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MILITARY COMPENSATION: TIME FOR REENGINEERING

BY

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ABSTRACT

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Military officers are leaving the armed services at alarming rates. However, officers have always resigned from the services at high rates especially during drawdowns and periods of peace. The difference with today's departures is that officers deemed to be highly successful in the organization and destined for high level commands and general officer promotion are opting to leave the service. This paper will examine the history of compensation in the military services, relevant criticisms to the present system and conduct a limited study in order to determine whether the pay gap between military and civilian compensation has reached a critical threshold. Congress realized that the large pay raises of the early 1980s had restored some equity between military compensation and the civilian sector wages. However, by 1987 the gap between private sector and military salaries had widened to nearly 9.4%. A recent RAND Corporation Study showed a 20% pay gap for officers. Clearly a pay gap exists between military compensation and civilian wage salaries. The issue raised in this paper is that there continues to be discrepancies that are beginning to have negative impacts as greater numbers of quality military officers leave for higher compensation in the civilian sector.

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MILITARY COMPENSATION: TIME FOR REENGINEERING

“Army colonels reject choice assignments”

The number of senior Army officers declining to assume commands has skyrocketed in the past five years, internal documents show. Only six colonels turned down commands in the 1992-95 period. But since 1996, 171 lieutenant colonels and full colonels have refused commands, according to Army briefing documents obtained by The Washington Times. The surge in "command declinations," as the Army terms them, comes as the service is struggling to bring in a sufficient number of recruits each year. It is also trying to slow an exodus of young captains that threatens to leave billets vacant and shrink the pool of future senior leaders. The numbers are contained in briefing papers prepared for Army Lt. Gen. Timothy Maude, deputy chief of staff for personnel, who delivered the news at an October 19 commanders' conference of two-star generals. Gen. Maude also has briefed Gen. Eric Shinseki, the Army chief of staff. "Officer attrition is continuing at a rate that will not allow full manning of the force structure if loss rates continue at [fiscal year 2000] rate," the documents warn.

— By Rowan Scarborough
THE WASHINGTON TIMES
November 1, 2000

Military officers are leaving the armed services at alarming rates. However, officers have always resigned from the services at high rates especially during drawdowns and periods of peace. Examples include the late 1940's following the end of World War II, the early 1970's following the end of US military involvement in Vietnam, and in the early 1990's following Operation Desert Storm. The difference with today's departures is that officers deemed to be highly successful in the organization and destined for high level commands and general officer promotion are opting to leave the service. This phenomenon is clearly evidenced by the nearly 1500% increase from the number of colonels (6 total) that turned down command in the 4 year period from 1992-1996 as compared to the more than 170 that turned down command in the following 4 years. The officers leaving now are those that have commanded or been selected for command, are graduates of Senior Service Colleges or have been selected, and are clearly at the top of their year groups. As a result, the potential selection pool from which the country's future senior military leadership will be drawn is slowly being diluted

and is not talented as it once was. The Schwarzkopfs, Powells, Sheltons, and Shinsekis that will lead the nation's armed forces in the 21st century may have already resigned from the service as a company grade or field grade officer. The resulting perception is that the nation's future military may not be as well led as in the past.

The primary motivation for studying this topic is a concern of the impact of the noted trend on readiness of the United States Military Services and if there are steps that can be taken to reverse this trend. This paper will examine the history of compensation in the military services and conduct a limited study in order to determine whether the pay gap between military and civilian compensation has reached a critical threshold where senior officers leave the military services for civilian employment. The perceived result of these departures is reducing readiness and rendering the services less able to effectively conduct its mission due to personnel shortages. If lucrative civilian job opportunities are the reason that top officers are departing the services, then military compensation must be examined. In order to address this issue, this paper is focused on understanding the pay gap between military and civilian compensation by trying to find if there is a departure threshold gap. If there is such a threshold above which officers will resign, the services have the option to close the gap in order to keep the best and brightest people leading the military.

This paper will examine the current compensation trends in the military. In addition the history of military compensation will be reviewed and relevant criticisms to the present system will be discussed. Lastly, this paper will examine a small study of the compensation of present and former commissioned officers and their respective considerations when they did or did not leave the service.

