study you requested on September 9, 1982, regarding a comparison of U.S. military and federal civil service disposable incomes and the extent to which military personnel receive pay in addition to their basic military compensation.

The study shows that certain features of the military compensation system, such as nontaxable allowances and noncontributory retirement and health care programs, allow military personnel to enjoy a somewhat higher disposable income than do civil servants who receive roughly equivalent gross compensation. The study also shows that a rather large percentage of military personnel receive one or more compensation items over and above basic military compensation.

This study provides useful insights into pay system differences and how these differences may affect disposable income. However, we would caution against drawing specific conclusions about the adequacy or inadequacy of pay levels under either the military or civil service system. Other issues not examined in this study, such as comparable work and responsibility levels, the supply of and demand for quality people, and conditions associated with military life, should also be weighed in making judgments about pay adequacy.

As agreed with your office, we do not plan any further distribution of this staff study for 14 days from the date of issuance, unless you release its contents earlier. At that time we will send copies to the Director, Office of Management and Budget; the Secretaries of Defense, Army, Navy, and Air Force; the Chairmen, Subcommittees on Defense, House and Senate Committees on Appropriations, Subcommittee on Manpower and

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Personnel, Senate Committee on Armed Services, Subcommittee on Military Personnel and Compensation, House Committee on Armed Services; and other interested parties.

Sincerely yours,



Frank C. Conahan
Director

Enclosures - 2

PREFACE

This staff study, provides information on (1) how regular military compensation translates into take-home pay and how military take-home pay compares with civil service take-home pay for similar gross income levels and (2) the extent to which military members receive various pay and allowance items in addition to their basic military compensation. Comparisons of military and civil service disposable incomes can provide useful insights and a frame of reference, but such comparisons do not support specific conclusions about the adequacy, inadequacy, or generosity of compensation levels under either system.

Data contained herein was obtained primarily from the military services' finance centers and from the Defense Manpower Data Center. We tested the data for reasonableness, but this study did not include an audit of the Department of Defense data systems.

The study was done at the request of Senator J. James Exon, as the Ranking Minority Member of the Subcommittee on Manpower and Personnel, Senate Committee on Armed Services. Copies of this study are also being sent to the Director, Office of Management and Budget; the Secretaries of Defense, Army, Navy, and Air Force; the Chairmen, Subcommittees on Defense, House and Senate Committees on Appropriations, Subcommittee on Manpower and Personnel, Senate Committee on Armed Services, Subcommittee on Military Personnel and Compensation, House Committee on Armed Services, and other interested parties.

Frank C. Conahan
Frank C. Conahan
Director
National Security and
International Affairs
Division



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STUDY BY THE STAFF OF THE
U.S. GENERAL ACCOUNTING
OFFICE

MILITARY AND FEDERAL CIVILIAN
DISPOSABLE INCOME COMPARISONS
AND EXTRA PAYS RECEIVED BY
MILITARY PERSONNEL

D I G E S T

Military compensation is a complex patchwork of over 40 different pays and allowances, plus a multitude of supplemental benefits. Some components are taxable, some are not; some are based on need as well as rank and length of service; some are provided in-kind rather than in cash; and some, such as the so-called tax advantage, are imputed and are different for almost every service member. This study does not unravel all these complexities, but it does provide information on how

- special features of the system enhance the disposable income value of regular military compensation (defined as the sum of basic pay, housing and subsistence allowances, and the tax advantage on the tax-free allowances);
- military disposable income compares with that of federal civil servants who receive about the same amount of gross pay; and
- extra pays and allowances received by a large percentage of career personnel add to their basic compensation.

PERSPECTIVE

Adoption of an all-volunteer force policy in the early 1970s greatly increased the importance of compensation as a means of competing in the labor market for the quantity and quality of people needed by the Armed Forces. Some modifications have been made, but overall, the pay system has changed little over the past decade. It is still of necessity very complex, according to Defense officials. Consequently,

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determining how much individual service members are paid, what this means in disposable income, and how military disposable income compares with that produced by other pay systems is elusive to both those who establish military pay policy and those paid under the system. (See pp. 1 to 8.)

FEATURES AFFECTING DISPOSABLE INCOME

Unlike many compensation systems, the military's includes features, such as free housing and meals--or tax-free allowances in lieu thereof--free medical care, and a non-contributory retirement plan, all of which enhance disposable income. Also, many career personnel do not pay state income taxes on military pay because of the Soldiers' and Sailors' Civil Relief Act of 1940; this too can enhance disposable income.

Defense officials said that, on the negative side, service members move frequently and often are not fully reimbursed for the cost of the move; they often pay more for housing than civilians because of the frequent moves; and, for the same reason, military spouses have more difficulty establishing careers. Also, during unaccompanied tours service members must maintain two households, although they do receive a family separation allowance to defray these extra expenses. (See pp. 11 to 12.)

HOW DISPOSABLE INCOMES COMPARE

Pay comparisons can be viewed from many perspectives, and to make them requires the use of several simplifying assumptions. This study compares regular military compensation for the Washington, D.C., area, and the resulting disposable income with that of federal civilian employees having an approximate equivalent gross salary.

Key assumptions--while not necessarily representative of typical civilian or military personnel, especially at higher grade levels--were that individuals (1) had no other family income, (2) used the standard deduction for calculating federal and state income taxes, (3) were living in a state which taxes personal income, and (4) were paying taxes in that state. In comparing disposable incomes, GAO excluded the

special and incentive pays which many military personnel receive.

As illustrated, military personnel receiving roughly the same gross income as federal civil servants retain a higher percentage as disposable income. For this comparison, military gross income is defined as regular military compensation which includes both basic and variable housing allowances.

	<u>Gross Income</u>	<u>Disposable Income</u>	<u>Percentage</u>
Colonel/Navy Captain (O-6)	\$62,249	\$40,849	65.6
Civilian--Executive Level V	63,800	36,640	57.4
Major/Lieutenant Commander (O-4)	46,223	32,663	70.7
Civilian--GS-14 step 4	45,405	28,465	62.7
Enlisted Grade E-3	14,341	11,627	81.1
Civilian--GS-5 step 4	14,707	10,238	69.6

These comparisons use pay rates in effect through December 1983 and do not reflect the January 1984 4-percent pay increase for military and the 3.5-percent increase for federal civilian personnel. (See pp. 12 to 17 and app. IV.)

Defense officials objected to comparing military and federal civil service compensation, stating that such comparisons are not germane for determining appropriate pay levels. They suggested that comparisons with the private sector compensation system might be more meaningful.

GAO agrees that a comparison of military and federal civil service gross and disposable income levels is not, by itself, a reliable guide for setting pay levels, but such comparisons can provide a frame of reference. GAO also agrees that comparisons with private sector jobs having equivalent levels of work, experience, and responsibility might be more relevant. However, Defense currently does not obtain such information, and officials stated that they saw little practical value in obtaining it.

EXTRA PAYS AUGMENT
BASIC COMPENSATION

Basic compensation is the backbone of the pay system, but many different special pays and allowances serve specific recruiting, retention, or other purposes. Defense reports on the number of personnel receiving any one particular extra pay. Some individuals, however, receive more than one extra pay item and, added together, these extra pay items can substantially augment a member's total pay.

Data show that 62 and 53 percent of all Navy and Air Force personnel, respectively, received some cash pay in addition to basic compensation. Most of the personnel not receiving additional cash pay received rent-free housing. (The Army data were incomplete and cannot be compared with Navy and Air Force data.)

Career personnel were the major recipients of additional cash pay. To illustrate,

--72 percent of Navy Captains and 54 percent of Air Force Colonels (grade 0-6) received more than \$2,400 a year in additional pays and some more than an additional \$9,600;

--90 percent of Navy Lieutenant Commanders and 85 percent of Air Force Majors (grade 0-4) received some pay in addition to basic compensation--a small percentage receiving more than an additional \$12,000 per year; and

--80 percent of Navy and 54 percent of Air Force enlisted E-5s received additional pay, with 26 percent of Navy personnel at this grade receiving more than an additional \$2,400. (See pp. 23 to 31.)

SUMMARY

Military compensation has many components which provide less-than-obvious enhancements

to disposable income. Among the more prominent are housing and food allowances, a tax advantage, favorable state tax laws, a noncontributory retirement plan, and free health care. When the value of these enhancements is taken as a whole, the disposable income of military members is higher than it appears to be at first glance.

Pays which augment basic compensation add substantially to members' gross earnings. Prominent among these are enlistment and reenlistment bonuses, aviation and medical pays and bonuses, and sea and foreign duty pay. Because some members receive more than one extra pay, the combined value augmented basic compensation by as much as 40 percent in some instances. Although these high percentage increases are the exception rather than the rule, this study shows that many career personnel receive supplemental pays.

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<u>ABBREVIATIONS</u>	
AVF	all-volunteer force
BAQ	basic allowance for quarters
BMC	basic military compensation
CHAMPUS	Civilian Health and Medical Program of the Uniformed Services
DOD	Department of Defense
FICA	Federal Insurance Contribution Act
GAO	General Accounting Office

RMC regular military compensation

VHA variable housing allowance

YOS years of service

CHAPTER 1

INTRODUCTION

Probably few subjects are more thoroughly discussed, and less understood, by military members than military compensation. What does it include or not include? And what is it worth in spendable income to individual members? This lack of understanding is not limited to military members. Legislators involved in establishing compensation policy have also expressed concern about the complexity of the compensation system and uncertainty about how much compensation service members actually receive and how the special features of the military pay system affect disposable income. Until there is a better understanding of what compensation value the present complex and interactive system produces, decisionmakers will be limited in their ability to deal with the more important question of how much military members should be paid in return for the jobs they perform, and individuals may make decisions about military service based on inaccurate perceptions of the value of military compensation. Perceptions can be particularly important if individuals believe military compensation to be worth less than its true value because that unrecognized portion is of little value as an attraction, retention, or motivational incentive.

Over the past three decades, numerous eminent study groups¹ have evaluated the military pay system or parts of it and have recommended changes, generally aimed at simplifying the system and making it more cost-effective. Yet, there have been relatively few changes to make the system more understandable and virtually no fundamental or conceptual reform of the overall pay structure to make it a more flexible, cost-effective, and efficient personnel management tool. A former Assistant Secretary of Defense for Manpower, Reserve Affairs and Logistics succinctly described the problem as follows:

"We embraced all-volunteer manning with a compensation and incentive structure that is long on tradition but short on flexibility, ill-suited in key respects as a

¹The Hook Commission (1948); Cordiner Committee (1957); Gorham Committee and Randall Panel (1962); Folsom Panel (1965); First, Second, and Third Quadrennial Reviews of Military Compensation (1967, 1971, and 1976); and President's Commission on Military Compensation (1978). In addition, compensation was a major issue for both the Gate's Commission (1970) and the Defense Manpower Commission (1976).

manpower management tool, and poorly tailored to meet the needs of many of our members."²

In the past, we have supported and recommended fundamental reforms in the military compensation system.³ We still believe that changes are needed, but the purpose of this study is not to reiterate those recommendations. Instead, its purpose is to provide information on the (1) complex and interacting components of the compensation system, (2) actual amounts being paid to individual members, and (3) special features of the military pay system that affect disposable income levels. Although this study does not specifically analyze how noncompensation issues, such as the extent of unreimbursed cost of frequent permanent-change-of-station moves, affect disposable income, it recognizes that these issues are important to individuals when deciding for or against a military career.

CURRENT PAY SYSTEM IN PERSPECTIVE

Since the Department of Defense (DOD) switched from conscription to an all-volunteer force (AVF) in 1973, the armed forces' supply of military personnel has been almost entirely dependent on conditions of the labor marketplace. Thus, compensation policy has taken on a much more significant role in attracting and retaining the right number, quality, and mix of skills needed. Compensation policy was also important during the draft-era in retaining the correct quantity and quality of people in the career force, but because first-term personnel are now more expensive relative to the career force, concerns about retention and the role compensation policy plays in this process have become increasingly more important.⁴

Despite its more important role, the basic structure of the military compensation system has changed very little to become more responsive to marketplace conditions. Overall, the compensation system, including basic pay and allowances and the retirement components, is characterized by rigidity and an inability to economically and effectively respond to changes in

²A Conversation with Robert Pirie; The Manpower Problems of the 1980's, American Enterprise Institute (1981), p. 13.

³See list of our prior reports and congressional testimony in appendix I.

⁴See, for example, Richard V. L. Cooper, Military Manpower and the All-Volunteer Force, The Rand Corporation, R-1450-ARPA, (Sept. 1977).

the labor market.⁵ Now, as in the past, the system includes three basic components: (1) regular military compensation (RMC), (2) special and incentive pays, and (3) supplemental benefits and allowances.

While the overall compensation structure did not change with the advent of the AVF, DOD representatives told us that changes were made to improve recruiting and retention. These changes included

- a very substantial pay increase in 1971--of up to 100 percent--for the lowest enlisted and officer grades as part of the AVF transition process;
- institution of an enlistment bonus program in 1971;
- changes in the reenlistment bonus program in 1974 from paying everyone who reenlists to paying only those in critical skills; and
- substantial increases and restructuring of various special incentive pays, such as aviation career incentive pay, sea pay, submarine pay, and physicians' pay.

These modifications to the compensation system do offer military personnel managers some added flexibility in responding to changes in relevant labor markets. However, as shown in the following table, the special and incentive pays--including the selective bonus programs--still represent only a small proportion of total military personnel costs. Furthermore, even within this group of special and incentive pays are some fixed entitlements, such as aviation career incentive pay, which are paid on the basis of eligibility criteria rather than relevant labor market conditions.

The major elements of the military compensation system and the estimated cost of each for fiscal year 1983 are shown in the following table.

⁵For a more complete discussion of this issue, see The Use of Monetary Recruitment and Retention Incentives, our testimony presented to the Subcommittee on Manpower and Personnel, Senate Committee on Armed Services, November 19, 1981.

Estimated Cost Of Military Personnel
For Fiscal Year 1983 (note a)

Regular military compensation	(millions)
Basic pay	\$27,067.4
Basic housing allowance	3,441.5
Variable housing allowance	881.0
Station allowance overseas	420.1
Housing in-kind	2,196.5 ^b
Subsistence allowance	2,226.2
Subsistence in-kind	815.3
Tax advantage	<u>2,643.0^c</u>
Total	<u>39,691.0</u>
Special and incentive pay	
Aviation career incentive pay	251.5
Aviation officer continuation bonus	42.6
Submarine duty pay	69.8
Parachute pay	31.1
Other incentive and hazardous duty pays	56.1
Physicians, dentists, and other medical pays	233.4
Nuclear officer pay	13.1
Sea and foreign duty pay	251.8
Diving duty pay	9.4
Reenlistment bonuses	355.1
Enlistment bonuses	122.1
Proficiency pay	48.6
Other special pays	<u>8.3</u>
Total	<u>1,492.9</u>
Supplemental Benefits and Allowances	
Clothing allowance	410.6
Family separation allowance	55.3
Social security contribution	1,791.7
Separation payments	300.2
Payments to retired members	15,465.0 ^d
Commissaries and exchanges	860.0
Medical care	3,379.9 ^e
Survivor benefit programs	464.9
Veterans' educational assistance program	<u>52.6</u>
Total	<u>22,780.2</u>
Total	<u>\$63,964.1^a</u>

(See footnotes on p.5)

- ^aThis estimated cost of military personnel does not include outlays of about \$24.5 billion by the Veterans Administration; \$15.6 billion of which was for direct post-service benefit programs and \$7.8 billion for veterans medical programs.
- ^bThis estimate includes the fiscal year 1983 cost of operating, maintaining, and leasing family housing. DOD spent an additional \$818.2 million in fiscal year 1983 to construct both family housing and unaccompanied personnel housing.
- ^cTax advantage is the amount of additional cash income service members would need to maintain their current take-home pay if all regular military compensation were subject to federal income taxes. The cost of the tax advantage is not reflected in the budget.
- ^dThis is the estimated cost, on a pay-as-you-go basis, of paying retirement benefits to current military retirees. It does not represent the accrued liability being incurred by DOD for retirement benefits earned by military members currently on active duty.
- ^eThis is the estimated cost of providing support for worldwide medical and dental services to active forces and other eligible beneficiaries; veterinary services; medical command headquarters and the costs associated with the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS), which provides for the health care of active duty dependents, retired members, and their dependents.

