

REPORT OF
The Tenth Quadrennial
Review of Military
Compensation



VOLUME I
Cash Compensation

February 2008



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For Immediate Release
Office of the Press Secretary
August 2, 2005

Memorandum for the Secretary of Defense

SUBJECT: Tenth Quadrennial Review of Military Compensation

Consistent with section 1008(b) of title 37, United States Code, every 4 years the President directs a complete review of the principles and concepts of the compensation system for members of the uniformed services. You shall conduct the tenth such Quadrennial Review of Military Compensation as my Executive Agent.

The Army, Navy, Marine Corps, and Air Force in the Department of Defense; the Coast Guard in the Department of Homeland Security; the commissioned corps of the National Oceanic and Atmospheric Administration in the Department of Commerce; and the commissioned corps of the Public Health Service in the Department of Health and Human Services perform important roles in the protection of the American people and advancement of their interests at home and abroad. To continue to recruit and retain highly qualified personnel for the uniformed services as they transform themselves to meet new challenges, the departments concerned must offer, in addition to challenging and rewarding duties, compensation appropriate to the services rendered to the Nation. The departments also must apply the substantial taxpayer resources devoted to uniformed services compensation in the most effective manner possible.

In the review of the principles and concepts of the compensation system, particular attention should be paid to:

1. ensuring that personnel in the uniformed services have the abilities and experience necessary to meet the challenges expected in the future, especially with respect to the War on Terror, defense of the homeland, and public warning and health in emergencies;
2. maintaining the quality of life for members of the uniformed services and their families;
3. the potential for consolidation of special pays and bonuses into fewer, broader, and more flexible authorities and for the substantial reduction or elimination of community-specific continuation and career pays in favor of more flexible and effective compensation alternatives;
4. the potential need for enactment of broader and more flexible authorities for recruitment and retention of uniformed services personnel; and
5. the implications of changing expectations of present and potential members of the uniformed services relating to retirement.

Please ensure that the Secretaries of Commerce, Health and Human Services, and Homeland Security participate as appropriate in the conduct of the review. I look forward to reviewing your findings and recommendations in this important undertaking.

GEORGE W. BUSH

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Preface

Under federal law, every four years the President directs “a complete review of the principles and concepts of the compensation system for members of the uniformed services.”¹ The First Quadrennial Review of Military Compensation (QRMC) was convened in 1965. Since that time, eight subsequent quadrennial reviews have taken place, with the most recent—the 9th QRMC—issuing its report in 2002.

In August 2005, President George W. Bush instructed the Secretary of Defense to conduct the Tenth Quadrennial Review of Military Compensation (10th QRMC). In his charge to the Secretary, the President stated:

To continue to recruit and retain highly qualified personnel for the uniformed services as they transform themselves to meet new challenges, the departments concerned must offer, in addition to challenging and rewarding duties, compensation appropriate to the services rendered to the Nation. The departments also must apply the substantial taxpayer resources devoted to uniformed services compensation in the most effective manner possible.

Totaling over \$118 billion in 2007, military personnel costs make up 23 percent of defense spending. It is critically important that these resources are spent wisely and in ways that help the Services quickly and effectively respond to changes in mission objectives and the supply and demand for high-quality personnel. Past QRMCs have provided the Services with valuable analyses and recommendations, which have led to important improvements in the compensation system and enabled the Services to better address increasingly competitive labor markets and more effectively respond to rapidly changing operational needs. The work of the 10th QRMC furthers these efforts.

The 10th QRMC used the recently completed Defense Advisory Committee on Military Compensation (DACMC) report, published in April 2006, as the point of departure for its own assessment of the military compensation system. The DACMC was directed to


... provide the Secretary of Defense, through the Under Secretary of Defense (Personnel and Readiness), with assistance and advice on matters pertaining to military compensation. More specifically, the Committee shall identify approaches to balance military pay and benefits in sustaining recruitment and retention of high-quality people, as well as a cost-effective and ready military force.²

1. 37 U.S. Code, Section 1008(b).
2. Defense Advisory Committee on Military Compensation, *The Military Compensation System: Completing the Transition to an All-Volunteer Force*, April 2006.

Preface

During its deliberations, the DACMC focused on the following areas: the active component retirement system, pay for performance, differences in compensation by dependency status, Special and Incentive pays, the military health benefit, quality of life, and reserve compensation.

As part of its review of these same areas, the QRMC evaluated the DACMC's conclusions about the compensation system, and carefully considered each of its recommendations for change. However, while the data, analysis, and analytic framework included in the DACMC report contributed greatly to the 10th QRMC's efforts, the QRMC did not concur with all of the DACMC conclusions and recommendations. Instead, in some areas, the QRMC poses alternative recommendations—the question of strengthening the link between pay and performance being one such example. In other cases, the QRMC used the general strategies conceived by the DACMC to develop more specific recommendations focused on implementation, such as consolidation of Special and Incentive pays and retirement reform. But in the broadest philosophical terms, there is agreement between the two reviews about the crucial issues facing the compensation system and force management, as well as the key tenets for evaluating needed reforms.

 The 10th QRMC's recommendations are presented in multiple volumes. Volume 1 focuses on cash components of the military compensation system, while Volume 2 covers noncash and deferred benefits. Subsequent volumes contain research papers, sponsored by the QRMC, that address in analytic detail each of the areas covered in this review.