UNDERSTANDING MILITARY COMPENSATION

According to the RAND Study, A Theory of Military Compensation and Personnel Policy, "a primary goal of military compensation is to enable the military to meet its military objectives for force size, composition, and wartime capability."¹ In order to reach these goals the compensation must be structured to attract, retain, and motivate personnel to desire to join and remain in military service. Clearly the challenge is determining how much and for what this compensation structure should be.² The duties and descriptions of many of the military occupational specialties are unique to uniformed military service and are difficult to equate to comparable civilian jobs. In addition, military pay is often a complex and controversial issue. As public servants paid by

federal taxes, senior military service members are reluctant to propose politically charged pay increases and be viewed as taking advantage of society or diverting defense resources from other programs. Many past studies have focused on the relationship between compensation and retention. However, fewer studies have focused on the more significant issue of whether the present compensation induces the most talented individuals to remain in the service and to seek continued advancement.³

In 1952, Secretary of Defense Robert A. Lovett recognized the need for defining the underlying concepts and principles upon which the structure of military compensation should be based. As a result he defined these principles in the Strauss Commission to make the system of military compensation more easily understandable.⁴ These principles were as described below.

Manpower and compensation must be interrelated in that the levels of compensation must support the defense personnel policies that subsequently support the strategic and operational plans of the Department of Defense. If these compensation plans do not adequately support military manpower than unit cohesion, morale and eventually personnel readiness will be affected. Military compensation must be a key aspect of personnel management.⁵

Military compensation must remain compatible with evolving technology and tactics. Military compensation must keep pace with the increased technology employed by the military in weapons, equipment, and tactics.⁶

The principle of equity was to ensure "fairness" such that all service members were treated as fairly as possible. All service members whether Regular, Reserve or National Guard status could compete equally for pay and promotion based upon their abilities. Equity applied to the concept of equal pay for essentially equal work under the same general working conditions. This principle includes the concept of comparability in that the military service members should be paid similar wages in terms of function and responsibility to their civilian counterparts in the economy. Clearly it is not possible to equate the duties of armed combat with jobs in the civilian sector.⁷ The British Army was able to establish a distinction in their report on their pay system:

"There is obviously no basis for comparing civilian jobs with jobs like infantryman and gunner, for which there are no civilian counterparts; or even with pilots, seamen, policemen, nurses, cooks, and others with similarly denominated civilian jobs, but which are frequently very different jobs in civilian life. However, all jobs, whether service or civilian, possess certain common demands for which any employer is willing to pay wages.

These demands can be assessed and given values as proportions of a whole job. The important ones like knowledge, mental or physical skills and demand, or responsibility, are obvious, and there are many others, some of which are of little consequence in differentiating between the sizes of jobs. What is intended is that members of the armed forces should be generally paid what they might fairly expect were they to apply the knowledge, skill, and responsibility of their Service jobs to jobs required to be done in civilian life.”⁸

The consensus of the British report was that the pay of the military service member was to be comparable to that of those performing similar work in the civilian industry.

The principle of equity also refers to compensation for competitiveness to insure that shortage military occupational specialties remained filled as necessary. There are two aspects of competitiveness: external competitiveness which refers to market pressures and internal competitiveness which refers to those military duties which require incentive pay due to the high degree of danger of the duties. The external competition refers to compensating those occupations that are in high demand in the civilian economy and are difficult to maintain in the military.⁹

The fourth principle of the military compensation system is that it must operate effectively in both times of peace and war. The military compensation must operate effectively under all conditions of deployments and must be able to react quickly as the force expands and contracts as the country reacts to different military contingencies. In addition, the system must allow for the entry of reservists and military retirees onto active duty status.¹⁰

The fifth principle of the compensation system is that it must be able to change quickly with the demands of the personnel system. Inherent in flexibility are the sub principles of efficiency in which military compensation should not be higher or lower than necessary to attract, retain, and maintain the appropriate number of personnel required by the services; supply and demand in which the varying needs of the service regarding skill and experience are fulfilled; linkages of elements where one element of compensation often affects other elements and; rapid and equitable adjustments such that the compensation system is able to adjust to rapid changes in the standard of living in the national economy.¹¹

The sixth principle of military compensation is that it must establish a relationship between the motivation and the compensation of the service member. This system should encourage meritorious performance and advancement to positions of higher authority and responsibility.¹²