Regular military compensation

Many analysts have used RMC as a surrogate military salary to compare military pay with civilian salaries, and, in informing military personnel about pay, DOD has often represented RMC as the military equivalent to a civilian salary. Before December 1980, RMC was defined (37 U.S.C. 101 (25)) as consisting of the following compensation elements:

- Basic pay, received in taxable cash. (This is the only cash pay received each month by all members.)
- The nontaxable value of a cash basic allowance for quarters (BAQ) paid when government housing is not provided.
- The nontaxable value of a cash basic allowance for subsistence when meals are not provided.
- The tax advantage. (This is the amount of additional cash income service members would need to maintain their current take-home pay if the nontaxable allowances were subject to federal income taxes.)

In December 1980, the definition of RMC was changed (Public Law 96-579, sec. 11) to include two variable amounts of compensation--the variable housing allowance (VHA) and overseas station housing allowance--both of which depend on the location of the member's duty assignment. The inclusion of allowances which vary by geographic location in the RMC definition has complicated and made less meaningful the use of RMC as an analytical tool for making management and policy decisions. Consequently, analysts and DOD continue to use the pre-December 1980 RMC components for purposes of discussing military pay levels but have renamed these components basic military compensation (BMC).

Although BMC--and previously RMC--is generally thought of as the military equivalent to a civilian salary, even this component of military compensation, upon which the rest of the system is built, is confusing and difficult to understand. The difficulty is due largely to (1) uncertainty about how government-provided housing and subsistence should be valued, (2) differing allowance rates depending on whether a member is married or single, and (3) the tax advantage estimate for the nontaxable allowances.

Placing a compensation value on government-provided housing is particularly difficult because of the wide range in the quality of quarters to which members may be assigned during their careers. For example, a single member on sea duty is assigned a bunk on a ship, which, from the sailor's point of view, is not worth the quarters allowance he or she must forego. On the other hand, during a land-based tour, the sailor may be assigned an efficiency apartment in a new bachelor residence hall, again with no frame of reference for determining the value of this compensation item. Not only is it difficult to determine the quality of quarters when estimating the cash value of those quarters, but also the individual does not know whether the value should be based on (1) how much it costs the government to construct and maintain the housing, (2) how much it would cost to obtain similar quarters on the civilian economy, or (3) how much cash allowance would be received if government housing were not being provided.

For an individual service member to place a compensation value on the federal income tax advantage resulting from the nontaxable allowances is also a complicated and nearly impossible task. Conceptually, the tax advantage is the amount of additional cash income service members would need to maintain their current take-home pay if the value of their quarters and subsistence--or the cash allowances received instead--were to become taxable. To expect a member to make or understand this calculation is probably unrealistic, particularly when the value of the tax advantage depends on the individual's circumstances, such as family size, outside or spouse income, income tax

bracket, tax deductions, tax return methods, and other factors influencing tax liability.

Yet, the federal income tax advantage, as obscure and difficult as it is for members to properly value, comprises a sizable proportion of a military member's compensation. DOD conservatively estimated that in 1983 the average officer and enlisted federal income tax advantage was \$2,730 and \$1,015, respectively. As could be expected, the value of the estimated tax advantage can vary significantly even for individuals at the same pay grade and longevity step level. For example, DOD has estimated that the 1983 federal income tax advantage for an officer at pay grade O-4 with 16 years of service is about \$4,200 for a single individual, \$3,700 for a married member with no children, and \$3,000 for a married person with four children. These estimates assume that the individual uses the standard deduction rather than itemized deductions; has no outside income from investments or other sources; and, for those who are married, has a nonworking spouse. The estimates do not include the state income tax advantage on the nontaxable allowances for those members who pay state income taxes. Also, it should be noted that, when federal or state income tax rates decline, BMC--the surrogate military salary--also declines because the tax advantage is worth less. Conversely, when income tax rates increase, BMC also increases because the tax advantage is worth more.

Despite its imperfections, BMC is used in this study as a baseline for measuring the impact of additional pay items on the total amount of compensation received by military members. However, BMC is, at best, an analytical tool useful in making managerial decisions on general compensation levels. It is not intended to represent actual amounts of cash received by all members at a particular grade and longevity step.

Special and incentive pay

In addition to receiving BMC, many military members receive other payments designed for specific purposes. These special and incentive pays are intended to compensate for unusual risks or hardships, encourage retention of people in hard-to-fill skills, and attract persons with particular expertise. Although military members may not receive more than two incentive pays at any one time, there is no limitation on the number of special pays they may receive if they are eligible (37 U.S.C. ch. 5).

Job duties which qualify for incentive pay include flying duty (as both a crew member and a noncrew member), submarine duty, parachute jumping, and high- and low-pressure chamber duty. Additionally, aviation career incentive pay is paid to commissioned and warrant officers to encourage qualified personnel to remain in aviation service on a career basis.

Special pays and continuation bonuses are paid to members of certain professional occupations, such as medical and nuclear-qualified officers, that have traditionally been difficult for the military services to fill. Differential payments are tailored to the difficulty of attracting and retaining officers in each occupational specialty. Additionally, certain physicians, dentists, and nuclear-qualified officers are eligible for continuation pay. This pay, generally disbursed on an annual or semiannual basis, is consideration for the officers' commitment to remain in the service for a specific length of time. Other special pays include proficiency pay, enlistment and reenlistment bonuses, and sea duty pay. (See app. III for a list of the most prominent special and incentive pays.)

Supplemental benefits and allowances

In addition to basic pay, allowances, and special and incentive pays, other benefits are sometimes included in the definition of total military compensation. Following are some of the more important supplemental benefits.

- Military retirement benefits are available to members who served on active duty for 20 years. Retirees with 20 years of service are entitled to annuities equal to 50 percent of their terminal basic pay, and annuities increase to 75 percent of basic pay after 30 years of service.
- Military personnel are fully covered under the social security system. For retired personnel, social security benefits stemming from military service supplement retirement annuities.
- If a member dies on active duty or from a service-connected disability following service, survivors are entitled to dependency and indemnity compensation and social security benefits.
- By shopping at commissaries--military supermarkets--active duty and retired service members can save about 25 percent over prevailing prices in local grocery stores, according to DOD estimates. Service members are also entitled to use exchanges--military department stores--where, according to DOD, prices average about 23 percent below commercial retail prices.
- Military personnel on active duty receive unlimited free health care, including dental and optometry services, and subject to some limitations, active duty dependents may also receive free care in military facilities. When military facilities are not available, dependents may use civilian medical facilities under the CHAMPUS program, a

health-insurance-type program for which military members pay no insurance premiums.

OBJECTIVE, SCOPE, AND METHODOLOGY

As stated earlier, the primary objective of this staff study is to provide a better understanding of the multifaceted military compensation system and how the various pay system components increase the amount of money members receive over and above BMC. Our study was designed to determine the extent to which (1) features of the pay system, such as noncontributory retirement and special tax treatment of some pay items, enhance the take-home value of military pay and (2) military members receive pays which augment basic military compensation.

To see how certain special features of the military compensation system enhance spendable income, we made a comparison for selected military grades and federal civil service grades with roughly comparable gross income levels. The comparison required the use of many simplifying assumptions for both the military grades and the civil service grades concerning family size, state of residence, and medical insurance enrollment. The specific assumptions made are discussed in chapter 2.

In analyzing military disposable income, we obtained from the service finance centers data on the number of military members who have as their legal residence (i.e., domicile) a state which either (1) does not have any state income tax or (2) does not require active duty members to pay state income tax--14 states in all. This information was then compared with (1) data obtained from the Defense Manpower Data Center which showed where members were actually stationed as of September 1982 and (2) an estimate of the service population that could reasonably be expected to have originated from these 14 states. Our comparisons indicate the number of military members who have enhanced their disposable income by establishing legal residence in states that do not tax military pay.

To determine the extent to which BMC is augmented by one or more supplemental allowance or special and incentive pays, we asked the Army, Navy, and Air Force finance centers to provide the necessary compensation data according to a specific format and instructions we provided. Specifically, we asked that each finance center perform a computer file search of its November 1982 pay records for the entire active duty population--nearly 2 million records in all--and accumulate for each service member the amounts of pay items received in addition to BMC during that month. These amounts were then annualized for display in this study.

We then requested that the finance centers aggregate the pay data by military pay grade and longevity step and display the aggregated data in a frequency distribution format which would show the number of members in particular pay grades receiving additional monthly pay items. Appendix III contains a list of additional pay items each finance center included in the frequency distributions.

To determine the total value of the members' military pay, we also requested that the finance centers add to the regular monthly pay items the prorated monthly values of any lump-sum special or incentive payments--such as enlistment, reenlistment, or aviation officer continuation bonuses--that members may have received. These values were to be incorporated into the frequency distribution displays described above. The Navy and Air Force finance centers were able to perform this task as requested. However, the Army finance center was able to incorporate into the pay displays only the prorated values of bonus payments made from August 1982 to January 1983. Consequently, our analysis of total military compensation has some limitations in that the Army displays are not completely comparable to the Navy and Air Force displays. Also, it should be noted that the displays of additional pays which augment BMC, do not include any of the supplemental benefits and allowances such as clothing allowance, retired pay, or the cost of medical care which are listed on page 4.

Our study, which was conducted between October 1982 and November 1983, was performed in accordance with generally accepted government auditing standards with two exceptions.

--We did not review controls over the Army, Navy, and Air Force finance centers' systems to compute and process military pay and produce related data; however, we did test the reasonableness of the data.

--We did not review controls over the Defense Manpower Data Center system used to produce computer tapes containing data on where military personnel were stationed.

CHAPTER 2

SPECIAL FEATURES OF MILITARY COMPENSATION ENHANCE DISPOSABLE INCOME

Research by both DOD and private research groups has shown that, for many military members and prospective members, pay is an important consideration in deciding for or against an initial enlistment or a military career. This being the case, comparisons of military pay with the salaries and wages offered by other employers for similar work are invariably made. However, in making these comparisons, people often overlook some of the special features of the military compensation system which enhance the disposable income value of military pay. For example, while many different comparisons could be made, a comparison of military and federal civil service pay shows that, for roughly equivalent gross income levels, military members' disposable income can be several percentage points higher than that of civil servants. (See p. 15.)

The most prominent features of the military compensation system which enhance disposable income, but which are frequently overlooked, are summarized below.

- All active duty military members receive either rent-free, government-furnished housing, the value of which is nontaxable, or cash allowances for quarters which are also exempt from state and federal taxes.
- All active duty members receive either free meals or cash subsistence allowances, the value of which is exempt from state and federal income taxes.
- The military retirement system is noncontributory. This feature has virtually no value to members who do not serve for 20 years but has substantial value to those who intend to, and in fact do, make military service a career. Military members contribute to social security, but benefits received are fully additive to any military retirement received.
- Active duty members receive unlimited free medical care and subject to some limitations, military dependents may receive free care in military facilities. When military facilities are not available, dependents receive medical care under the CHAMPUS program.
- A disproportionately large number of active duty members do not pay state income tax on any of their military pay as a result of the Soldiers' and Sailors' Civil Relief Act of 1940, thus enhancing their disposable income.

DOD representatives agreed that these features enhance disposable income, but they pointed out that on the negative side, the military personnel system can put members at a financial disadvantage compared with civilians. They mentioned for example,

- the unreimbursed travel and incidental expenses associated with frequent permanent-change-of-station moves;
- the payment of current market prices and interest rates for housing, while civilians have the opportunity for level mortgage costs due to stability of residence;
- the lost income opportunities of member spouses who cannot establish careers at one location as civilian spouses can; and
- the cost of maintaining two households during unaccompanied tours, although service members in such situations receive a family separation allowance.

Factors such as these can put military people at a financial disadvantage compared with civilians and, on an individual basis, can be important considerations in deciding for or against a military career. Some factors, such as the higher mortgage costs and possible lost income opportunities of members' spouses, are difficult, if not impossible, to quantify or account for when comparing disposable income levels. However, other factors, such as the out-of-pocket costs for frequent service-directed moves, could be accounted for on an individual basis, and as we previously recommended,⁶ should be more fully reimbursed. For example, a 1982 Air Force survey found that, on the average, officers paid \$1,790 out of pocket for each directed permanent-change-of-station move and that enlisted members paid \$930, about 70 percent and 67 percent, respectively, of the total moving expense. On the average, military members move about once every 3 years, but some move more frequently and some less frequently.

DISPOSABLE INCOME COMPARISONS

While obviously not the only consideration or measure of compensation, potential disposable income is an important factor for prospective employees to consider when making a job decision. To see how the special features of the military compensation system affect disposable income, we compared gross and net earnings for selected military members and federal civil

⁶Proposals for Improving the Management of Federal Travel
(GAO/FPD-81-13, Dec. 24, 1980).

servants. The proper linkage between military and civil service grade levels or whether there should be any linkage at all, has been debated for years without reaching any agreement.⁷ Consequently, for this study, we did not attempt to make a military/civil service grade linkage nor do the comparisons which we made imply any linkage in terms of job difficulty or responsibility. Rather, the purpose of the comparison is to show how the special features of the military pay system affect disposable income for individuals with roughly comparable levels of gross pay.

The complexities of pay and tax systems necessitated the use of many simplifying assumptions in our disposable income calculations. The assumptions we used are listed below. They are not intended to be representative of typical military or civil service personnel, and the results we obtained could vary considerably depending on an individual's own circumstances.

- Federal and state income taxes were estimated assuming no outside income and using the standard deduction. The tax rates used were those in effect on June 30, 1983. The use of the standard deduction may overstate the amount of taxes actually paid by both military personnel and federal civil servants, particularly at the higher income levels. Also, because of the nontaxable nature of some military pay, larger itemized deductions would proportionately increase civilian disposable income to a greater extent than military disposable income.
- Both military and civil service personnel were assumed to be living in Virginia and paying Virginia State income tax, although, as discussed on pages 17 to 22, a large percentage of higher graded military members do not pay any state income tax.

⁷This issue was discussed at length in the DOD Report of the First Quadrennial Review of Military Compensation, Vol. I, November 1, 1967, pp. 69 to 73, and the Staff Studies of the Third Quadrennial Review of Military Compensation, Vol. VIII, December 1976. The 1967 report recommended that the work level standard derived from applying the federal comparability process to the military grade structure and linking pay grades 0-8 to GS-18, 0-1 to GS-7, and E-3 to GS-3 and WB-5 be adopted as the quantitative standard for measuring the comparability of military salary rates to the Federal Classification Act salary rates. Through this process, military salaries would be linked to comparable private enterprise salary rates. The 1976 staff studies made a similar proposal for linking civil service and military grades. See appendix V for the military/civil service work span comparisons suggested in the 1967 report.

--Military personnel were assumed to be receiving only basic pay, basic and variable allowances for quarters, and basic subsistence allowance. It was assumed that they were not receiving any other special or incentive pays, although, as shown in chapter 3, a high percentage of members received additional pay items.

--The variable housing allowance rates assumed were for the Washington, D.C., area. These rates are higher than those for many other areas of the country but are lower than those for some areas with large populations of military personnel.

--The family sizes assumed were, according to statistical data, the most common size for each pay grade category.

Because of the special features of the military pay system, military members have a significantly higher take-home pay than civil servants who receive a roughly equivalent gross income. For example, under pay rates in effect through December 1983, a GS-14, step 4, civil servant with a gross salary of \$45,405 takes home about \$28,465, or 63 percent of gross pay, whereas a grade O-4 military officer with 16 years of service retains about \$32,663, or 71 percent of the \$46,223 RMC. These comparisons are shown in the following table, and more details are presented in appendix IV.