During the course of its deliberations, the 10th QRMC received support for many of its major recommendations. In a number of cases, steps toward implementation began before the release of this final report. Legislation supporting the consolidation of Special and Incentive pays was included in the 2008 National Defense Authorization Act. Actions on other recommendations that did not require legislative changes have also been initiated; these include increasing the Basic Allowance for Housing rate for those without dependents (discussed in this volume) and negotiations regarding the use of flexible spending accounts (discussed in Volume 2).

The analyses and recommendations included in this report result from the substantial efforts of many talented and dedicated individuals, as well as a spirit of collaboration and support from the uniformed services. The rigorous analysis of complex compensation issues has resulted in a set of recommendations that will greatly improve the military compensation system in the future for both force management and the men and women in uniform.

Acknowledgments

As executive director of the Tenth Quadrennial Review of Military Compensation, I would like to thank all those who contributed their time and energy to this significant effort—from the members of the senior advisory board, to the compensation and health professionals working groups, to the extensive research staff. Over several years, these individuals, of varied backgrounds, brought expertise, experience, and innovative thinking to the compensation challenges facing the uniformed services.

Very special thanks go to the members of my immediate staff, Dr. Saul Pleeter of the Office of the Secretary of Defense; Lieutenant Colonel William Birden, USMC; Ms. Joan Byrd; and Mr. Bernard Robinson. Their dedication to this endeavor and unwavering support made my task as executive director far easier than it otherwise would have been.

I thank Dr. Curtis Gilroy, Ms. Vee Penrod, and Mr. Brad Loo, and their staffs in the Office of the Secretary of Defense, for their insight and many contributions during the course of this study. Special thanks are extended to Ms. Nina Fountain and Ms. Ann Mittermeyer of the Office of the Secretary of Defense, and to Dr. Anita Lancaster, Dr. Tim Elig, Dr. Robert Tinney, Dr. Jim Caplan, Dr. Brian Lappin, Mr. Kent Kroeger, and Ms. Kristin Williams of the Defense Manpower Data Center.

I am particularly appreciative of the continual support, encouragement, and insights of Mr. Bill Carr, Deputy Under Secretary of Defense for Military Manpower Policy; Ms. Sheila Earle, Principal Director for Military Personnel Policy; Ms. Leslie Arsht, Deputy Under Secretary of Defense for Military Community and Family Policy; and the Services' Assistant Secretaries for Manpower and Reserve Affairs. Mr. William Navas, Assistant Secretary of the Navy for Manpower and Reserve Affairs, and Ms. Anita Blair, Deputy Assistant Secretary of the Navy for Manpower and Reserve Affairs, were instrumental in our formulation of new concepts for military compensation. In addition, the wise counsel and wide latitude from The Honorable David S.C. Chu, Under Secretary of Defense for Personnel and Readiness, and The Honorable Michael Dominguez, Principal Deputy Under Secretary of Defense for Personnel and Readiness, made this work possible.

I am most grateful to Ms. Barbara Bicksler and Ms. Lisa Nolan for their dedication to the Tenth Quadrennial Review of Military Compensation. Ms. Bicksler's insights from previous QRMCs, the Defense Science Board, and the Defense Advisory Committee on Military Compensation made her an irreplaceable asset,

Acknowledgements

ensuring that this review would be technically sound and policy-relevant. Thanks also to Mr. Greg Byerly for outstanding graphics design and Mr. Kevin Leonard for meticulous copy editing.

Finally, I must acknowledge the contributions of one of the legends in the area of military manpower and personnel research, Dr. Glenn Gotz. Dr. Gotz was a long-time colleague. His untimely death early in the QRMC's study was a significant loss to all who labor in this field. He will be missed.

—Denny Eakle

Executive Summary

Compensation to service members is one of the largest components of the Department of Defense (DOD) budget. Its role in recruiting, retaining, and motivating the nation's uniformed services also makes it one of the most crucial elements of the budget. Without adequate compensation, the nation would be unable to sustain the all-volunteer force, in the size and with the skill set needed, to support the missions called for in the national security strategy. Today's demands on the force in operational theaters around the world, competition from the private sector in recruiting and retention, and changing interests of today's youth all demand robust action on the part of the uniformed services in attracting and sustaining their workforce. A critical tool in that endeavor is the compensation system.

The Tenth Quadrennial Review of Military Compensation (10th QRMC), chartered by the President in August 2005, embarked on its review of the compensation system with the challenges of the current national security environment as context. It also considered the principles that should guide its efforts—tenets against which its findings and recommendations would be evaluated and judged. The QRMC adopted four such principles to guide its analyses.

1. **All-Volunteer.** Compensation policies should support an all-volunteer workforce and members must perceive their compensation to be fair and equitable.
2. **Flexible and Responsive.** The Services must be able to quickly and effectively change compensation policies to respond to changing market conditions and mission requirements.
3. **Strategic Best Value.** Compensation policies must be aligned with other elements of the larger human capital strategies to produce the highest value, maximizing mission contribution and minimizing cost.
4. **Support Achievement of Strategic Objectives and Outcomes.** Rational compensation policies should support a hierarchy of strategic objectives and outcomes for successfully competing for talent, encouraging and rewarding performance, and recognizing contribution to mission.