Members of the armed forces are compensated for their service to the country through basic pay. The practice by which members of the armed forces received compensation for their service can be traced back to resolutions enacted by the Continental Congress and the Federal Congress during the Revolutionary War. The Act of April 30, 1790, "provided funds for the pay of troops, additional pay for adjustments, quartermasters, and paymasters..."¹³

The original military retirement and compensation plan has been in existence for more than 80 years. Since 1947, a number of commissions or study groups appointed by the executive branch or Congress have studied the structure of the military retirement system. All of these studies focused primarily on issues dealing with retirement such as when should retirements benefits be vested, when should benefits be paid, how generous should the benefits be, and should there be a distinction between those occupations requiring more youthful service members and others.¹⁴

The first of these commissions was the Joint Army-Navy Pay Board and the 1948 Advisory Commission on Service Pay (the Hook Commission). Congress formally put the 20-year retirement for military service members into law in 1946-47. These studies focused exclusively on this 20-year system for retirement and both concluded that 20-year careers were too short and recommended retirements for only those that departed after 30 years of service.¹⁵

The next formal review of military compensation took place in 1969. The first Quadrennial Review of Military Compensation (QRMC) again examined the issue of the 20-year retirement. The traditional view of this retirement system was that it was part of the compensation to those service members that had successfully endured a military career filled with the risks of combat, family separations, and loss of freedom. Subsequent QRMCs have been convened since 1969 until the present day.¹⁶

In July 1977, newly elected President Jimmy Carter established the President's Commission on Military Compensation to again study the full range of compensation issues. The focus again was the issue of the 20-year retirement. This study viewed the 20-year vesting as unfair and recommended a 10-year vesting.¹⁷ Furthermore the plan offered those individuals with at least 10 years of service and no more than 19 years of service the opportunity to receive significant financial benefits if they separated. Such a policy would prevent the sharp drop that occurs at the 20-year mark when several individuals retire having just been vested in the retirement program for life. These new

programs would encourage service members to depart the service when they felt appropriate and not solely upon the completion of a certain number of years.¹⁸

In addition to the numerous studies that were conducted on military compensation, Congress enacted several laws that reviewed compensation. The Joint Service Pay Adjustment Act of 1922 was the first legislation to review the compensation of military personnel. In particular, this legislation increased the pay of service members in response to the increased cost of living in the national economy. Officers below the rank of flag officer were paid based upon pay periods that were determined by rank and the number of years of service. The pay periods were constructed to offset the extremely slow promotion process that took place after the First World War. An officer did not necessarily have to be promoted in order to be advanced into a different pay period and therefore receive a pay raise. Enlisted soldiers, however, only received the pay that was entitled to their respective rank. Officers were also entitled to longevity pay, which equated to nearly 5 percent of their base pay for each of three years of service. Enlisted soldiers were not entitled to this longevity pay until the Pay Readjustment Act of 1942, which computed the longevity pay for both officers and enlisted soldiers in the same manner.¹⁹

The Career Compensation Act of 1949 made sweeping changes to the structure of military compensation and made a strong correlation between salaries in the civilian job market with those in the military. This act provided for the present day system of pay and allowances that is essentially in effect today. These pay and allowances were intended to provide equity to salaries in the civilian market as well as attract and retain the types of personnel needed in the military services after World War II. As a result, the system of pay period introduced in 1922 was replaced by a career system in which a service members' basic pay was determined by their pay grade and length of service. In addition, special and incentive pays, allowances, and reimbursements were identified which could be added to the individual's total pay. Under this system, officers were assigned pay grades O-1 through O-8; warrant officers, W-1 through W-4; and enlisted personnel, E-1 through E-8. At each rate of pay were also incremental longevity steps that were related to the length of service that an individual had served.²⁰

The next major legislation to affect military compensation occurred with the Uniformed Services Pay Act of 1958. The focus of this legislation was to again increase basic pay rates to make them competitive with those of the civilian job market and to add the pay grades of O-9 and O-10 for officers and E-8 and E-9 for enlisted soldiers. There

was a concerted effort in this legislation to provide additional incentives to encourage enlisted soldiers to pursue career military service.²¹