Military and Federal Civilian Gross Compensation
and Disposable Income Comparison
October 1982 Through December 1983 Pay Rates

Military				Civil service			
Grade/Years of Service	RMC (note a)	Disposable Income	Percentage	Grade/step	Gross salary	Disposable income	Percentage
0-10/26	\$85,423	\$51,108	59.8				
0-8/26	84,392	51,161	60.6				
0-7/26	75,379	47,035	62.4	Ex. Level I	\$80,100	\$42,885	53.5
				Ex. Level II	69,800	38,945	55.8
				Ex. Level IV	67,200	37,951	56.5
				Ex. Level V	63,800	36,640	57.4
0-6/22	62,249	40,849	65.6	SES-3	61,515	35,652	57.9
				SES-1	56,945	33,676	59.1
0-5/20	54,181	36,701	67.7	GS-15/4	53,407	32,146	60.2
0-4/16	46,223	32,663	70.7	GS-14/4	45,405	28,465	62.7
E-9/26	39,370	29,144	74.0	GS-13/3	37,258	24,418	65.5
0-3/6	35,916	26,415	73.5	GS-12/4	32,311	21,714	67.2
E-8/20	31,747	24,759	78.0	GS-11/4	26,959	18,601	69.0
E-7/18	28,134	22,498	80.0	GS-9/4	22,281	15,436	69.3
0-2/2	26,041	20,483	78.7	GS-7/1	16,559	11,462	69.2
E-6/10	23,145	19,185	82.9	GS-5/4	14,707	10,238	69.6
0-1/1	20,514	15,629	76.2	GS-5/1	13,369	9,462	70.8
E-5/6	20,080	16,531	82.3	GS-3/2	11,000	7,887	71.7
E-4/3	15,533	12,428	80.0				
E-3/2	14,341	11,627	81.1				
E-1/1	11,718	9,769	83.4				

Washington, D.C., metropolitan area, RMC is used in these comparisons. RMC includes VHA which varies by geographic location. VHA rates for the Washington, D.C., area are higher than many locations but are lower than some areas with large concentrations of military personnel. See pp. 5 and 6 for a definition of RMC and BMC.

In discussing these comparisons, DOD representatives stated that comparisons with civil service pay are not germane for determining appropriate levels of military pay and suggested that comparisons with private sector compensation might be more appropriate. They stated that (1) the military and federal civilian personnel systems are fundamentally different and (2) military personnel must endure many nonquantifiable conditions of service--such as family separations, overtime without extra pay, no choice in job locations, and the loss of certain personal freedoms--which most civil servants are not required to endure. Consequently, in their opinion, such comparisons of disposable income should not be used to draw conclusions about whether, or to what extent, military personnel are overpaid or underpaid.

DOD representatives also pointed out that some features of the military compensation system which are not part of the civil service pay structure are common practice in the private sector. For example, most large private-sector employers have retirement and health benefit plans which are also noncontributory. Furthermore, the health plans of larger private sector employers often provide benefits which are equal to or exceed those of the military.⁸

We agree that a comparison of military and federal civil service gross compensation or disposable income levels is not, by itself, a reliable guide for determining appropriate military pay levels. Although the Federal Pay Comparability Act of 1970 (84 Stat. 1946) sought to equate salaries of federal civilian workers with those of workers in other sectors of the economy doing comparable work, there is still considerable debate about how well this process has worked. For example, in its August 22, 1983, report, the President's Pay Agent stated that, using current pay survey methodology, an average 21.5 percent pay raise would have been needed for federal white-collar workers in October 1983 to catch up with comparable private sector salaries, but that, using other suggested survey methodology, federal white-collar pay was only slightly less than 4 percent behind private sector pay. Also, as previously stated, agreement has not been reached on the proper linkage, if any, between military and civil service grade levels for similar jobs requiring equivalent levels of work, experience, and responsibility. And finally, the comparisons in the above table do not take into account the numerous special and incentive pays received by many career military personnel or the value of fringe benefits, particularly the value of retirement, which is

⁸See Employee Benefits in Medium and Large Firms, 1982, U.S. Department of Labor, Bureau of Labor Statistics, Bulletin 2176 (Aug. 1983).

more generous for the military.⁹ Consequently, while these pay comparisons provide a frame-of-reference, we too, would caution against drawing specific conclusions from them about whether military personnel are overpaid or underpaid.

We also generally agree with the suggestion made by DOD officials that gross earnings and take-home pay comparisons between military and private sector employees having equivalent levels of work, experience, and responsibility might be more relevant than comparisons with civil servants. Yet, DOD does not obtain such information on private sector workers. In discussing a proposal that information on private sector pay levels on an occupational basis be routinely obtained and used as a guide for judging the reasonableness of total military pay levels, DOD officials stated that such information should not be a determining factor in setting military pay and that they saw very little practical value in obtaining it.

POSSIBLE EXEMPTION FROM STATE INCOME TAXES

The payment or nonpayment of state income tax can substantially affect military disposable income. While service members, like the ordinary citizen, are not exempt from paying state income taxes where appropriate, many members establish legal residence in states that do not tax personal income or exempt military pay from taxation. According to section 574 of the Soldiers' and Sailors' Civil Relief Act of 1940, as amended (ch. 888, 54 Stat. 1178), the pay of service members physically stationed in one state cannot be taxed by the state if the members are legal residents of another state. The underlying rationale for section 574 was that service personnel are a highly mobile and transient population who might, under some circumstances, find their service pay subject to the income taxes of more than one state. To avoid this situation, the act allows military personnel to retain legal residence in a state other than the one in which they currently live pursuant to military orders, and it provides that members do not lose their legal residence when moved by military orders. This means that once a military member has established legal residence in a state that does not tax personal income (such as Texas or Florida) or one that exempts military pay (such as Illinois or Michigan), the member can maintain legal residence in that state

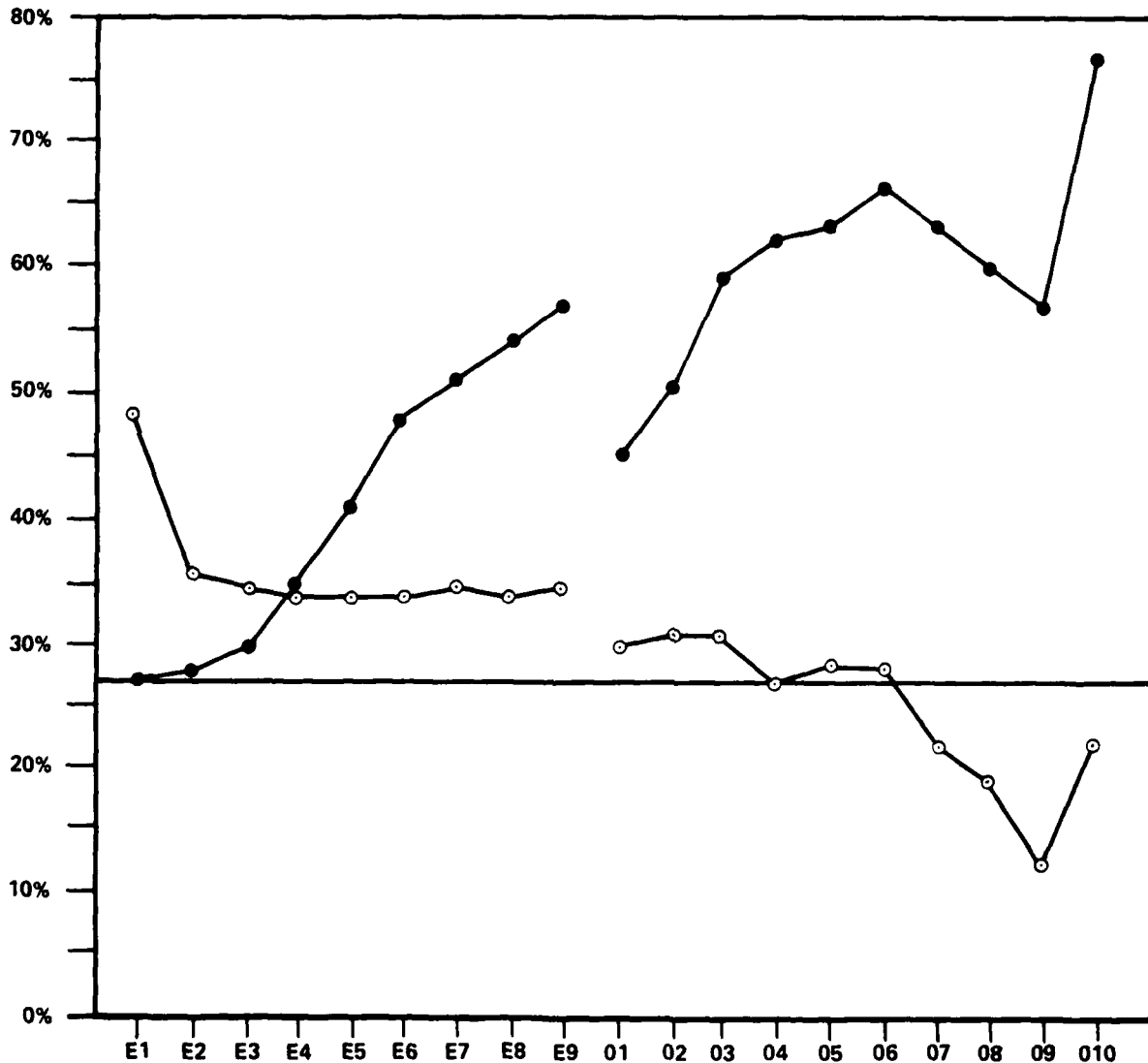
⁹How the U.S. Military Retirement System Compares With Other Systems, GAO testimony before the Subcommittee on Military Personnel and Compensation, House Committee on Armed Services (July 29, 1983).

for the remainder of his or her military career, even though the member may never again live in that state.¹⁰

While 14 states either do not have a personal income tax or exempt all active duty pay from personal income taxes, 8 other states exempt military pay earned out of state and 10 exempt specific dollar amounts of military pay. (See app. VI.) To determine the extent to which military members may be enhancing their disposable income as a result of the Soldiers' and Sailors' Civil Relief Act, we obtained data on the number of military personnel, by grade level, who have established their legal residences in 1 of the 14 states which do not tax military pay. (Our methodology is discussed in more detail on page 9.) As shown in the graphs on the following pages, a significant proportion of military personnel (particularly higher graded personnel) have their legal residences in 1 of the 14 states that do not tax personal income or exempts military pay from taxation.

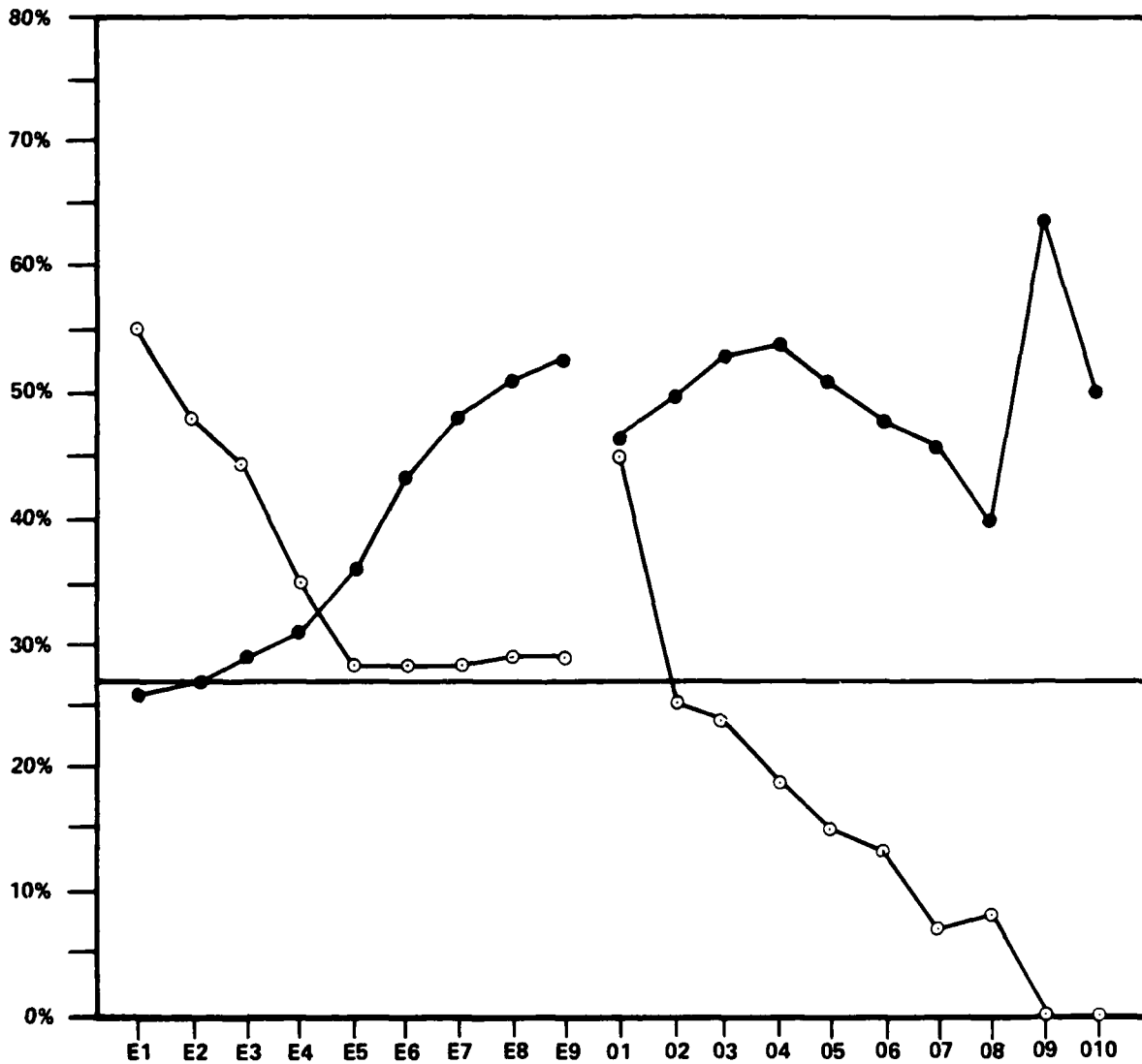
¹⁰Similarly, when a member establishes legal residence in a state that taxes military pay, the member must pay the tax on basic pay even though he or she may not live in that state during the balance of his or her career.