Executive Summary

These principles underpin a compensation system that must meet a wide range of essential and challenging force management goals. Against this background, the 10th QRMC focused its attention on seven compensation-related areas:

1. adequacy of compensation
2. special pays and bonuses
3. pay for performance
4. housing allowance
5. retirement system
6. health care
7. quality of life

The first four topics are addressed in this volume, Volume 1, of the QRMC's report and are summarized below. The latter three will be covered in Volume 2.

Military Annual Compensation

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In order to sustain a high-quality force in the numbers and skills needed, the uniformed services must offer a compensation package that is competitive with civilian sector wages and benefits, and recognizes the unique responsibilities and burdens of military life. The history of the all-volunteer force has shown that when military compensation falls relative to wages paid to civilians with comparable education and experience, recruiting and retention suffer. Thus it is critical to assess, on a regular basis, the adequacy of compensation paid to service men and women.

Traditionally, this assessment has been based on a comparison of cash compensation between the two sectors, with Regular Military Compensation serving as the measure of military cash compensation. Regular Military Compensation is composed of basic pay, the Basic Allowance for Housing, the Basic Allowance for Subsistence, and the federal income tax advantage resulting from nontaxed allowances. But this approach leaves out several very important components of the compensation package offered to those in uniform—benefits and some tax advantages. Benefits to service members are substantially more valuable than those typically offered in the civilian sector, and members can also receive tax advantages not available in the private sector. Taking these additional components into account shows that service member compensation is much more generous relative to civilian compensation than the traditional comparison of cash pay would suggest.

In fact, the average enlisted member earned approximately \$5,400 more in 2006 than his or her civilian counterpart when comparing cash compensation, but \$10,600 more when selected benefits are included in the comparison. The typical officer received an average of \$6,000 more than civilians with comparable education and experience based on traditional cash comparisons, but \$17,800 more with benefits included. Thus, the 10th QRMC concluded that a more meaningful comparison of uniformed and civilian compensation should include selected elements of in-kind and deferred benefits—elements that are tangible, generally part of civilian compensation, and widely available—as well as cash compensation. The value of the additional tax advantages and benefits included in Military Annual Compensation are 13 to 26 percent higher than Regular Military Compensation for enlisted members and 8 to 27 percent higher for officers. The QRMC believes that omitting military benefits from the comparison results in an incomplete analysis that substantially understates the value of the Services' compensation package.

RECOMMENDATION

Adopt Military Annual Compensation as the basis for future pay comparisons between the uniformed services and the civilian sector.

Military Annual Compensation will include cash compensation (Regular Military Compensation) as well as health care, retirement, and the state and Social Security tax advantages. The 9th QRMC recommended that cash compensation for military personnel be comparable to the 70th percentile of compensation for civilians with similar education and experience. To maintain this same standard, Military Annual Compensation should meet the 80th percentile of comparable civilian compensation. This new measure offers both a more meaningful basis for comparing uniformed and civilian compensation as well as a tool to better explain to service members the value of their compensation—something not well understood today.

Special and Incentive Pays

In addition to basic pay and allowances, many service members receive Special and Incentive (S&I) pays. These pays are used by the Services to selectively address specific force management needs, such as staffing shortfalls in particular occupational areas, hazardous or otherwise less desirable duty assignments, and attainment and retention of valuable skills. In addition, in certain occupational categories, such as technical and professional fields, special pays are used to ensure pay comparability

Executive Summary

with civilian sector salaries. These pays offer flexibility to the compensation system not otherwise available through the basic pay table.

Despite their valued flexibility, there are several aspects that limit the effectiveness of the current S&I pay system and its potential as a force management tool. First, the large number of pays currently available makes the system unwieldy and difficult to administer and oversee. Second, the degree of flexibility among the many pays varies. Some can be used to address short- or long-term personnel issues across a range of occupations or assignments, while others are more narrowly focused, with strict statutory limits on how they are disbursed. Furthermore, these pays do not motivate personnel to top performance, as they are not, in most cases, linked to pay grade.

Consolidating the many existing pays into a smaller number of broad categories would offer a number of advantages in terms of efficiency, flexibility, and effectiveness, and would address some of the concerns with the current system. Under such a plan, a limited number of pay categories would replace the more than 60 pays that exist today. Within each category, the Services would have flexibility to allocate resources to those areas that would most effectively and efficiently meet staffing needs. S&I resources would thus be concentrated on the force's most critical staffing issues.

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RECOMMENDATION

Consolidate S&I pays into eight broad categories:

1. Enlisted Force Management Pay
2. Officer Force Management Pay
3. Nuclear Officer Force Management Pay
4. Aviation Officer Force Management Pay
5. Health Professions Officer Force Management Pay
6. Hazardous Duty Pay
7. Assignment or Special Duty Pay
8. Skill Incentive/Proficiency Pay

It is clear that the current budget for S&I pays may be hard pressed to meet force management requirements in the future. For example, as the Army and Marine Corps increase total strength over the next few years, more recruiting and retention incentives will be required. Increasing such incentives will in turn require a larger budget for S&I pays—resources that must be obtained either by an increase in the S&I budget directly, or through a combination of reductions from other areas of the

budget and requests to Congress for supplemental funds. Neither of these latter two options is likely to provide the depth of resources required.