In the Act of December 1967, Public Law 90-207, Congress enacted a mechanism that significantly changed the manner in which military compensation would be determined. This new legislation required that whenever the General Schedule of Compensation for federal employees or civil service employees was increased, the basic pay of service members would be increased comparably. This act was adopted in conjunction with the Federal Salary Act of 1967 to close the gap in pay between federal civilian and private sector pay. As a result, this legislation insured that the basic pay of the military would increase without the need for further congressional action. This linkage between military and civilian pay remained in effect until the early 1990s.²²

In the early 1980's Congress began attempting to equate military compensation with compensation in the civilian sector. The Uniformed Services Pay Act of 1981 increased basic pay from 10%-17% based upon respective pay grades. Congress was attempting to "restore in current dollars the relative relationship of military compensation to pay in the private sector that existed in 1972 when Congress adopted the all-volunteer force construct as the manning principle for the armed services".²³ In addition, Congress emphasized that additional actions were necessary in the following years to continue to provide service members with the incentives to make military service a career. Congress recommended that new adjustment mechanisms be created which more accurately reflected the relationship of military compensation with that of comparable civilian wages. In addition, Congress recommended the establishment of a more refined adjustment mechanism that, "appropriately weighted to reflect the military skill mix".²⁴ The administration ignored these recommendations from Congress; in 1982 the basic pay rates for the members of the armed services were increased by only 4%.²⁵

In 1983 Congress again recommended that the link between military pay and civil service wages that was adopted in 1967 be severed to allow for more accurate pay adjustments to be made. In fact, there were some members of Congress that felt that these pay adjustment linkages were resulting in large increases for military personnel. These members of Congress wanted a more accurate index that would "provide assurance to the country that military members are receiving no more than what the average private sector worker is receiving in annual pay raises".²⁶

The Department of Defense Authorization Act, 1986 provided only a 3% increase in basic pay. However, members of Congress, the House Armed Services Committee in

particular indicated, "...the importance of adequate pay to recruiting and retaining high quality personnel and reiterates its commitment to providing periodic pay increases for our nations' men and woman in uniform..."²⁷ The authorization act for fiscal years 1987, 1988, 1989, 1990, and 1991 all provided for minimal increases in base pay. Congress continued to express concern about the comparison of the level of wages of military compensation and private sector wages. Congress was also concerned about the increasing overall budget deficit. In 1986, the Senate Armed Services Committee noted, "Military pay levels continue to lag behind comparable civilian wages. As measured by the Employment Cost Index (ECI) of the Bureau of Labor Statistics, military pay trails civilian wages by 8.3 percent. Without a four percent increase in military pay during 1987, it is likely that this gap will grow even larger. The committee believes that, even in light of the severe budget constraints being imposed on defense, it is essential than military pay not be permitted to fall further behind civilian wages".²⁸

Congress realized that the large military pay raises of the early 1980's had restored some equity between military compensation and the civilian sector wages. This added compensation had increased the recruitment and retention of the military services since that time. However, by 1987 the gap between private sector and military salaries as measured by the Employment Cost Index had widened to nearly 9.4%. This gap was further increased to 11% by 1988.²⁹ Congress approved a 4.3% increase in base pay in 1989 with the goal of keeping "the reported pay gap between private sector wages and military pay of 11% from widening".³⁰

The February 1999 RAND Corporation Study, Military Compensation Trends and Policy Options, discussed the differences in military and commercial pay. It showed a steady decline in military compensation since 1982. In this analysis, RAND created the Defense Employment Cost Index (DECI). This was a weighted index that takes into account age, education, occupation, gender and race. Using DECI, RAND showed a significant pay gap (20%) for officers. This pay gap became more severe as the more senior officer pay was examined.³¹

The military is very effective at identifying people who produce and perform and promotes them to senior ranks. As a result, RAND recommended a targeted pay raise for mid-career and particularly senior officers. RAND tracked personnel from 1978 to 1996, a span of 18 years. They concluded that if the pay gap trend continued at the senior ranks, retention at all levels would become a problem. According to the

newspaper article in the opening paragraph, this conclusion prediction by RAND appears to have come true.