**PROPORTION OF AIR FORCE MEMBERS DOMICILED
IN A STATE WHICH DOES NOT TAX MILITARY PAY**



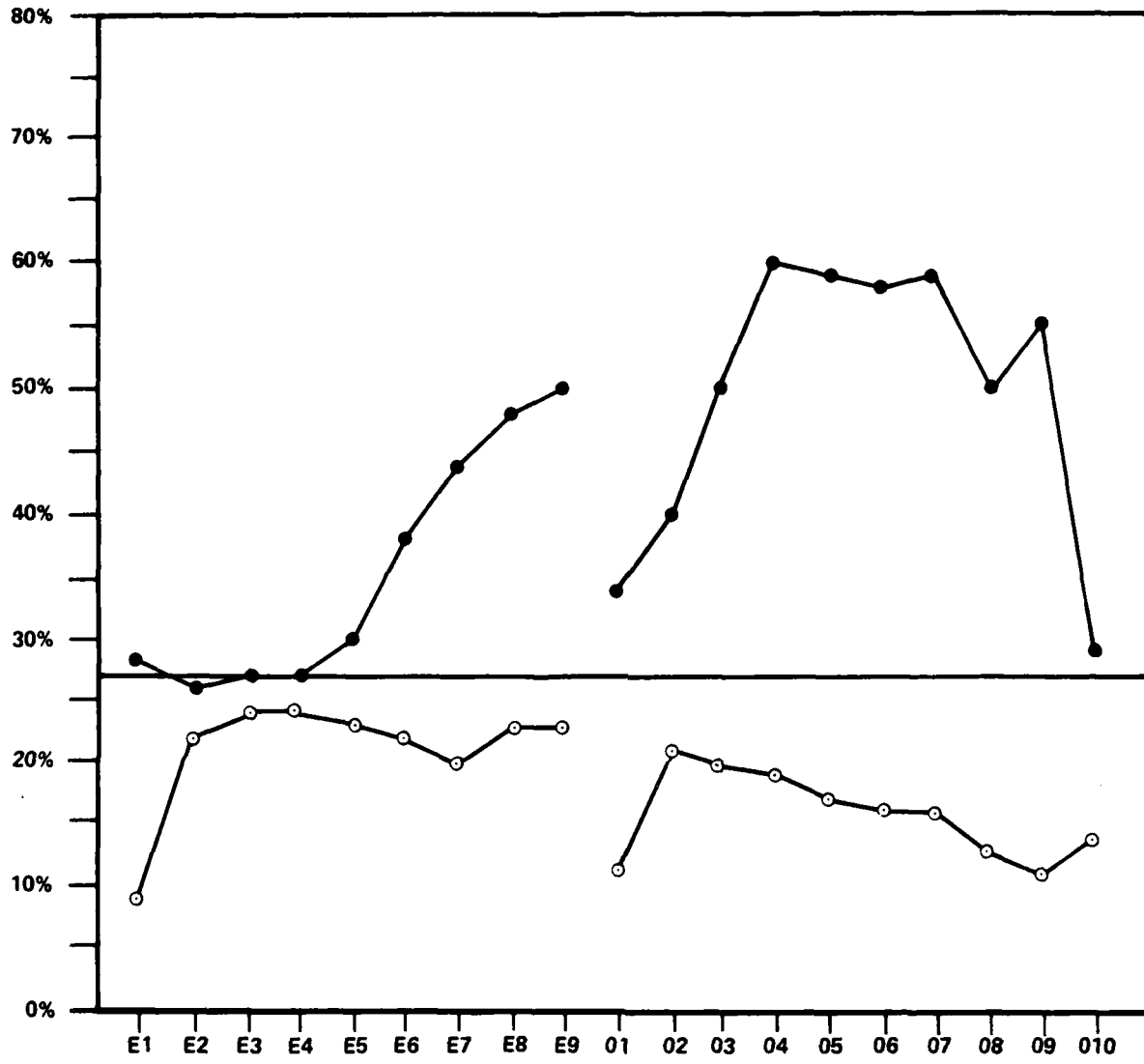
- Air Force members stationed in the United States who claimed tax-exempt states as their legal residences. (Percentage is based on the total population of each grade.)
- Population of tax-exempt states as a percentage of the United States population. (Estimated at 27 percent.)
- Service members stationed in tax-exempt states as a percentage of all Air Force members stationed in the United States. (Excludes Puerto Rico and other countries.)

**PROPORTION OF NAVY MEMBERS DOMICILED
IN A STATE WHICH DOES NOT TAX MILITARY PAY**



- Navy members who claimed tax-exempt states as their legal residences. (Percentage is based on the total population of each grade.)
- Population of tax-exempt states as a percentage of the United States population. (Estimated at 27 percent.)
- Service members stationed in tax-exempt states as a percentage of all Navy members stationed in the United States. (Excludes Puerto Rico and other countries.)

**PROPORTION OF ARMY MEMBERS DOMICILED
IN A STATE WHICH DOES NOT TAX MILITARY PAY**



- Army members stationed in the United States who claimed tax-exempt states as their legal residences. (Percentage is based on the total population of each grade.)
- Population of tax-exempt states as a percentage of the United States population. (Estimated at 27 percent.)
- Service members stationed in tax-exempt states as a percentage of all Army members stationed in the United States. (Excludes Puerto Rico and other countries.)

It appears from the data shown above that as service members--both enlisted and officers--progress through their careers, an increasingly large proportion are able to establish legal residences in 1 of the 14 states which either have no personal income tax or exempt military pay. For example, the graphs show that 60 percent of Army Majors had legal residences in 1 of the 14 states but that only about 19 percent were physically stationed in 1 of them at the time we compiled the data. Similarly, about 66 percent of Air Force Colonels and 54 percent of Navy Lieutenant Commanders had legal residences in 1 of the 14 states, whereas only about 28 percent and 19 percent, respectively, were physically stationed in 1 of them. We believe these estimates are probably understated because data limitations precluded us from including in our estimate the number of military members domiciled but not living in the eight additional states--three of which have large populations--which exempt military pay earned out-of-state.

CHAPTER 3

ADDITIONAL PAYS RECEIVED BY MILITARY PERSONNEL AUGMENT BASIC MILITARY COMPENSATION

While BMC is the backbone of the military compensation system, the services use a wide variety of special pays and allowances for specific purposes. One objective of this study was to provide a better understanding of how many military personnel receive pay in addition to BMC and to profile, by pay grade, how much the additional pay items are worth to individual members.

The military services budget for and often report on the number of people receiving particular pay items. For example, in fiscal year 1983, about 704,800 members received a variable housing allowance; about 104,000 received flying duty pay; about 108,100 received sea duty pay; about 132,200 received duty-at-certain places (hardship, pay; about 36,200 received proficiency pay; and about 163,200 received selective reenlistment bonuses. However, DOD does not accumulate data or report how many members receive several of these extra pays or how much the pays, added together, are worth to individual members. (See app. II for examples--taken from actual earnings statements--which illustrate how additional pays augment BMC for individual members.)

To determine the extent to which BMC is augmented by one or more additional pays or allowances on a service-wide basis, we asked the Army, Navy, and Air Force finance centers to provide such data according to our specific instructions. The Navy and Air Force finance centers provided the data as requested, including the prorated value of lump-sum payments, such as bonuses. However, the Army finance center was unable to include the prorated value of lump-sum payments made before August 1982. (See p. 9 for a more complete description of the scope and methodology of our data request.) Because the Army's data are not comparable to those provided by the Navy and Air Force, the following analysis is limited to these two services. A discussion of Army data is in appendix VII.

The data showed that 62 percent of all Navy personnel and 53 percent of all Air Force personnel received some cash pay in addition to BMC and that of those who did not receive additional cash pay, 93 percent and 79 percent, respectively, received rent-free government housing. As the following table shows, the Navy used additional pays to a greater extent than the Air Force, and career personnel in both services--generally officers in grades O-3 and above, and enlisted personnel in grades E-5 through E-9--are more likely to receive some additional pay.

Additional Pays For Navy
And Air Force Career Personnel

<u>Grade populations</u>	<u>Percent receiving additional pay</u>	<u>Percent receiving more than:</u>			<u>Percent not receiving additional pay who live in free housing</u>
		<u>\$1,200</u>	<u>\$2,400</u>	<u>\$3,600</u>	
Navy O-3 to O-6	88	85	73	56	83
Air Force O-3 to O-6	82	65	50	40	67
Navy E-5 to E-9	81	60	35	21	87
Air Force E-5 to E-9	56	20	3	-	81

As shown above, the largest amounts of additional cash pays were directed to upper-grade and career-force personnel. And generally, for those who received it, the variable housing allowance represented a major portion of additional monthly cash payments--particularly in the Air Force. (These generalizations are true for the Army as well as the Navy and Air Force.) When VHA is not included in aggregate additional pay totals, the overall percentage of Navy and Air Force personnel receiving additional pay decreased from 62 and 53 percent, respectively, to 61 and 18 percent. Also, when VHA is excluded, the overall percentage of Navy members who received additional pay at an annual rate of more than \$2,400 decreased from 24 to 22 percent, and the percentage of Air Force members who received more than \$2,400 decreased from 8 to 5 percent.

The graphic displays which follow show the percentage of Navy and Air Force personnel, by grade, who received pay items --including VHA--in addition to BMC and the range of the total BMC value plus the additional pays. The graphs show, for example, that:

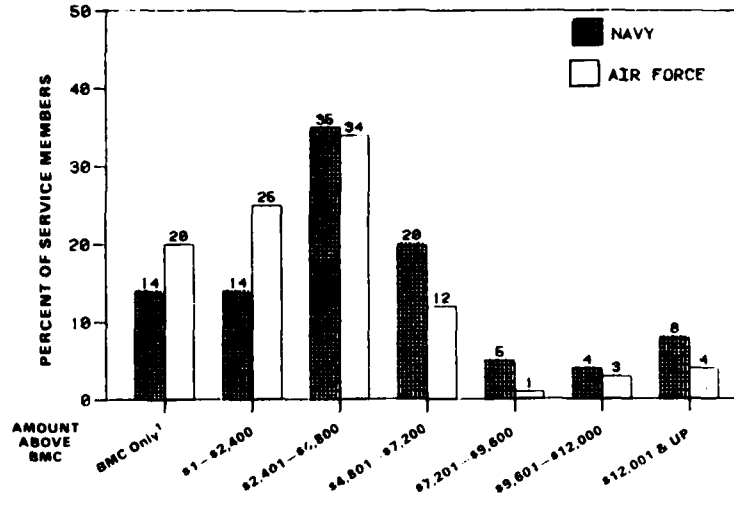
--Fourteen percent of Navy and 20 percent of Air Force officers at the O-6 grade level received only BMC--which averaged \$59,000--and 72 and 55 percent, respectively, received more than \$2,400 a year in additional cash pays. Twelve percent of Navy Captains and 7 percent of Air Force Colonels received more than \$9,600 annually in addition to BMC. (See p. 26.)

--Only a small percentage of Navy and Air Force officers at the O-4 grade level received no pays in addition to BMC--which averaged \$40,000. Ninety percent of Navy and 85 percent of Air Force officers at this grade level received some pay in addition to BMC; 6 percent of Navy O-4s received more than \$12,000 annually. (See p. 27.)

--Twenty percent of Navy and 46 percent of Air Force enlisted personnel at the E-5 grade level received only BMC--which averaged \$17,300. However, 26 percent of Navy E-5s received over \$2,400 a year in additional cash pay. (See p. 30.)

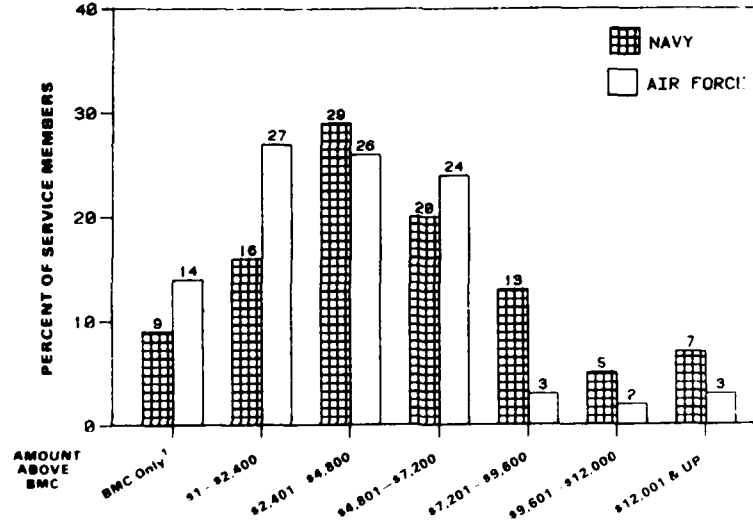
The following displays use average BMC as a starting point. These amounts were taken from the fiscal year 1983 detailed BMC tables, Assume-All-Cash Pay Grade Averages, contained in DOD's Selected Military Compensation Tables for October 1982 Pay Rates.

**NAVY AND AIR FORCE GRADE O-6
PERCENT RECEIVING PAY ITEMS IN ADDITION TO BMC**



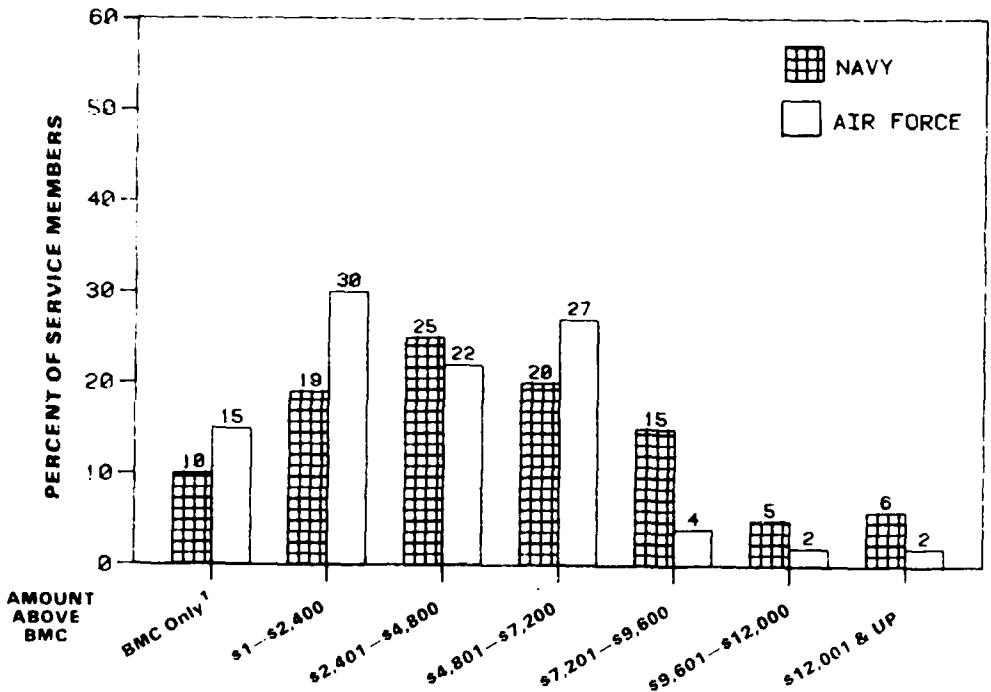
^{1/} Average BMC for pay grade O-6 was \$59,000

**NAVY AND AIR FORCE GRADE O-5
PERCENT RECEIVING PAY ITEMS IN ADDITION TO BMC**



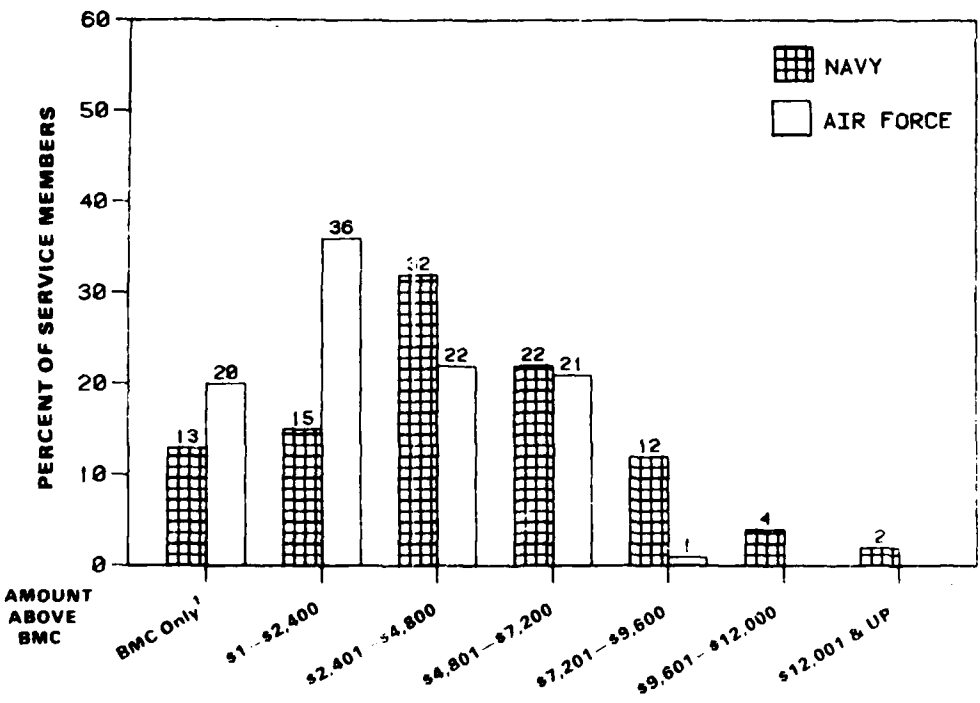
^{1/} Average BMC for pay grade O-5 was \$48,200