RECOMMENDATION

To ensure sufficient resources are available to most effectively use this more flexible system, reallocate between basic pay and S&I pays the portion of future pay raises that exceeds the Employment Cost Index. Once it is determined that the S&I pay budget is in correct proportion to other forms of cash compensation, further increases should be tied directly to increases in basic pay.

Reallocation of pay raises is not unprecedented. Previous pay raises have been allocated among various components of compensation in addition to basic pay (such as to realize increases in the housing allowance), or have been targeted to specific grades or years of service. It is important to note, however, that this recommendation assumes that pay comparability between the uniformed services and the civilian sector, which currently exists, will continue. Should that change, then pay raises would revert to basic pay until pay comparability has been reestablished. Thus, DOD will have to continue to monitor military and civilian pay rates to ensure pay comparability is maintained under this allocation scheme.

RECOMMENDATION

To ensure sufficient oversight, guidance, and coordination within this more flexible system, create an oversight committee to review the Services' S&I pay programs.

The oversight committee would have two tiers—a working group to handle the bulk of S&I pay issues that arise, and a senior oversight group to address issues that cannot be resolved by the working group. The committee would be responsible for providing clear program parameters and a consistent, rigorous, and defensible review process, while still allowing the Services greater autonomy in setting S&I pay levels and eligibility. Under this construct, the Secretary of Defense would have ultimate authority regarding policy decisions guiding S&I pay.

The new consolidated S&I pay system should become fully operational not less than three years after enactment. This time frame will give the Secretary and the Services adequate time to establish program regulations, revise budgetary systems, and prepare the force for change.

Pay for Performance

The QRMC believes that the uniformed services' compensation system should do more to recognize outstanding performance among service members and their contributions toward organizational goals and missions. Today, the Services primarily recognize performance through the promotion system, which advances service members in rank. Basic pay is calculated from a pay table based upon rank and time in service; thus a service member's compensation rises as he or she progresses to higher grades and accumulates more years of service.

When service members are promoted early, their pay is increased relative to the pay of their cohorts who are promoted a year or two later. However, due to the longevity component in the current basic pay table, the higher pay associated with an early promotion is not sustained beyond the point at which the member's on-time promotion would have occurred. The longevity component also hampers the Services' ability to offer competitive compensation to lateral entrants into the military or to individuals who leave military service and return later in their careers.

As a result, many groups have questioned whether a time-in-service table, with its dual emphasis on performance and longevity, is the best way to encourage top performance among military personnel. The most commonly considered alternative has been a time-in-grade table, in which a service member's position in a pay grade is determined by how many years he or she has been in that grade, not by how many years he or she has been in the military. Hence, under this system, a member promoted a year early to a pay grade is permanently one year further along in the pay grade as compared to those who receive due-course promotions.

This approach also has its weaknesses. The most common argument against a time-in-grade pay table is the fact that promotion speed is not always based on performance, but is sometimes due to supply and demand of personnel in a particular occupational area. Under those circumstances, the time-in-grade pay table would not be rewarding better performance and could exacerbate pay differentials that currently exist between personnel in fast- and slow-promoting occupations. Another concern, compelling to the QRMC, is that adoption of a time-in-grade pay table would result in a major overhaul of the current pay system in order to improve compensation for a small percentage of the force.

RECOMMENDATION

Retain the current time-in-service pay table, rather than replace it with a time-in-grade pay table. Instead, adopt constructive credit to better reward service members who are promoted early and facilitate lateral entry into the force, thereby offering a means to provide service members with permanent credit for additional time in service.

This proposal gives the Services flexibility within the existing pay table to reward top performance and offer competitive compensation to high-quality service members. In addition to this recommendation, the QRMC believes that the Services should consider other pay-for-performance concepts—such as credential pay and performance-based bonuses—that could strengthen the link between pay and performance.

Basic Allowance for Housing

An integral part of the compensation system, the Basic Allowance for Housing (BAH) is designed to provide military personnel in nongovernment housing with the resources necessary to live in housing comparable to their civilian counterparts. The QRMC believes that this program could be improved to make it more equitable among service members and better meet its intended purpose. Three issues were addressed.

The first concern with BAH is the pay differential that currently exists between those with and without dependents. BAH rates vary by pay grade, geographic location, and dependency status. Thus, service members of the same rank but different dependency status receive different BAH payments, with the higher allowance paid to those with dependents. BAH payments for single service members tend to be less than the housing expenditures of comparable civilians without dependents—a result of the fact that civilian housing expenditures do not vary significantly based on dependency status, but rather based on age, education, and income. As a result, personnel without dependents tend to pay higher out-of-pocket costs for housing that is comparable to their civilian peers than do their married counterparts.

RECOMMENDATION

Narrow the BAH dependency differential, so that all members without dependents will receive BAH payments equal to 95 percent of the “with-dependents” rate for their pay grade.

To implement this recommendation, the QRMC proposes that BAH payments to members without dependents initially be set to at least 75 percent of the with-dependents rate and increase by 5 percentage points per year over the subsequent four years.