The pay gap between military and civilian pay continued throughout the 1990s, peaking in 1998 at 13.5 %. Congress narrowed this pay gap to just under 10% two years later with the passage of the Fiscal Year (FY) 2000 and FY 2001 Defense Bills. Current military compensation legislation will not close the remainder of this gap until the year 2026.³²

CRITICISMS OF MILITARY COMPENSATION

There have been numerous criticisms of the present military compensation system. The foremost criticism is that there are small differentials in basic pay among the different grades. There are some pay increments from the length of service that are greater than increments from promotions in grade. It is not uncommon to have lower ranking service members with longer time in service making more than their higher-ranking seniors with less time in service. Clearly, it appears that the services are equally concerned with rewarding seniority as well as rank and performance. Therefore in this present system, there is the strong potential for service members to not necessarily work as hard and not to strive for promotion. This disincentive effect often results in the best people leaving the military service.³³

A second criticism of the present system of military compensation involves the allowances that are provided to service members. Additional pay and allowances for housing and living expenses are granted to service members based upon marital status and their number of children dependents. Overall pay is not based upon performance and the motivation to perform well is weakened.³⁴

Another criticism of military compensation that has been identified is that the same pay table is applied to all services and all military specialties across the board. This does not take into account the unique requirements of the services and the unique job assignments with varying amounts of responsibilities and accountability.³⁵ A glaring example of this inconsistency is the example of a United States Army lieutenant colonel with 18 years of service. In one capacity, the officer will serve as the battalion commander of an infantry battalion, charged with the responsibility and accountability of the health, welfare, and training of more than 700 soldiers. In another capacity, the officer will serve as an action officer on the Army Staff charged with only the

responsibility and accountability for themselves. Both officers will receive the same pay with obviously huge variances in job responsibility.

A fourth criticism of the present military compensation system is that the intragrade framework is not properly structured. The present system rewards time in service and does not reward time in grade. Those people who perform well and get promoted more quickly lose their pay advantage when their less productive peers are subsequently promoted. By adopting a system in which compensation is based upon time in grade as compared to time in service, these "fast trackers" would continue to receive a benefit for having been promoted quicker.³⁶

Lastly, in the current compensation system, increased military compensation occurs only through promotion. Such a system encourages individuals to continue to seek promotion or "climbing" to higher positions in order to increase their pay. As a result, service members are often more concerned about moving to positions they may in fact be less qualified to fulfill but are positions of promotions, rather than working to continue to hone their skills at their present rank.³⁷

INCENTIVE TO LEAVE THE SERVICE

Clearly a pay gap exists between military compensation and civilian wage salaries. The issue raised in this discussion is that there continues to be discrepancies that are beginning to have negative impacts as greater numbers of quality military officers leave for higher compensation in the civilian sector. As noted in the previous discussion, military compensation has changed when Congress perceived that there was a negative impact on readiness due to low compensation. Recent studies and reviews indicate that a more efficient compensation system could encourage these high quality officers to remain in the service.

The next portion of this paper will attempt to analyze the impact of this pay gap upon members of the officer corps. This analysis was conducted through a survey of officers and former officers.

The study gathered data from 30 present commissioned military officers and 30 former commissioned military officers. The data included information on years of service, age, education, marital status, family and annual income at the following points in their career: 5, 7, 10, 12, 15, 20, 22 years of service and 1, 5, 7, 10, 12, 15, 20 years after departing active duty. Every active duty officer was asked for the amount of pay for which they would leave the service, based on job offers they had received and turned

down, and also simply the amount it would have taken during their career at the various checkpoints listed above. The survey obtained their pay before and after leaving the military. Data was also gathered about offers people had turned down or opportunities they decided not to pursue.

The goal of the survey was to identify and analyze three levels of pay and the gaps between them. The level of pay was called the Military Officer Pay Line. The Military Officer Pay Line are the amounts of pay that active duty officers are receiving at various points in their career. The second line is called the Threshold Pay Line, which is the threshold pay line above which an individual would leave the military. The third line is the actual pay received since leaving the military service. This is called the Actual Pay Line. The study analyzed the gaps between the Military Officer Pay Line and the other two pay lines.

The method of gathering data was as random as possible. The data was collected through e-mail responses to a survey. The survey was distributed through informal networks as well as through personal interviews. As a result there is a slight bias for people with e-mail. The data was gathered from all four branches of the services: Army, Air Force, Navy, and Marines. The respondents were either on active duty or had left military service.