**NAVY AND AIR FORCE GRADE O-4
PERCENT RECEIVING PAY ITEMS IN ADDITION TO BMC**



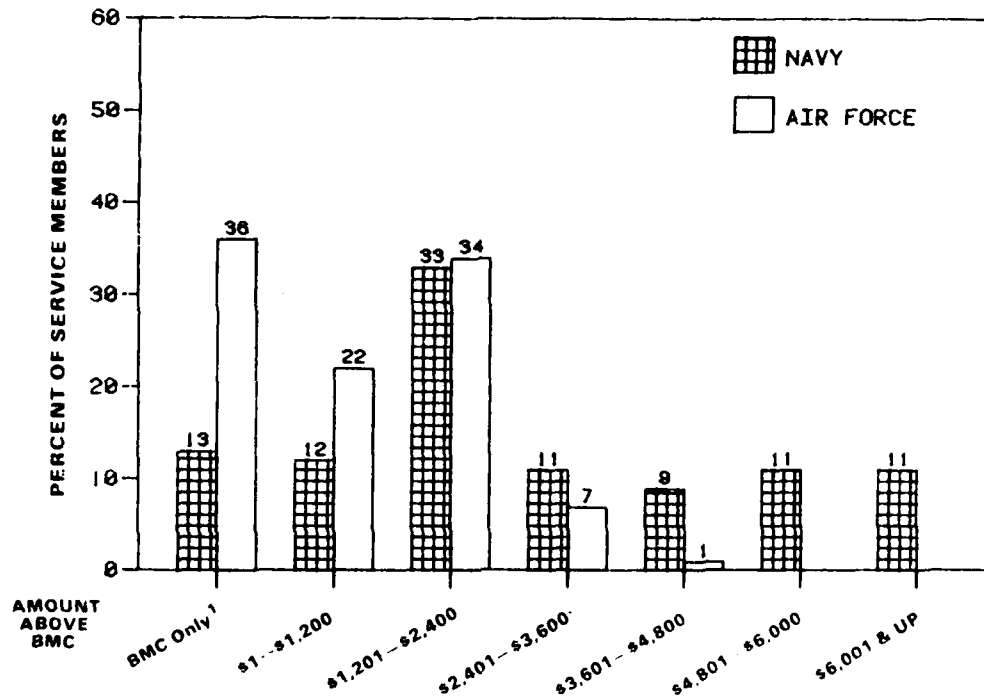
¹ Average BMC for pay grade O-4 was \$40,000

**NAVY AND AIR FORCE GRADE O-3
PERCENT RECEIVING PAY ITEMS IN ADDITION TO BMC**



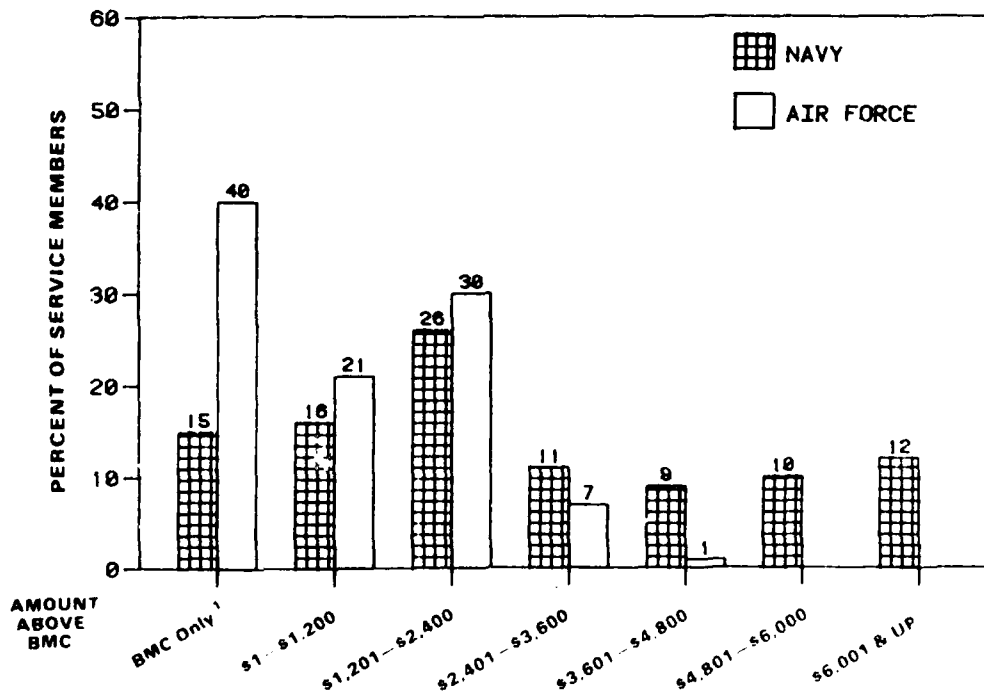
¹ Average BMC for pay grade O-3 was \$33,300

**NAVY AND AIR FORCE GRADE E-9
PERCENT RECEIVING PAY ITEMS IN ADDITION TO BMC**



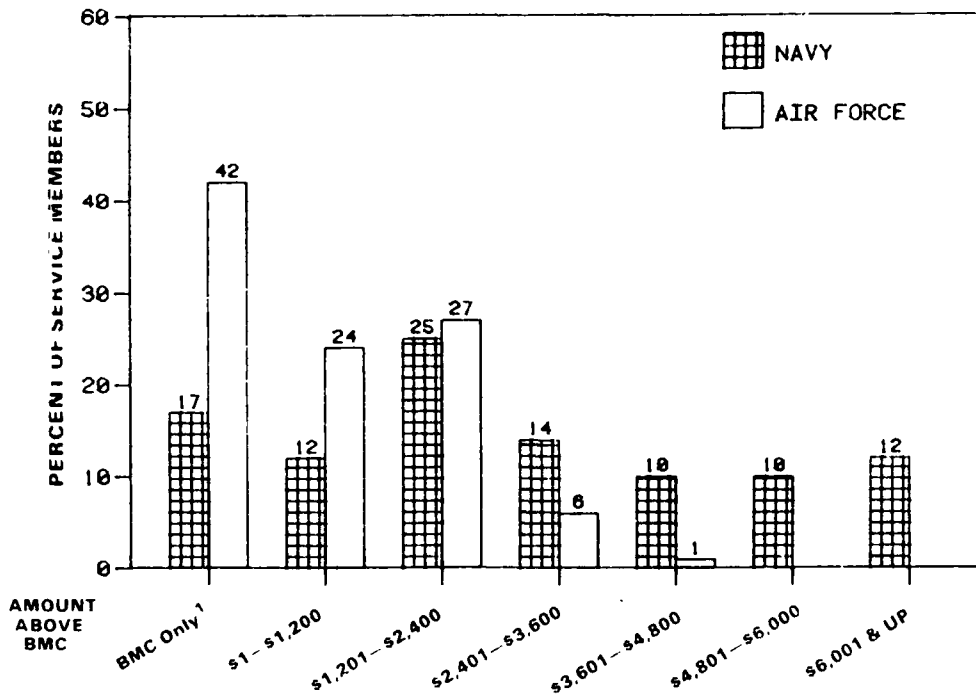
¹ Average BMC for pay grade E-9 was \$33,800

**NAVY AND AIR FORCE GRADE E-8
PERCENT RECEIVING PAY ITEMS IN ADDITION TO BMC**



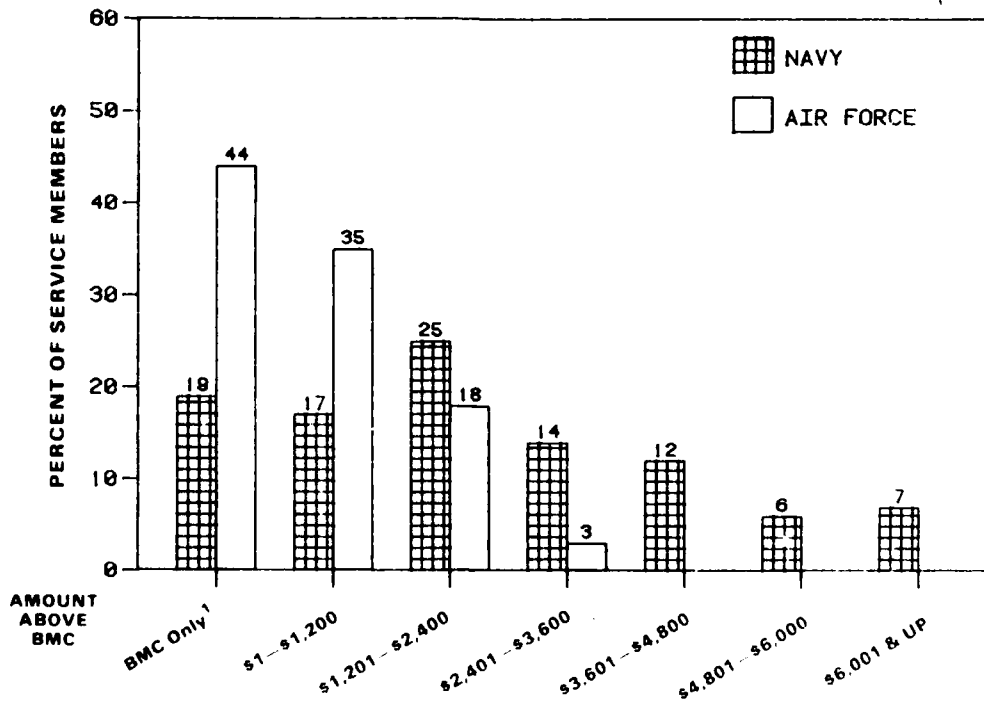
¹ Average BMC for pay grade E-8 was \$28,500

**NAVY AND AIR FORCE GRADE E-7
PERCENT RECEIVING PAY ITEMS IN ADDITION TO BMC**



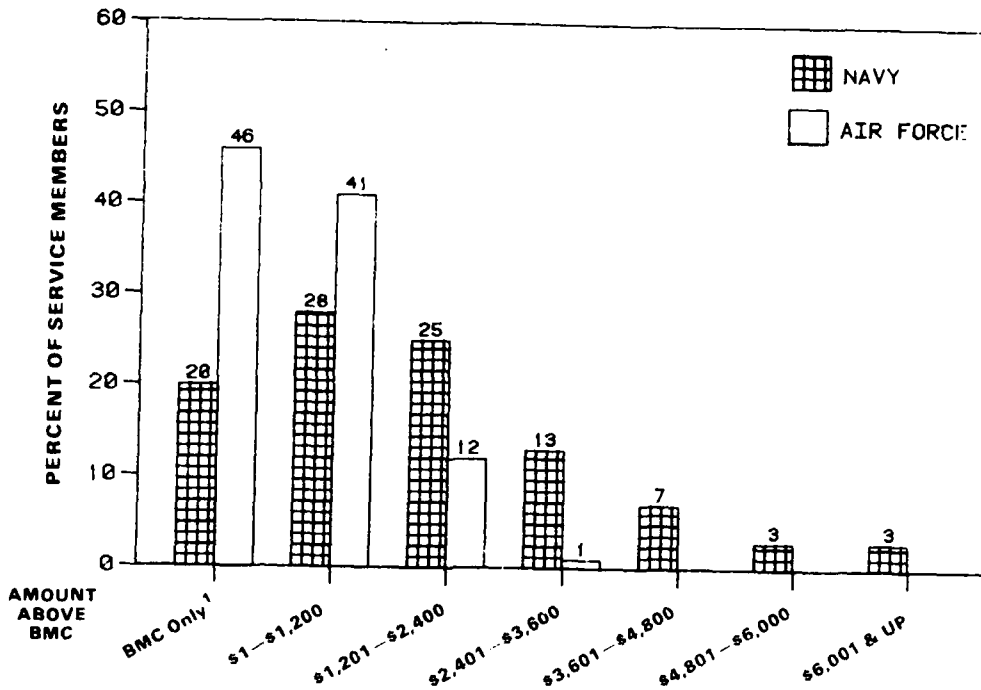
¹ Average BMC for pay grade E-7 was \$24,200

**NAVY AND AIR FORCE GRADE E-6
PERCENT RECEIVING PAY ITEMS IN ADDITION TO BMC**



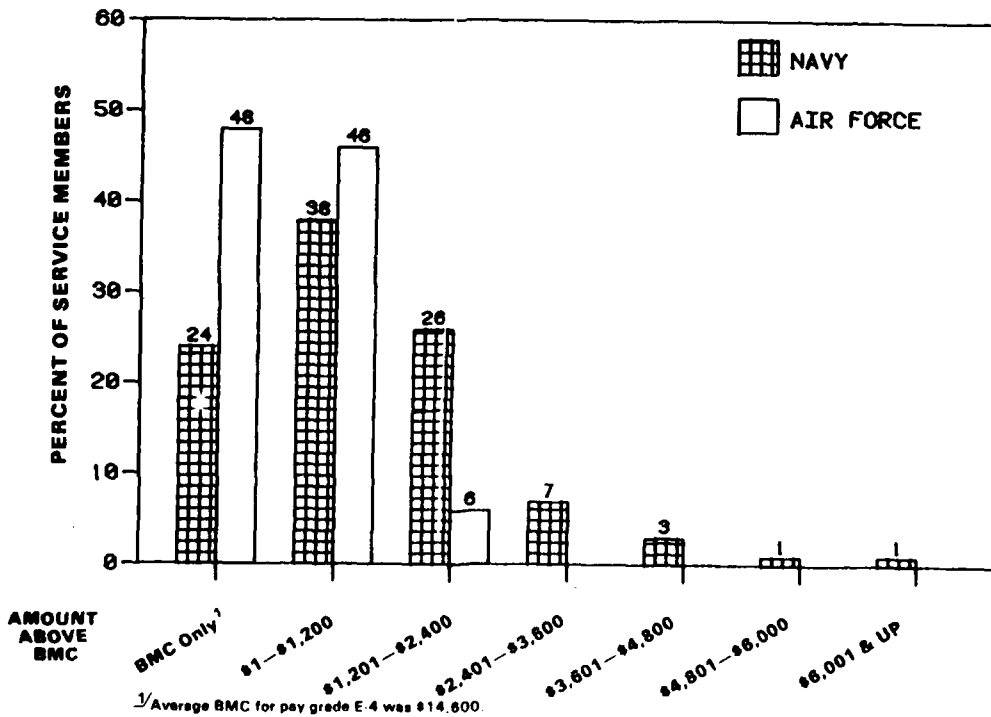
¹ Average BMC for pay grade E-6 was \$20,600

**NAVY AND AIR FORCE GRADE E-5
PERCENT RECEIVING PAY ITEMS IN ADDITION TO BMC**



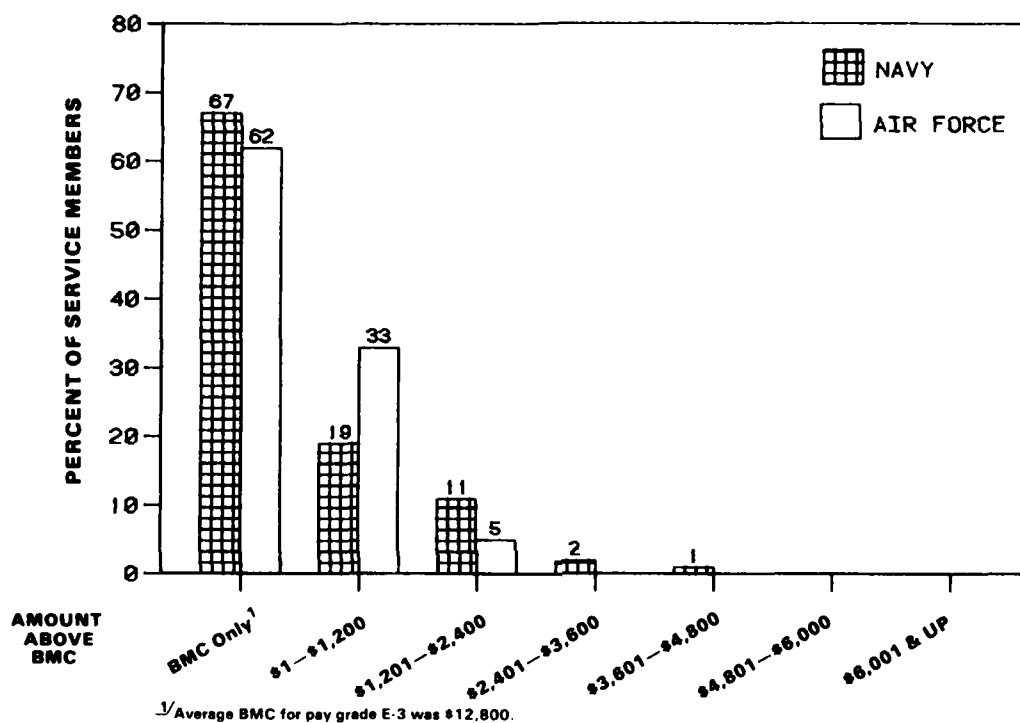
¹ Average BMC for pay grade E-5 was \$17,300

**NAVY AND AIR FORCE GRADE E-4
PERCENT RECEIVING PAY ITEMS IN ADDITION TO BMC**



¹ Average BMC for pay grade E-4 was \$14,600

**NAVY AND AIR FORCE GRADE E-3
PERCENT RECEIVING PAY ITEMS IN ADDITION TO BMC**



LIST OF PRIOR GAO REPORTS
AND CONGRESSIONAL TESTIMONY

REPORTS:

Military Compensation Should Be Changed to Salary System
(FPCD-77-20, Aug. 1, 1977).