A second concern is the adequacy of government housing for single members and the implied rents charged for that housing. Partial BAH is paid to service members without dependents who live in government housing that is generally considered to be less valuable than the BAH payment they would receive if they lived in private housing—such as junior members of the force who live in barracks or aboard ships. Partial BAH payments have not been increased since 1977 and, as a consequence, single members living on base have not received the same increased compensation as have their counterparts living in nongovernmental housing.

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RECOMMENDATION

Adjust Partial BAH payments to more appropriately compensate single members in certain government quarters for their reduced standard of living.

Specifically the QRMC recommends that Partial BAH be expanded to include a second component based upon the adequacy of a member’s quarters. The additional payments would range from 5 percent to 25 percent of BAH, with the amount of supplemental payment varying based upon actual housing conditions.

Finally, the QRMC examined the accuracy of BAH program budgetary estimates. In recent years, BAH budget estimates have woefully underestimated actual program costs. There are concerns that this inaccuracy is a result of the timing and duration of the rate-setting process—a process that begins nearly 18 months before the budget year begins. However, a review of the data suggests that the problem is with neither the rate-setting process nor the rates themselves. Rather, errors in the BAH budget result from underestimating the population eligible for BAH.

RECOMMENDATION

No changes are recommended in the timeline or methodology of the BAH rate-setting process. Rather, it is important for DOD to improve its procedures for estimating the BAH-eligible population to ensure that the BAH budget is as accurate as possible.

Several factors skew results in estimating the size of the population eligible for BAH and adjustments to address these issues should be considered. One strategy is to take into account trends in dependency status in the population estimates. A second is to improve the forecast of and assumptions regarding reserve component members who will be mobilized and entitled to housing allowances.

Conclusion

Two themes dominated the deliberations of the 10th QRMC and serve as critical drivers of system improvement: flexibility for the uniformed services and choice for the service member.

1. The compensation system should be able to respond quickly to changing force needs, operational demands, or problems in specific occupational areas. To accomplish this, force managers need the *flexibility* to adjust resources to address emerging issues or shifting priorities. They also need to be able to make targeted adjustments to specific problem areas. Lack of flexibility creates inefficiencies that increase cost and lower productivity.
2. Equally important is the need to offer *greater choice for the service member* when such choice is consistent with mission requirements. When member preferences for type of assignments, where they are stationed, or frequency and duration of deployments are consistent with operational requirements, the compensation system should offer appropriate incentives to support such choice. Flexible benefit arrangements offer another mechanism to introduce choice for the member. And providing service members with adequate compensation encourages reenlistment, and potentially, enlistment decisions. The ultimate payoff is in member satisfaction, which in turn positively impacts volunteerism.

Executive Summary

As the recommendations outlined above indicate, there is room for innovative change in the compensation system that can lead to improved responsiveness, ensure fair and equitable compensation for all service members, and put in place incentives to motivate top performance. Together, these recommendations (described in more detail in the chapters to follow) are designed to sustain the all-volunteer force well into the future.

Introduction

As the Tenth Quadrennial Review of Military Compensation (10th QRMC) conducted its deliberations, the nation's military was deeply committed to operations in Iraq and Afghanistan. The country's involvement in these operations and the broader global war on terror has eclipsed the length of time the United States was involved in World War II. Reserve component members have been activated in numbers unprecedented in the history of the all-volunteer force. Stresses resulting from long and sometimes frequent deployments are affecting training and readiness. Indeed, these factors are testing the continued viability of the all-volunteer force concept.

Even in the face of this wartime environment, the Department of Defense (DOD) remains committed to its journey to transform its strategy, forces, and policies—a journey that began more than a decade ago. Shortly after the collapse of the Soviet Union, the Department recognized that emerging threats called for a fundamental change in how business was conducted. The attacks on September 11, 2001, reemphasized the importance of having the right strategy, forces, and management processes in place—including personnel policies and practices—to deal with new threats and challenges.

In some areas, transformation is well underway. New civilian personnel practices have been initiated, with the National Security Personnel System altering how the civilian workforce is managed and compensation levels are set. But Department leadership recognizes that the military personnel management system needs transformation as well. Personnel costs are rising faster than other segments of the budget, reducing resources available for operations and maintenance. To counter increasing costs, a more effective and efficient military compensation system is needed.

These conditions set the context for the QRMC's analysis—establishing the need for innovative concepts for compensation strategies that would not only address cost and force management requirements but also sustain the all-volunteer force as an entity. As a starting point, the sections that follow examine, in turn, the current recruiting and retention environment, the role of military compensation in supporting defense manpower policies, and the scope of this report.



Recruiting and Retention

There is a long-established link between military compensation policies and practices and the ability of the uniformed services to recruit and retain the numbers and quality of personnel required to carry out today’s increasingly complex missions.³ Basic pay and allowances, special pays and bonuses, and benefits such as health care and retirement play important roles in individuals’ decisions to serve in uniform. External factors, such as unemployment rates, the presence of military veterans in the population, and perceptions of the military by youth and their mentors also affect the Services’ success in meeting their manpower requirements.