There is another risk of selection bias in that many of the subjects were similar in age, career aspirations, educational background and all were either active or former military officers. In addition, not every individual responded to all questions. The question with fewest responses was the offer amount to leave the military at 15 years. Several people responded that there is no offer that could entice them to leave at that point in their career. Additionally, people did not respond to the offer amount question for the 5-year mark due to service commitments, which they felt prevented them from leaving.

The specific hypothesis that was examined was whether the gap between military and civilian executive pay had become significant enough to result in the departure of many officers from the military service especially at the senior ranks. This increased departure of senior officers from the military services could threaten the readiness of the services and place the nation's national security at risk.

The results of the surveys are illustrated in the charts below. On the right hand side the "Disincentive Effect" is shown.

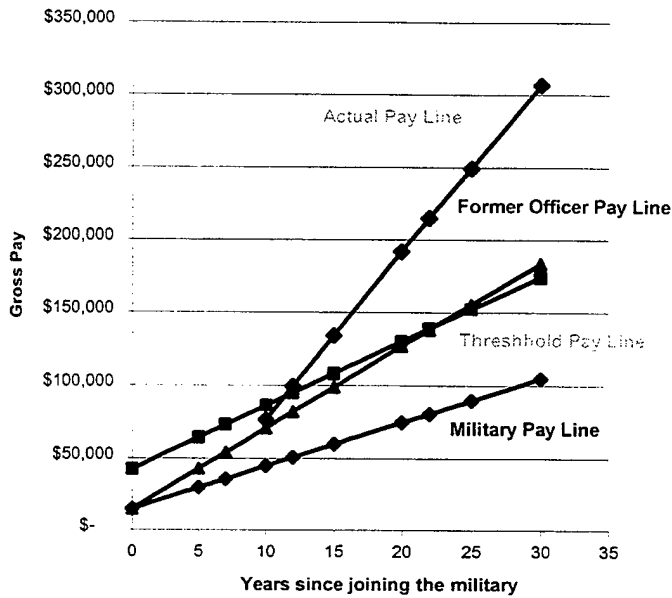


FIGURE 1. SURVEY RESULTS

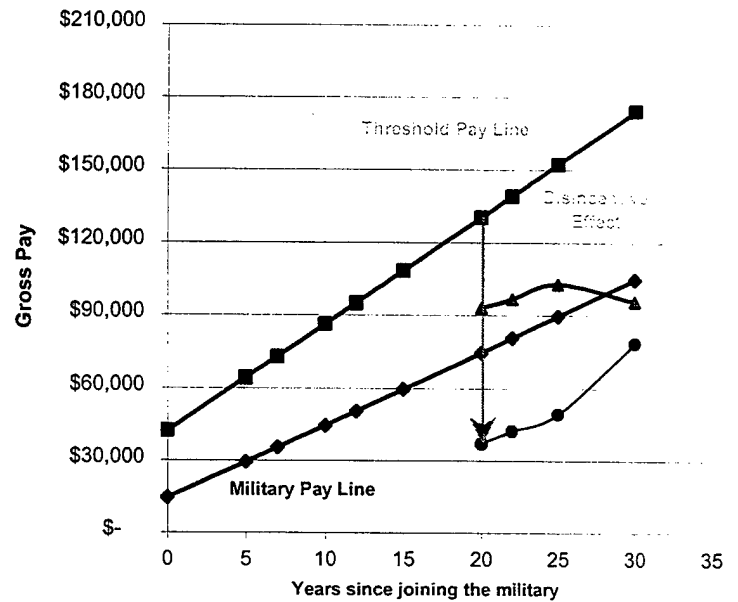


FIGURE 2. DISINCENTIVE EFFECT

The Military pay Line is the lowest line on the graph. The Threshold pay Line is the second line on the graph. The Actual Pay Line for those officers that left the military service is the top line with the greatest slope of increase.

The table below shows the gaps between the Military Pay Line and the Threshold Pay Line and the Actual Pay Line.