The 20-Year Military Retirement System Needs Reform (FPCD-77-81,
Mar. 13, 1978).

The Congress Should Act to Establish Military Compensation Principles (FPCD-79-11, May 9, 1979).

Urgent Need for Continued Improvements in Enlisted Career Force Management (FPCD-77-42, Sept. 29, 1977).

Defense Budget Increases: How Well Are They Planned and Spent?
(PLRD-82-62, Apr. 13, 1982), ch. 5, pp. 50-55.

The Cost Effectiveness of an Education Assistance Program (GI Bill) as a Recruiting Incentive Is Unknown (FPCD-82-12, Jan. 26, 1982).

Computation of Cost-of-Living Allowances for Uniformed Personnel Could Be More Accurate (FPCD-82-8, Feb. 25, 1982).

Millions Spent Needlessly in Navy and Marine Corps' Aviation Bonus Program (FPCD-82-56, Aug. 9, 1982).

Military's 1-Year "Look Back" Retirement Provision Should Be Revoked: Multiyear Provision Should Be Reviewed (FPCD-82-38, Aug. 20, 1982).

Perspectives on the Effectiveness of Service Enlisted Bonus Programs (staff study) (FPCD-82-70, Aug. 23, 1982).

Observations on the April 15, 1982, Joint Services Report, "Military Pay Adjustment Mechanism Study" (FPCD-82-78, Sept. 28, 1982).

Military Personnel Issues: Manpower and Compensating the Armed Forces (FPCD-83-17, Oct. 12, 1982).

Army Incentive Funds Need More Effective Targeting to Reduce Critical Personnel Shortages (FPCD-83-10, Mar. 2, 1983).

Small Percentage of Military Families Eligible for Food Stamps
(FPCD-83-25, Apr. 19, 1983).

Noncontributory Social Security Wage Credits for Military Service Should Be Eliminated (FPCD-79-57, Aug. 8, 1979).

The Navy's Pilot Shortage: A Selective Bonus and Other Actions Could Improve Retention (FPCD-80-31, Feb. 15, 1980).

Variable Housing Allowance: Rate Setting Criteria and Procedures Need to Be Improved (FPCD-81-70, Sept. 30, 1981).

Need to Better Inform Military Personnel of Compensation Changes (FPCD-78-27, July 12, 1978).

TESTIMONY:

Military Pay Raises and Other Manpower Issues, before the Subcommittee on Manpower and Personnel, Senate Committee on Armed Services (May 8, 1981).

The Proposed 14.3 Percent Military Pay Raise, before the Subcommittee on Defense, House Committee on Appropriations (June 1, 1981).

Across-the-Board Pay Raises and Other Military Manpower Issues, before the Senate Committee on the Budget (Mar. 31, 1981).

The Use of Monetary Recruitment and Retention Incentives, before the Subcommittee on Manpower and Personnel, Senate Committee on Armed Services (Nov. 19, 1981).

The Navy and Marine Corps' Use of the Aviation Officer Continuation Bonus Program, before the Subcommittee on Defense, Senate Committee on Appropriations (May 19, 1982).

Military Pay Raise and Enlisted and Aviation Officer Bonus Programs, before the Subcommittee on Manpower and Personnel, Senate Committee on Armed Services (Aug. 10, 1982).

The Use of Educational Assistance Programs to Improve Military Recruiting and Retention, before the Senate Committee on Veterans' Affairs (Mar. 16, 1983).

Military Compensation Issues, before the Subcommittee on Manpower and Personnel, Senate Committee on Armed Services (Apr. 7, 1983).

Military Personnel Issues, before the Subcommittee on Defense, House Committee on Appropriations (Apr. 21, 1983).

How the U.S. Military Retirement System Compares With Other Systems, before the Subcommittee on Military Personnel and Compensation, House Committee on Armed Services (July 29, 1983).

Comparison of U.S. Military and Civil Service Pay and Benefits, before the Subcommittee on Civil Service, Post Office and General Services, Senate Committee on Government Affairs, and the Subcommittee on Defense, Senate Committee on Appropriations (Nov. 30, 1983).

ILLUSTRATIONS OF HOW ADDITIONAL PAYS AUGMENT BMCExamples of Navy Personnel

Pay grade: 0-6	
Years of service: 23	
Married	
Basic pay	\$44,290.80
Basic allowance for quarters	6,681.60
Basic allowance for subsistence	1,178.04
Sea duty pay	3,480.00
Flight pay	4,080.00
Variable housing allowance	2,472.24
Estimated tax advantage	<u>7,626.00</u>
Total	<u>\$69,808.68</u>
Pay grade: E-8	
Years of service: 18	
Married	
Basic pay	\$19,688.40
Basic allowance for quarters	4,248.00
Basic allowance for subsistence	1,708.20
Variable housing allowance	2,718.72
Clothing maintenance allowance	162.00
Proficiency pay	900.00
Diving duty pay	2,100.00
Estimated tax advantage	<u>1,792.47</u>
Total	<u>\$33,317.79</u>
Pay grade: E-4	
Years of service: 4	
Married	
Basic pay	\$10,256.40
Basic allowance for quarters	2,937.60
Basic allowance for subsistence	1,708.20
Clothing maintenance allowance	126.00
Variable housing allowance	2,585.04
Annual value of selective reenlistment bonus	1,574.93
Estimated tax advantage	<u>954.81</u>
Total	<u>\$20,142.98</u>

Examples of Air Force Personnel

Pay grade: 0-4	
Years of service: 18	
Married	
Basic pay	\$32,774.40
Basic allowance for quarters	5,425.20
Basic allowance for subsistence	1,178.04
Flight pay	4,800.00
Variable housing allowance	542.52
Parachute pay	1,320.00
Estimated tax advantage	<u>3,515.91</u>
Total	<u>\$49,556.07</u>
Pay grade: E-9	
Years of service: 20	
Married	
Basic pay	\$23,014.80
Basic allowance for quarters	4,600.80
Basic allowance for subsistence	1,708.20
Clothing maintenance allowance	108.00
Flight pay	1,572.00
Variable housing allowance	1,380.24
Estimated tax advantage	<u>2,212.18</u>
Total	<u>\$34,596.22</u>
Pay grade: E-5	
Years of service: 4	
Single	
Basic pay	\$10,868.40
Basic allowance for quarters	2,239.20
Basic allowance for subsistence	1,708.20
Clothing maintenance allowance	108.00
Noncrew member flight pay	1,200.00
Variable housing allowance	470.28
Estimated tax advantage	<u>1,103.43</u>
Total	<u>\$17,697.51</u>

Examples of Army Personnel

Pay grade: 0-5	
Years of service: 17	
Married	
Basic pay	\$34,761.60
Basic allowance for quarters	6,080.40
Basic allowance for subsistence	1,178.04
Variable housing allowance	2,128.20
Board certified medical pay	3,000.00
Variable special pay	7,999.92
Estimated tax advantage	<u>4,204.08</u>
Total	<u>\$59,352.24</u>
Pay grade: 0-3	
Years of service: 8	
Married	
Basic pay	\$25,009.20
Basic allowance for quarters	4,878.00
Basic allowance for subsistence	1,178.04
Flight pay	2,256.00
Variable housing allowance	390.24
Estimated tax advantage	<u>2,271.29</u>
Total	<u>\$35,982.77</u>
Pay grade: E-7	
Years of service: 23	
Married	
Basic pay	\$18,997.20
Basic allowance for quarters	3,952.80
Basic allowance for subsistence	1,708.20
Clothing maintenance allowance	144.00
Family separation allowance	360.00
Variable housing allowance	316.20
Estimated tax advantage	<u>1,638.78</u>
Total	<u>\$27,117.18</u>

ADDITIONAL PAYS INCLUDED IN THIS STUDYAir ForceOfficer pays

Variable housing allowance:

Incentive pays:

Aviation career incentive
 Flying duty noncrew member
 Airborne warning and control
 system weapons controller
 Parachute duty
 Demolition duty
 High- and low-pressure chamber/
 thermal stress experiment
 hazardous duty
 Acceleration subject duty^a
 Deceleration subject duty^a
 Dangerous substance handler

Special pays:

Variable physician
 Retention additional
 physician
 Board-certified physician
 Medical incentive
 physician
 Dentist special
 Dentist continuation
 Optometrist
 Veterinarian
 Responsibility
 Diving duty
 Continuation bonus for
 engineering or scientific
 skills designated as critical
 Personal money allowance

Enlisted pays

Variable housing allowance:

Incentive pays:

Flying duty crew member
 Flying duty noncrew member
 Parachute duty
 Demolition duty
 High- and low-pressure chamber/
 thermal stress experiment
 hazardous duty
 Acceleration subject duty
 Deceleration subject duty
 Personnel exposed to hazardous
 laboratory situations
 Toxic fuel handler

Special pays:

Duty at certain places
 Diving duty
 Sea duty
 Overseas extension
 Proficiency
 Reenlistment bonus
 Enlistment bonus

^aThis pay is provided to induce personnel to enter and remain in duty as a human acceleration or deceleration experimental subject.

ArmyOfficer pays

Variable housing allowance:

Incentive pays:

Aviation career incentive
 Flying duty noncrew member
 Parachute jumping
 Demolition duty
 High- and low-pressure chamber/
 thermal stress experiment
 hazardous duty
 Acceleration subject duty
 Deceleration subject duty

Special pays:

Variable physician
 Retention additional
 physician
 Board-certified physician
 Medical incentive
 physician
 Dentist special
 Dentist continuation
 Veterinarian
 Responsibility
 Diving duty
 Personal money allowance

Enlisted pays

Variable housing allowance:

Incentive pays:

Flying duty crew member
 Flying duty noncrew member
 Parachute duty
 Demolition duty
 High- and low-pressure
 chamber/thermal stress
 experiment hazardous
 duty
 Acceleration subject duty
 Deceleration subject duty
 Toxic fuel handler
 Personnel exposed to
 hazardous laboratory
 situations

Special pays:

Duty at certain places
 Diving duty
 Overseas extension
 Proficiency
 Reenlistment bonus
 Enlistment bonus

NavyOfficer pays

Variable housing allowance:

Incentive pays:

Aviation career incentive
 Flying duty noncrew member
 Parachute duty
 Demolition duty
 High- and low-pressure chamber/
 thermal stress experiment
 hazardous duty
 Acceleration subject duty
 Deceleration subject duty
 Aviation officer continuation
 bonus
 Toxic fuel handler
 Flight deck duty

Special pays:

Variable physician
 Retention additional
 physician
 Board-certified physician
 Medical incentive
 physician
 Dentist special
 Dentist continuation
 Optometrist
 Career sea
 Responsibility
 Premium sea
 Nuclear qualified officer
 continuation
 Nuclear career accession
 bonus
 Nuclear career annual incentive
 bonus
 Diving duty
 Personal money allowance

Enlisted pays

Variable housing allowance:

Incentive pays:

Flying duty crew member
 Flying duty noncrew member
 Parachute duty
 Submarine duty
 Demolition duty
 High- and low-pressure chamber/
 thermal stress experiment
 hazardous duty
 Acceleration subject duty
 Deceleration subject duty
 Flight deck duty
 Personnel exposed to
 hazardous laboratory
 situations
 Other hazardous duty
 Toxic fuel handler

Special pays:

Career sea
 Premium sea
 Duty at certain places
 Diving duty
 Overseas extension
 Proficiency
 Reenlistment bonus
 Enlistment bonus

DISPOSABLE INCOME COMPARISONS ^a

<u>Military Personnel</u>									
<u>Grade/Years of Service</u>	<u>Family size ^b</u>	<u>RMC ^c</u>	<u>Gross cash income ^d</u>	<u>Tax advance- tage ^e</u>	<u>Federal income tax ^f</u>	<u>State income tax ^g</u>	<u>FICA ^h</u>	<u>Disposable Income</u>	<u>Disposable income as a percent of RMC</u>
O-10/26	3	\$85,423	\$74,827	\$10,596	\$18,097	\$3,230	\$2,392	\$51,108	59.8
O-8/26	4	84,392	73,906	10,486	17,211	3,142	2,392	51,161	60.6
O-7/26	4	75,379	65,698	9,681	13,600	2,671	2,392	47,035	62.4
O-6/26	4	66,556	58,367	8,189	10,769	2,289	2,392	42,917	64.5
O-6/22	4	62,249	54,623	7,626	9,308	2,074	2,392	40,849	65.6
O-5/20	4	54,181	47,680	6,501	6,883	1,704	2,392	36,701	67.7
O-4/16	4	46,223	41,153	5,070	4,992	1,361	2,137	32,663	70.7
O-3/6	2	35,916	32,438	3,478	3,422	984	1,617	26,415	73.5
O-2/2	2	26,041	23,889	2,152	1,745	550	1,111	20,483	78.7
O-1/1	1	20,514	18,603	1,911	1,690	400	884	15,629	76.2
E-9/26	4	39,370	35,513	3,857	3,533	1,055	1,781	29,144	74.0
E-8/20	4	31,747	28,849	2,898	2,051	687	1,352	24,759	78.0
E-7/18	4	28,134	25,766	2,368	1,552	538	1,178	22,498	80.0
E-6/10	4	23,145	21,325	1,820	885	336	919	19,185	82.9
E-5/6	2	20,080	18,472	1,608	863	302	776	16,531	82.3
E-4/3	1	15,533	14,261	1,272	951	244	638	12,428	80.0
E-3/2	1	14,341	13,163	1,178	771	198	567	11,627	81.1
E-1/1	1	11,718	10,858	860	509	119	461	9,769	83.4

(Footnotes to table on p. 43.)

Civilian Personnel									
	Family size ^b	Salary	Federal income tax ^f	State income tax ^g	Retirement contribution	Health Insurance contribution ⁱ	Medicare tax ^j	Disposable income	Disposable income as a percent of salary
<u>Federal executive level</u>									
Level I	4	80,130	25,594	4,133	5,607	1,417	464	42,885	53.5
Level II	4	69,300	20,547	5,541	4,886	1,417	464	38,945	55.8
Level V	4	63,800	17,617	3,196	4,466	1,417	464	36,640	57.4
<u>Senior executive service</u>									
SES-6	4	67,200	19,273	3,391	4,704	1,417	464	37,951	56.5
SES-5	4	65,900	18,440	3,293	4,585	1,417	464	37,301	56.9
SES-3	4	61,515	15,612	3,064	4,306	1,417	464	35,652	58.0
SES-1	4	56,945	14,601	2,801	3,986	1,417	464	33,676	59.1
<u>GS employee grade/step</u>									
GS-15/4	4	\$53,407	\$13,044	\$2,598	\$3,738	\$1,417	\$464	\$32,146	60.2
GS-15/1	4	48,553	10,971	2,319	3,399	1,417	464	29,983	61.8
GS-14/4	4	45,405	9,743	2,138	3,178	1,417	464	28,465	62.7
GS-13/3	4	37,258	6,682	1,669	2,608	1,417	464	24,418	65.5
GS-12/4	4	32,311	5,113	1,385	2,262	1,417	420	21,714	67.2
GS-11/4	4	26,959	3,627	1,077	1,887	1,417	350	18,601	69.0
GS-9/4	3	22,281	2,735	843	1,560	1,417	290	15,436	69.3
GS-7/4	2	18,215	2,060	643	1,275	1,417	237	12,583	69.1
GS-7/1	1	16,559	2,481	583	1,159	659	215	11,462	69.2
GS-5/4	2	14,707	1,387	445	1,029	1,417	191	10,238	69.6
GS-5/1	1	13,369	1,730	408	936	659	174	9,462	70.8
GS-3/2	1	11,000	1,233	308	770	659	143	7,887	71.7
GS-1/1	1	8,676	808	209	607	659	113	6,280	72.4

(Footnotes on table on p. 43.)