Managing the force requires programs that serve a number of purposes, notably:

1. attract people into the Services in the right numbers and with the quality required
2. retain in service those that are needed to meet the skill, grade, and experience requirements to fill vacancies
3. separate those who are no longer needed

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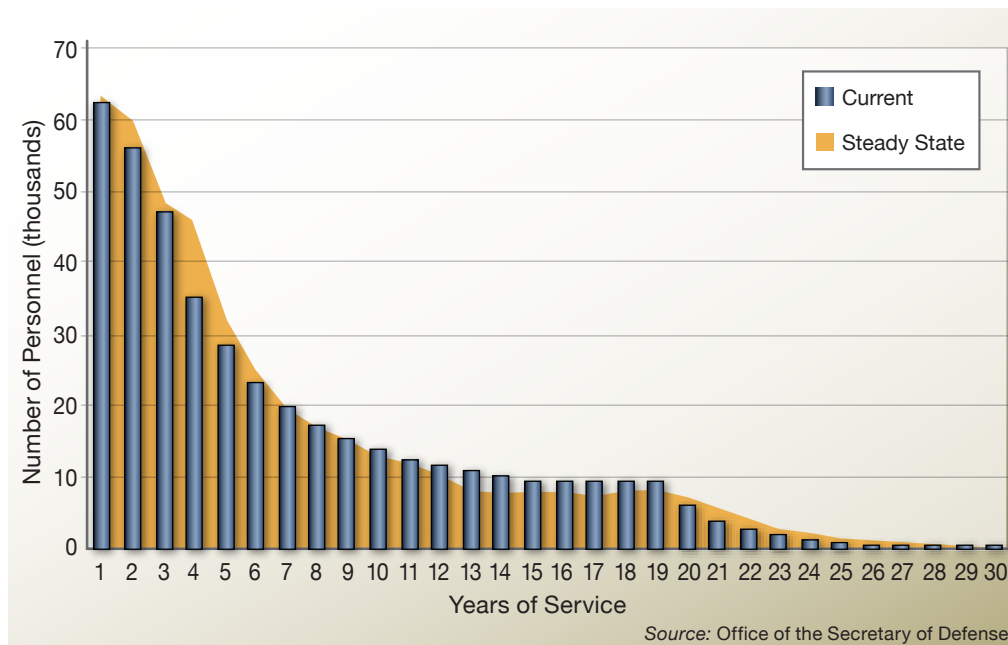


Figure 1-1. Current and Steady State Force Profiles

3. The seven uniformed services include the United States Army, United States Navy, United States Air Force, and United States Marine Corps in the Department of Defense; the United States Coast Guard in the Department of Homeland Security; the United States Public Health Service Commissioned Corps in the Department of Health and Human Services; and the National Oceanic and Atmospheric Administration Commissioned Corps in the Department of Commerce.

Ideally, the interaction of these programs provides the personnel needed to conduct and support the nation's military operations. Figure 1-1 depicts a Department of Defense force profile that shows the number of people, by years of service, needed to meet typical (steady state) requirements, as well as how many personnel are currently in the inventory. By addressing the gaps or overages through the judicious use of accession, retention, and separation programs, the desired force profile can be achieved.

Enlisted Personnel

In fiscal year 2007, the Department recruited about 180,000 new active duty enlisted members, with all Services meeting or exceeding their recruiting goals. This success did not come easily, however. The Department introduced new enlistment incentive programs and increased recruiting budgets, and Congress provided the Army with special authorities to implement pilot programs in recruiting. Most of the Department's reserve components were also successful in meeting their enlisted recruiting objectives—though the Air National Guard and the Army National Guard missed by small percentages, 7 and 5 percent, respectively.

While obtaining sufficient numbers of personnel is important, the Services must also continue to recruit high-quality members that can be trained for increasingly complex and high-technology-based tasks. The Department of Defense judges recruit quality principally with two measures—educational achievement and training aptitude. Educational achievement is measured by the proportion of new recruits who have high school diplomas. Recruits who have completed high school have a significantly higher probability of completing their first term of enlistment than those who hold General Educational Development certificates or otherwise do not graduate. The second element of recruit quality, training aptitude, is measured by scores on the Armed Forces Qualification Test. Those who score in the higher aptitude groups, generally at the 50th percentile or higher (referred to as Categories I–IIIA), tend to learn more quickly and effectively in training and subsequently perform better on the job.

The Department has established benchmarks for these two measures: 90 percent of new recruits should have high school diplomas, and 60 percent should score in Categories I–IIIA on the qualification test. As shown in Figure 1-2, the Department has continued to meet its overall quality goals. There is, however, a clear downward trend in both quality measures over the past three years.

The Department also measures the quality of its new recruits by a combination of the two measures, those who both have a high school diploma and score in Categories I–IIIA. High-quality accessions for the active duty enlisted force peaked in 1992, as