Gap	5	7	10	12	15	20	22	25
Threshold	\$34,682	\$37,474	\$41,663	\$44,456	\$48,645	\$55,626	\$58,419	\$62,608
Actual			\$31,984	\$48,980	\$74,476	\$116,967	\$133,964	\$159,459
Actual %			10%	53%	110%	129%	155%	

TABLE 1. SURVEY RESULTS OF AVERAGE COMPENSATION GAPS

The Threshold Gap defines what amount of a pay gap is tolerable and at this gap, people choose to remain in the military. An example data point that helped establish this threshold gap was a senior officer at 20 years of service that recently turned down a job at \$160,000 a year. His acceptable offer was \$200,000. This higher offer becomes the threshold at which he would leave the military. The Actual Gap is the pay gap between their new civilian pay and their former military compensation for people who actually enter the civilian job market. This gap is large, increasing by a magnitude that is greater than 15 in the 13 years from 12 years of service to 25 years of service.

The phenomenon known as the Disincentive Effect occurs at the 20-year mark at which point a person is vested to receive a minimum of 50% of their base salary. Knowing that this pension is guaranteed, the individual is now working for 50% of their salary after the 20 years of service. This has the effect of lowering the enticement offer by the same amount for that individual to leave the military. The threshold lowers and the gap becomes bigger. The sudden increase in the size of the gap between active duty pay minus the guaranteed pension and civilian pay results in individuals leaving the service. This is illustrated on the previous charts.

As one can see from the previous graphs there is a threshold pay level at which officers will likely leave the military service. Actual pay offers and actual incomes exceed the threshold and in many cases by double or more. The logical conclusion indicated by the data collected is that the military services must reengineer their compensation system. Otherwise, based on current economic conditions, it is inevitable that military officers will leave the service based on external real conditions exceeding their pay threshold.

Many of the officers interviewed indicated that they did not clearly understand the net worth of their skills in the civilian job market. In addition they did not understand their potential earning capacity. Many of these officers had never considered employment outside of the military. As more of these officers realize their net worth in the civilian market and the difference between their threshold pay line and their actual pay line, it is inevitable that many will opt to leave the service.

According to the responses to the survey, there is the strong perception of value of the 20-year pension thereby impacting the responses to the questions about an acceptable offer to leave at 15 years. The current compensation system creates what is known as the "golden handcuffs" as shown below. Because of the vesting of military service at 20 years of service (where members receive 50% of their base salary for life

and continue to receive 2.5% more each year until year 30), members who have between 10 and 19 years of service face a financial loss if they leave before the completion of at least 20 years of service. The impact of the “golden handcuffs” was observed in the data analysis. Many respondents indicated that the cost to leave the service was too great and only the prospect of an extremely large salary could entice them to leave. Others could not place a value on departing from the service so close to being vested for life in retirement. In most cases their salary demand at 20 years of service subsequently decreased.³⁸