- ^aPay rates used were those in effect from Oct. 1, 1982, through Dec. 1983. Federal income tax rates used were those in effect as of June 30, 1983.
- ^bFamily size shown is the size estimated to be most common for each category.
- ^cRegular military compensation is defined as the combination of basic pay, basic allowances for quarters and subsistence, variable housing allowance, and the imputed tax advantage.
- ^dGross cash income assumes basic pay, basic allowances for subsistence, and quarters, and variable housing allowance--using metropolitan Washington, D.C., rates--are received in cash.
- ^eTax advantage is defined as the amount of additional income a member would have to receive in order for disposable income to remain constant if tax-free allowances became taxable.
- ^fFederal income tax was computed using tax rates in effect as of June 1983, the standard deduction, the number of exemptions according to assumed family size, and joint returns for all members with family size greater than one. Persons with gross incomes of less than \$10,000 were assumed to receive the earned income credit.
- ^gState income tax was based on 1982 Virginia tax rates, and the same conditions as above.
- ^hThe Federal Insurance Contribution Act (FICA) rate used in this comparison was 6.7 percent of the first \$35,700.
- ⁱHealth insurance contribution was based on rates of the program designated by the Office of Personnel Management as most often selected by federal employees, assuming high-option family coverage for married employees and high-option, self-only coverage for single employees.
- ^jMedicare tax rate is 1.3 percent of the first \$35,700.

MILITARY-CIVIL SERVICE WORK SPAN COMPARISONS (note a)

Military officer	Civil service general schedule
0-8	GS-18
0-7	GS-17
0-6	GS-16
0-5	GS-15
0-4	GS-14
0-3	GS-13
0-2	GS-12
0-1	GS-11
	GS-9
	GS-7

Source: "Modernizing Military Pay," Department of Defense Report of the First Quadrennial Review of Military Compensation, Vol. I, Nov. 1, 1967, chapter 4

^a Work span comparisons refer to equivalent levels of work, experience, and responsibility.

STATE INCOME TAX PROVISIONS

NO PERSONAL INCOME TAX:

Alaska	South Dakota
Connecticut	Tennessee
Florida	Texas
Nevada	Washington
New Hampshire	Wyoming

ALL ACTIVE DUTY PAY EXEMPT:

Illinois	Montana
Michigan	Vermont

MILITARY PAY EARNED OUT OF STATE EXEMPT:

Pennsylvania
 California (if on permanent duty outside state)
 Idaho (if on continuous duty for 120 consecutive days or more outside of state)
 West Virginia (if in state less than 30 days)
 Missouri^a
 New Jersey^a
 New York^a
 Oregon^a

SPECIFIC AMOUNTS OF MILITARY PAY EXEMPT:

Arizona (\$1,000)	North Dakota (\$1,000)
Arkansas (\$6,000)	Oklahoma (\$1,500)
California (\$1,000)	Oregon (\$3,000)
Indiana (\$2,000)	West Virginia (\$4,000)
Minnesota (\$3,000 to \$5,000)	Wisconsin (\$1,000)

^aGenerally, members' active duty pay may not be taxed if they (1) did not maintain permanent places of abode within the state, (2) did maintain permanent places of abode outside the state, and (3) did not spend more than 30 days within the state.

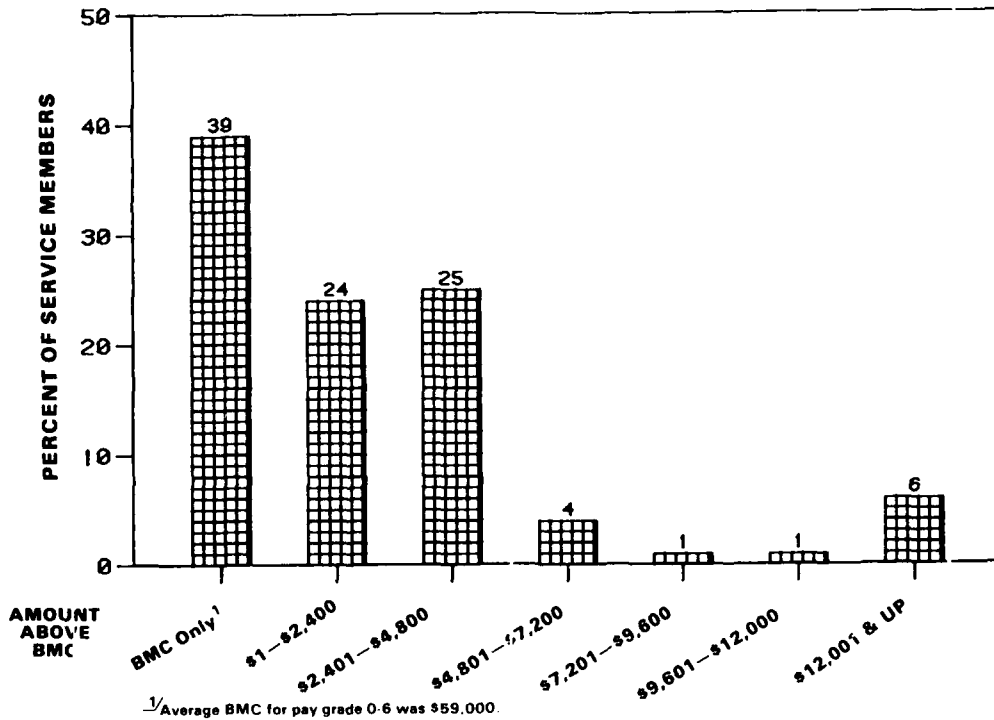
ANALYSIS OF ARMY ADDITIONAL PAY DATA

Generally, the Army additional pay data were similar to the Navy and Air Force data in that a majority of Army personnel either received some additional cash pay or were furnished government housing. Also, cash payments were directed primarily to upper-grade and career-force personnel, and for the Army personnel who received additional cash pays, VHA represented a major portion. Other comparisons to Navy and Air Force data cannot be made because the Army finance center was unable to incorporate into its data the prorated value of lump-sum payments made prior to August 1982. Because the Army extensively uses lump-sum payments, the lack of their prorated value seriously limits this study. For example, in fiscal year 1983 alone, the Army awarded about 23,200 new enlistment bonuses worth an average of \$4,357. Also, during that fiscal year about 60,970 enlisted members in grades E-4 to E-7 were serving obligations due to receipt of selective reenlistment bonuses.

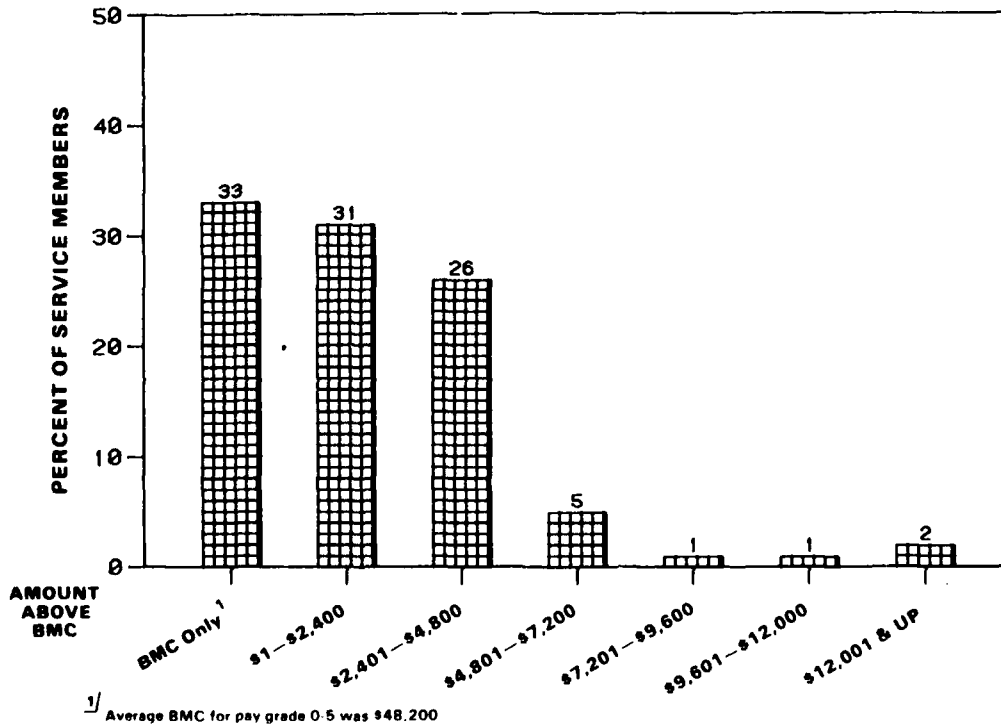
The pay data we received from the Army finance center indicated that 43 percent of all Army personnel received some cash pay in addition to BMC and that, of those personnel who did not receive additional cash pay, 86 percent lived in rent-free government housing. When VHA payments were subtracted, the percentage of Army personnel receiving additional pay--not including lump-sum payments--decreased from 43 to 16 percent. Also, when looking at career personnel--officer grades 0-3 through 0-6 and enlisted grades E-5 through E-9--the data shows that an average of 61 percent of the career officers and 53 percent of the career enlisted personnel received some additional pay.

The graphic displays which follow show the percentage of Army personnel, by grade, who received additional pay items, including VHA. The prorated value of lump-sum payments made from August 1982 through January 1983 is included, but not that of payments made before August 1982--although members may still have been serving obligations incurred as a result of payments received before that time.

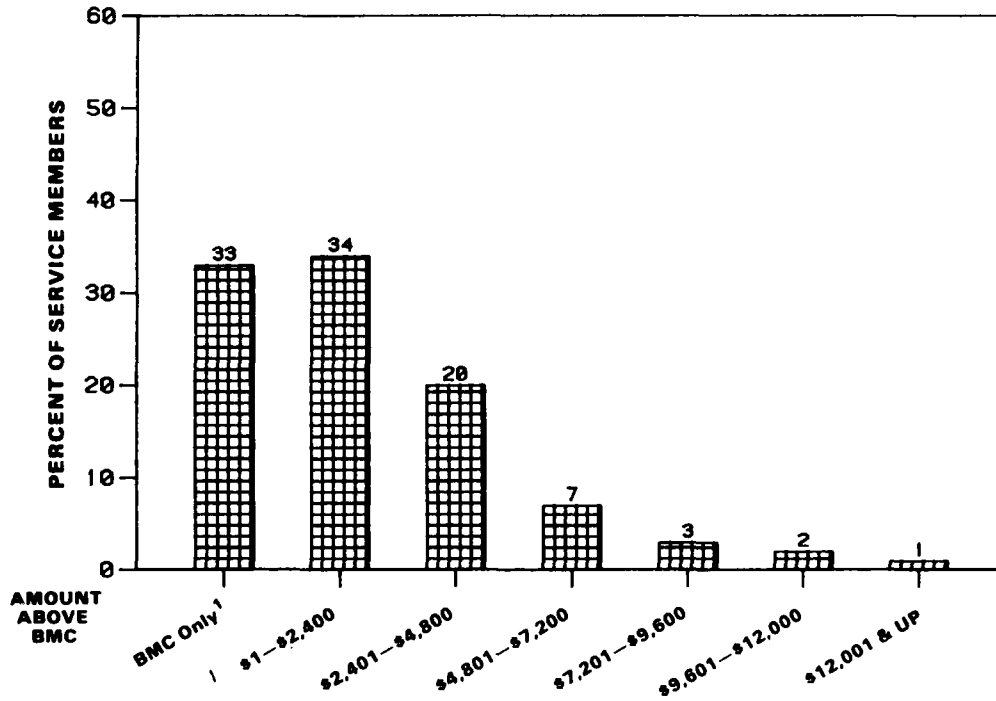
**ARMY GRADE 0-6
PERCENT RECEIVING PAY ITEMS IN ADDITION TO BMC**



**ARMY GRADE 0-5
PERCENT RECEIVING PAY ITEMS IN ADDITION TO BMC**

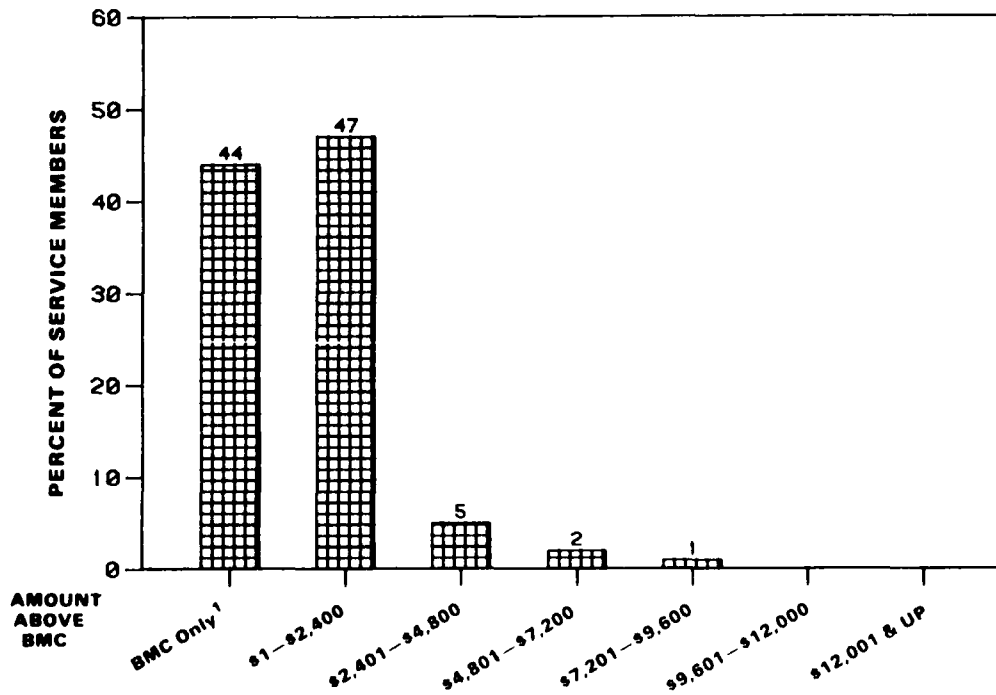


**ARMY GRADE 0-4
PERCENT RECEIVING PAY ITEMS IN ADDITION TO BMC**



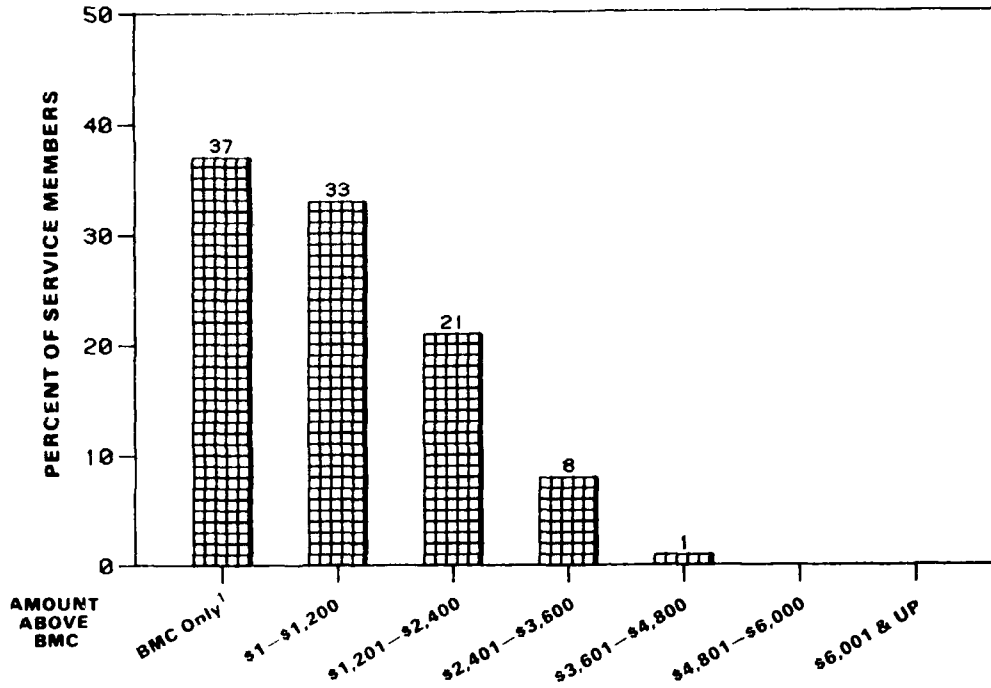
1) Average BMC for pay grade 0-4 was \$40,000.