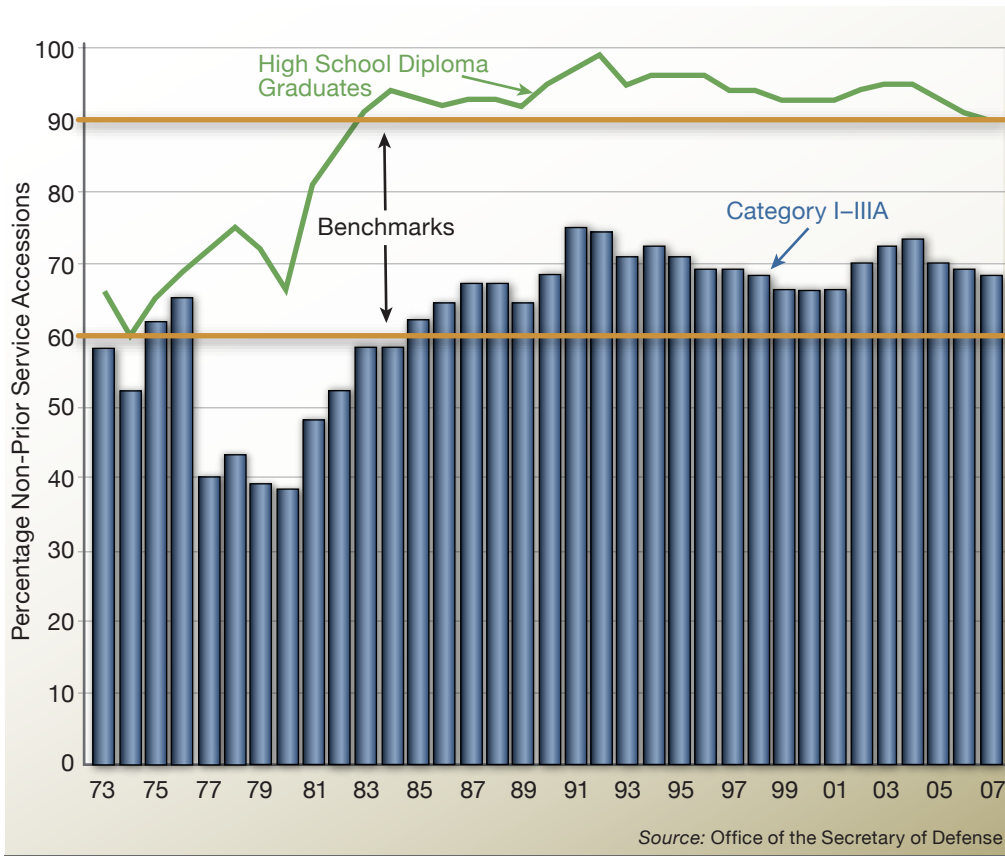


Figure 1-2. Recruit Quality for the Active Duty Enlisted Force, 1973–2007

Figure 1-3 shows. While recruit quality remains high, quality continues to decline as compared to that seen in the early 1990s.

These trends in recruit quality suggest that recruiting will continue to be challenging in the future. Other factors lead to this conclusion as well. One measure used by the Services to predict future recruiting success is the percentage of youth who indicate they plan to join the Services. This propensity to enlist depends on many factors. One is the views of the military held by the target youth and U.S. populations. Recent polls continue to show that these groups have very favorable opinions of the military (Figure 1-4).

Interest and awareness also play a role in people’s decisions about future careers, according to a recent Gallup study. Youth today look to their parents, grandparents, and other influencers such as teachers, coaches, and veterans to help guide their career choices. Data from DOD polls show a declining trend in the likelihood of