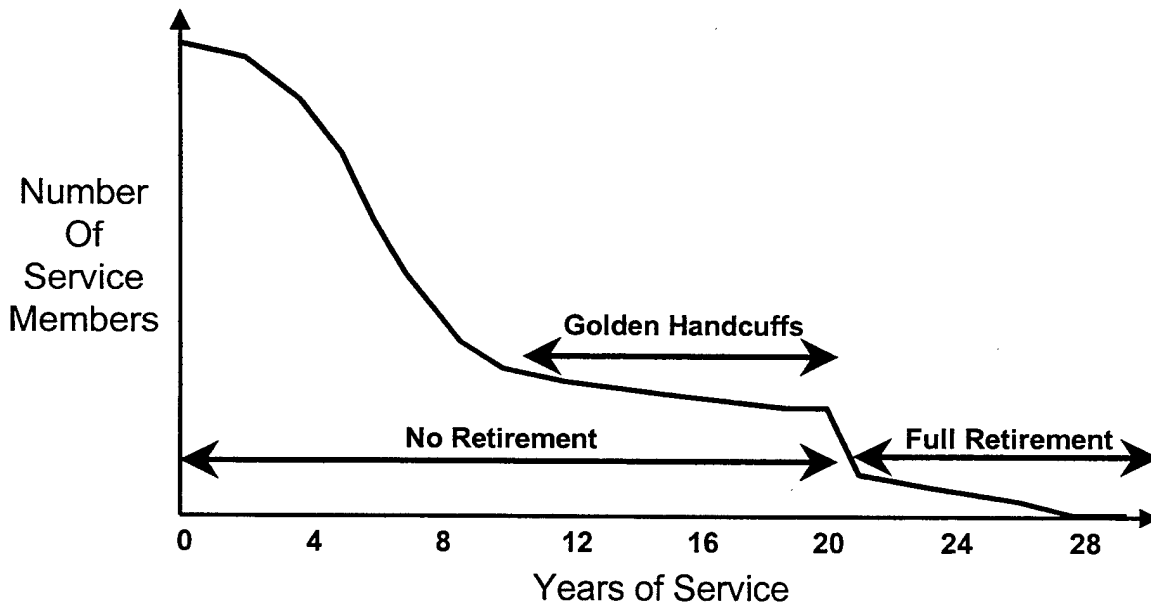


FIGURE 3. GOLDEN HANDCUFFS EFFECT ON PENSION³⁹

RESOLUTION OF CURRENT TREND

In conclusion, there is a threshold pay level at which officers will likely leave the military service. Actual pay offers and actual incomes exceed the threshold, in many cases by double or more. A logical conclusion is that the military services must reengineer their compensation system. Otherwise, based on current economic conditions it is inevitable that military officers will leave the service based upon civilian compensation exceeding their pay threshold.

In addition, most officers have indicated that there is a threshold salary above which they would leave the military service. The preceding survey and analysis have displayed that their present threshold salary is exceeded by the Actual Pay Line beginning in year 12 by 10% and reaches more than double or over 100% of the threshold in year 20 and

continuing from there. It is easy to conclude that those officers previously cited would readily depart military service upon learning that average present salaries exceeded the threshold level. This potential for future mass departures from the service coupled already with the high officer attrition levels places the nations' services in a precarious situation.

The purpose of this paper is to highlight this potential national security issue and to serve as the basis for future in-depth studies. The conclusion is that current economic and compensation conditions will cause a greater number of officers to depart military service. Based on this limited analysis and the studying of previous military compensation studies, it appears that the military compensation system needs to be examined to reverse the current trends in the departure of top level officers.

In the business world reengineering is doing more with less. It is rejecting what one has always thought they knew. In the case of military compensation, senior military leadership and Congress need to reengineer their approach. Rather than incorporating annual pay raises and cost of living adjustments, the entire military compensation system needs to be reengineered to persuade well-trained and educated officers to remain in the military. The purpose of this paper is to serve as a catalyst for such an undertaking. The stakes of our country's future defense preparedness depends on providing superior leadership to our forces. An in-depth study and action on this issue will mitigate the current trend.

WORD COUNT = 5660

ENDNOTES

¹Beth J. Asch and John T Warner, A Theory of Military Compensation and Personnel Policy (Santa Monica: National Defense Research Institute, 1994), iii.

²Ibid.

³Ibid.

⁴Office of the Secretary of Defense, Military Compensation Background Papers (Washington, D.C.; Department of Defense, September 1996), 6.

⁵Ibid.

⁶Ibid., 7.

⁷Ibid.

⁸Ibid., 8.

⁹Ibid.

¹⁰Ibid.

¹¹Ibid., 9.

¹²Ibid.

¹³Ibid., 25.

¹⁴Asch and Warner, A Theory of Military Compensation and Personnel Policy, 28.

¹⁵Ibid.

¹⁶Ibid., 29.

¹⁷Ibid., 33.

¹⁸Ibid.

¹⁹Office of the Secretary of Defense, Military Compensation Background Papers, 27.

²⁰Ibid.

²¹Ibid., 28.

²²Ibid., 30.

²³Ibid.,36.

²⁴Ibid.

²⁵Ibid., 37.

²⁶Ibid.

²⁷Ibid., 39.

²⁸Ibid.

²⁹Ibid., 40.

³⁰Ibid., 41.

³¹Beth J. Asch and James R. Hosek, Military Compensation: Trends and Policy Options (Santa Monica: National Defense Research Institute, 1999), 8.

³²Association of the United States Army, Defense Report (Washington, D.C.: Association of the United States Army, 2000), 1.

³³Asch and Warner, A Theory of Military Compensation and Personnel Policy, 23.

³⁴Ibid.

³⁵Ibid., 24.

³⁶Ibid.

³⁷Ibid.

³⁸Asch and Hosek, Military Compensation: Trends and Policy Options, 33.

³⁹ Ibid.

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