**ARMY GRADE 0 - 3
PERCENT RECEIVING PAY ITEMS IN ADDITION TO BMC**



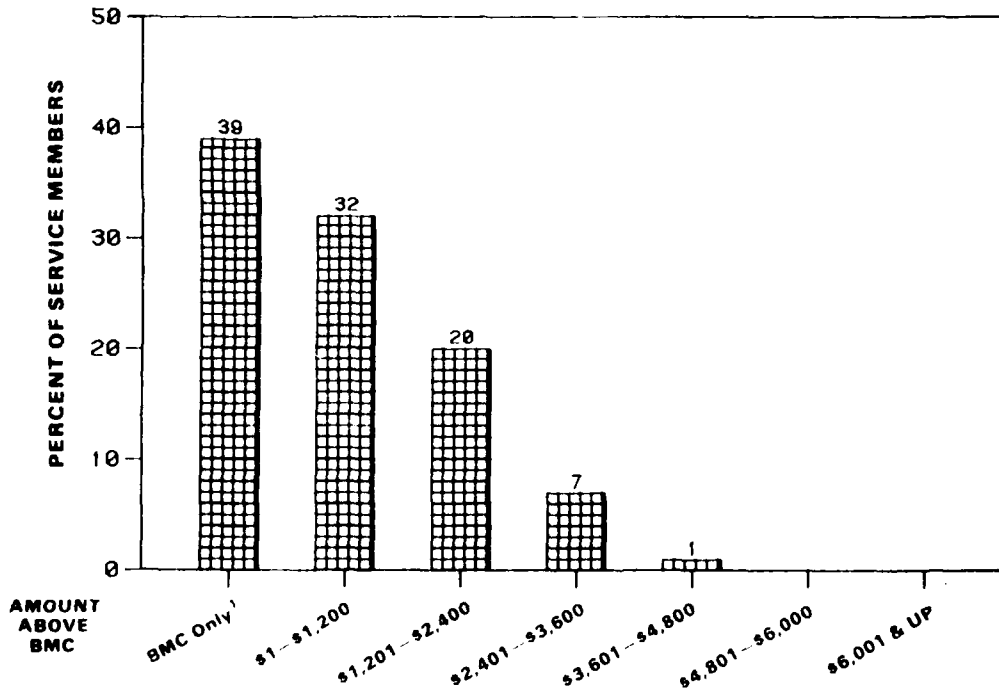
1) Average BMC for pay grade 0-3 was \$33,300

**ARMY GRADE E-9
PERCENT RECEIVING PAY ITEMS IN ADDITION TO BMC**



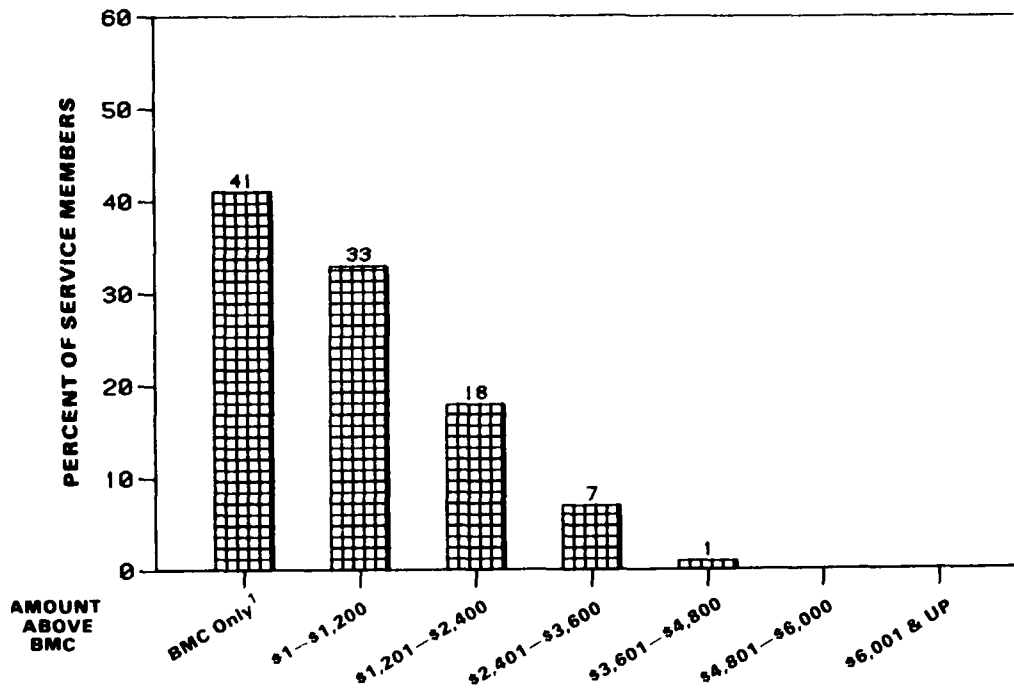
^{1/} Average BMC for pay grade E 9 was \$33,800

**ARMY GRADE E-8
PERCENT RECEIVING PAY ITEMS IN ADDITION TO BMC**



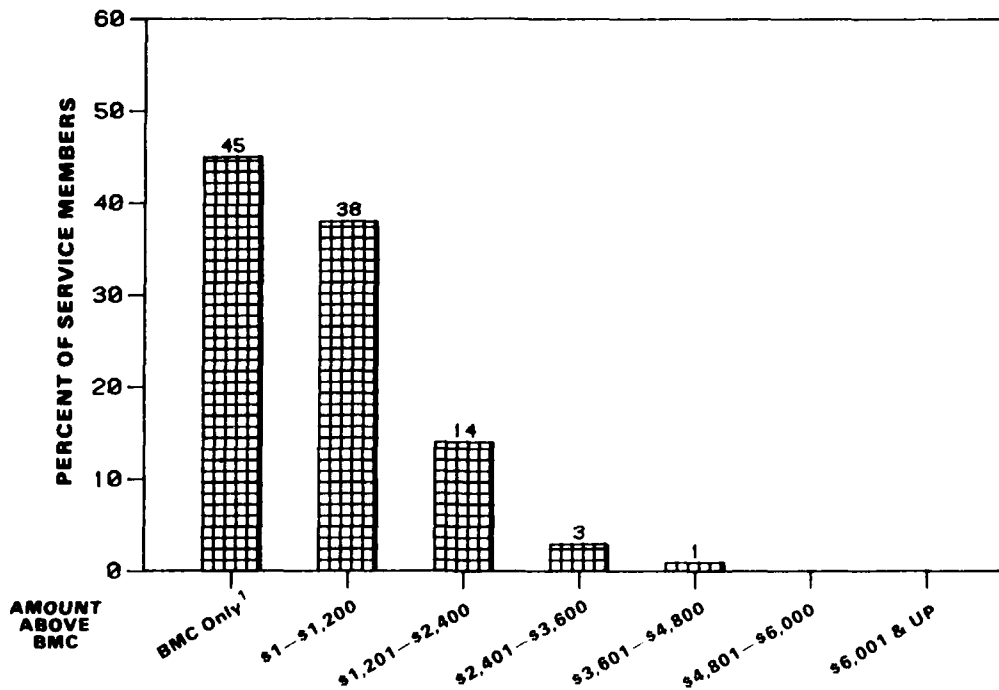
^{1/} Average BMC for pay grade E 8 was \$28,500

**ARMY GRADE E-7
PERCENT RECEIVING PAY ITEMS IN ADDITION TO BMC**



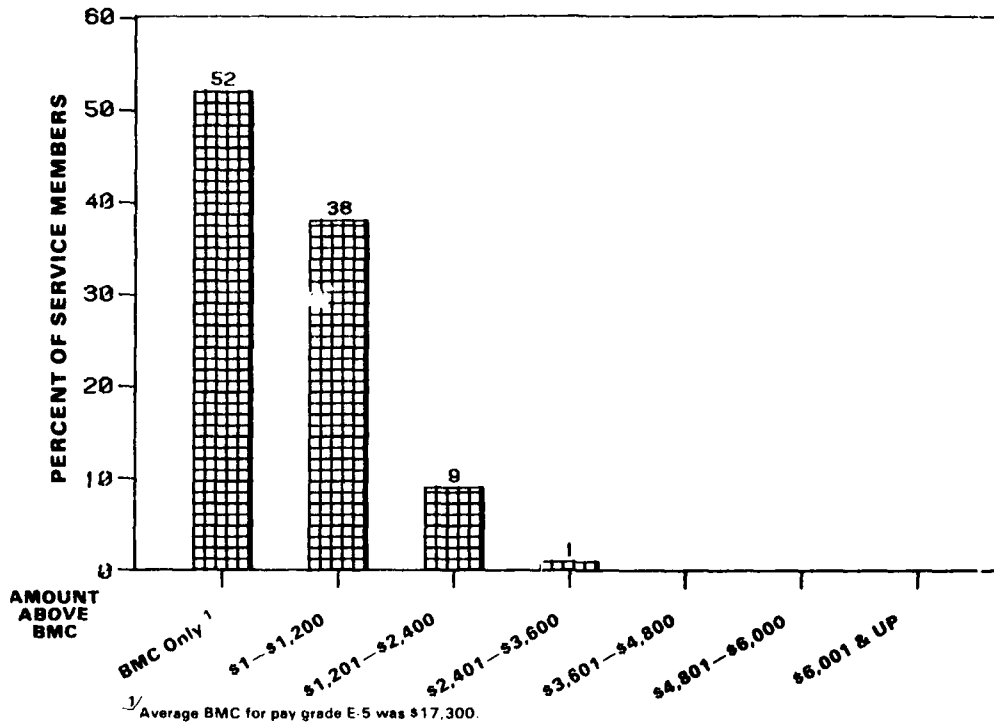
¹Average BMC for pay grade E-7 was \$24,200

**ARMY GRADE E-6
PERCENT RECEIVING PAY ITEMS IN ADDITION TO BMC**

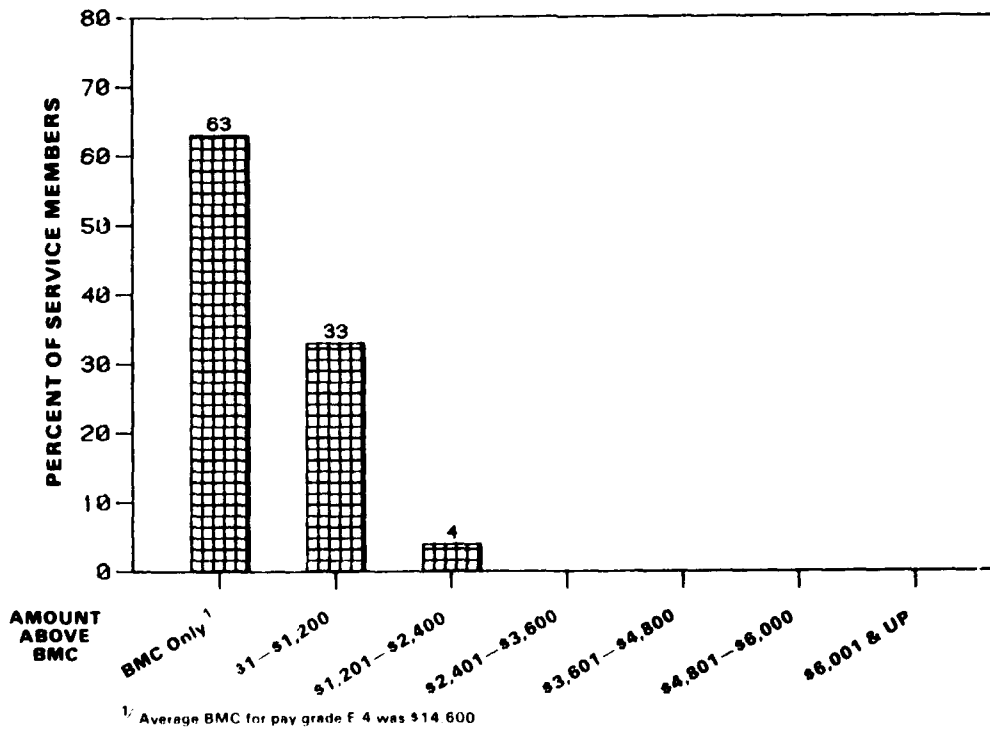


¹Average BMC for pay grade E-6 was \$20,600

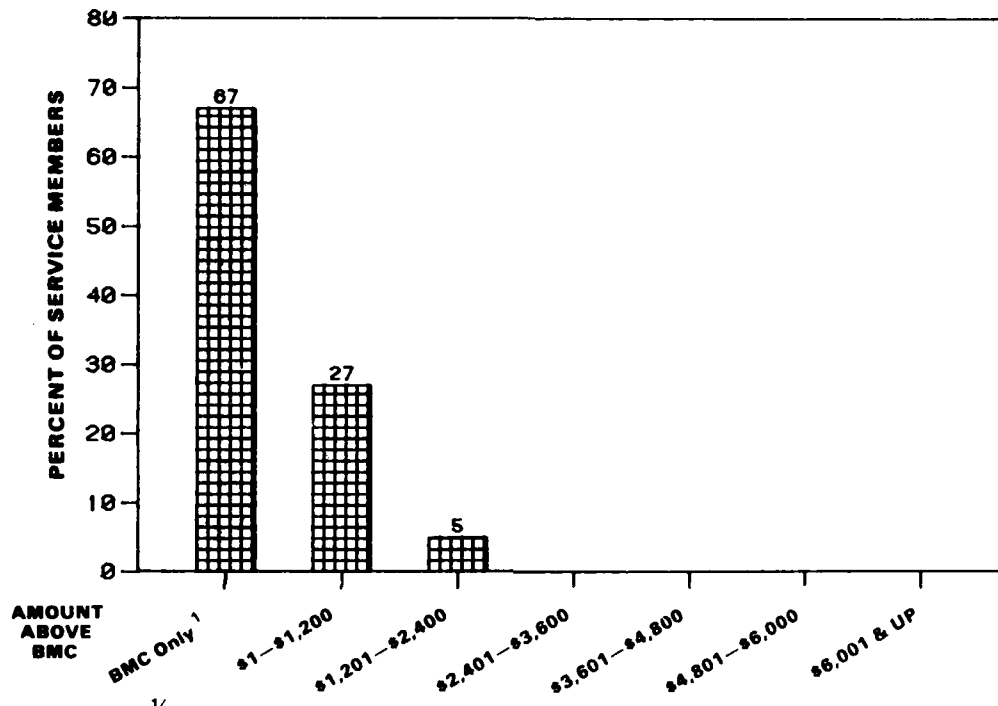
**ARMY GRADE E-5
PERCENT RECEIVING PAY ITEMS IN ADDITION TO BMC**



**ARMY GRADE E-4
PERCENT RECEIVING PAY ITEMS IN ADDITION TO BMC**



**ARMY GRADE E-3
PERCENT RECEIVING PAY ITEMS IN ADDITION TO BMC**



¹ Average BMC for pay grade E-3 was \$12,800.

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