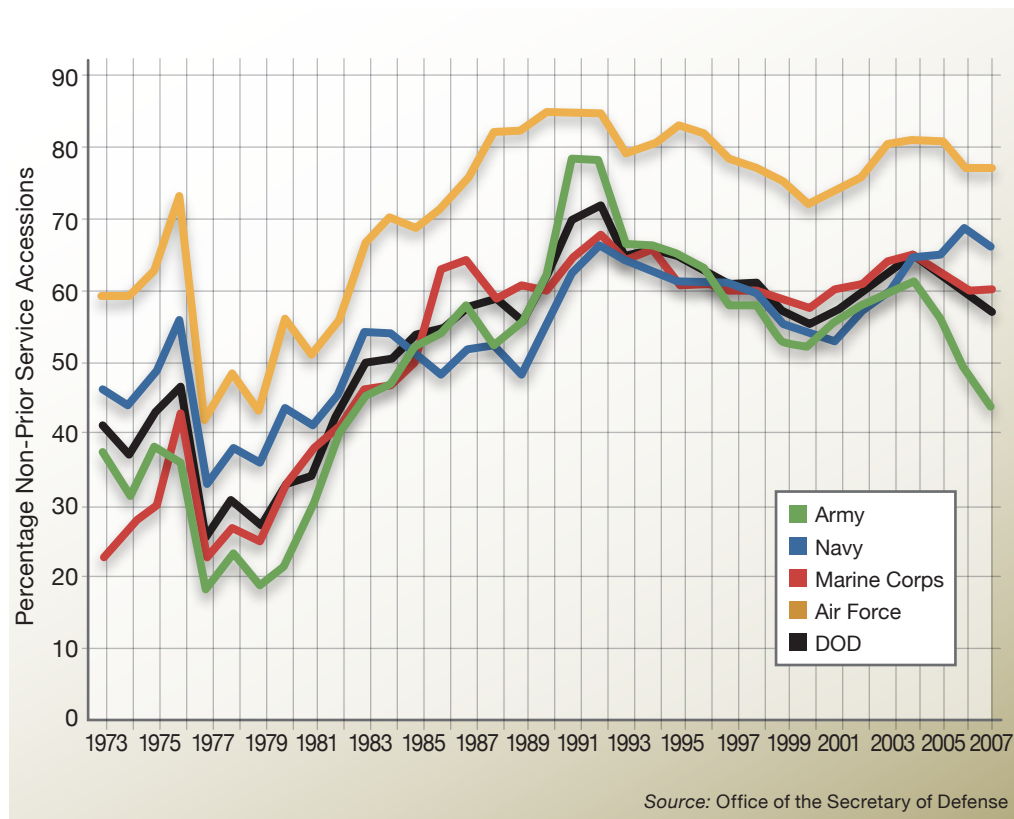


Figure 1-3. High-Quality Recruits to the Active Duty Enlisted Force, 1973–2007

influencers to recommend military service to youth (Figure 1-5). Research has shown that veteran influencers, particularly those under age 65, provide exposure and knowledge of the military that cannot be gained in other ways, and that exposure exerts a powerful influence on the decision to enlist. Unfortunately, the number of veterans in the population has been steadily declining and that trend is expected to continue, with veterans falling from just under 25 percent of the population today to 15 percent by 2030.

The Services are also experiencing increased competition with colleges and universities. Larger percentages of young people are entering two- and four-year schools.⁴ Fewer new high school graduates are seeking employment and instead plan

4. Peggy Golfin, *Recommendations for Recruiting from Community College*, CNA Memorandum D0015572 (Alexandria, Va.: CNA, January 25, 2007).

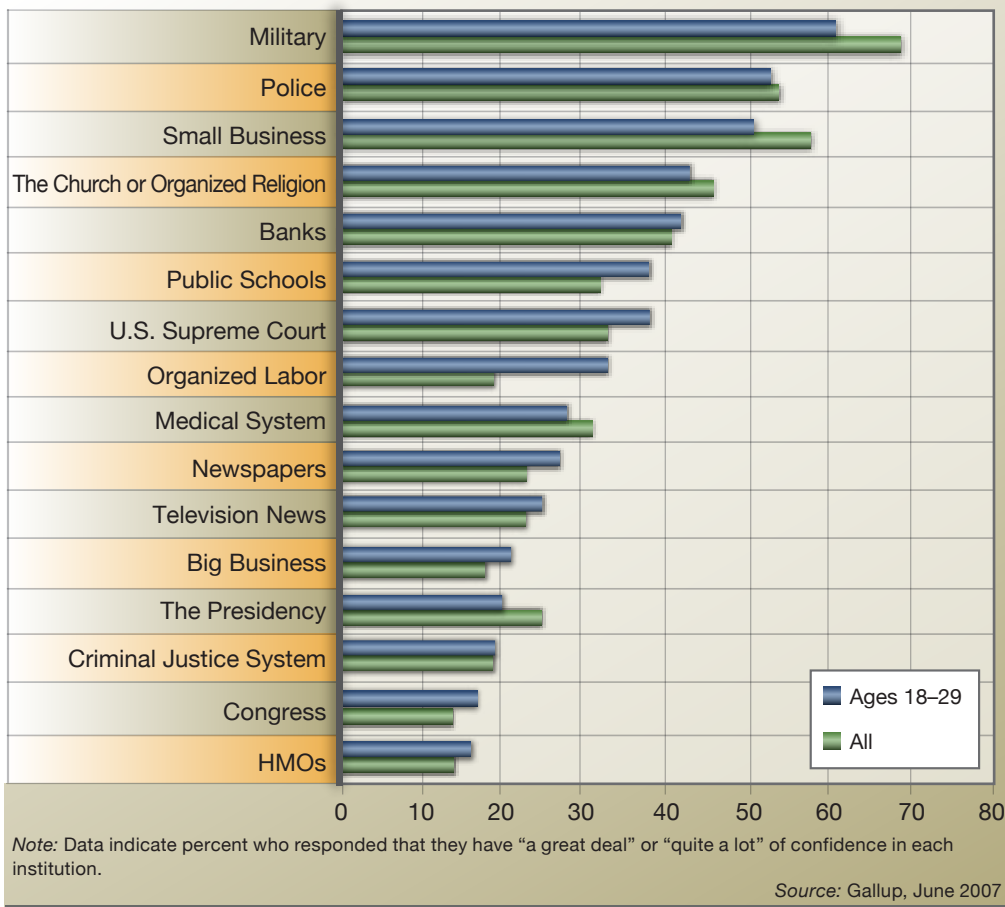


Figure 1-4. Confidence in Major Institutions

to attend college. Escalating college costs may cause many of these students to leave school before earning degrees. While not abandoning the high schools, recruiters will increasingly have to turn to this “drop out/stop out” market to meet their goals.

Not surprisingly, with influencers less likely to sway youth to enter the Services, a protracted war in Iraq, a growing economy, and more high school graduates pursuing higher education, the propensity to enlist has continued to decline, as seen in Figure 1-6. To ensure that the Services are able to meet future recruiting requirements, compensation must remain competitive, and the Services must have recruiting tools that are flexible and responsive to an evolving environment.

With respect to retention, the Department of Defense goal is to retain its best and brightest members. It is critical the Department maintain the right balance of skill and experience, have forces available to support DOD missions worldwide, and ensure availability of capable and experienced leadership to lead the forces today and

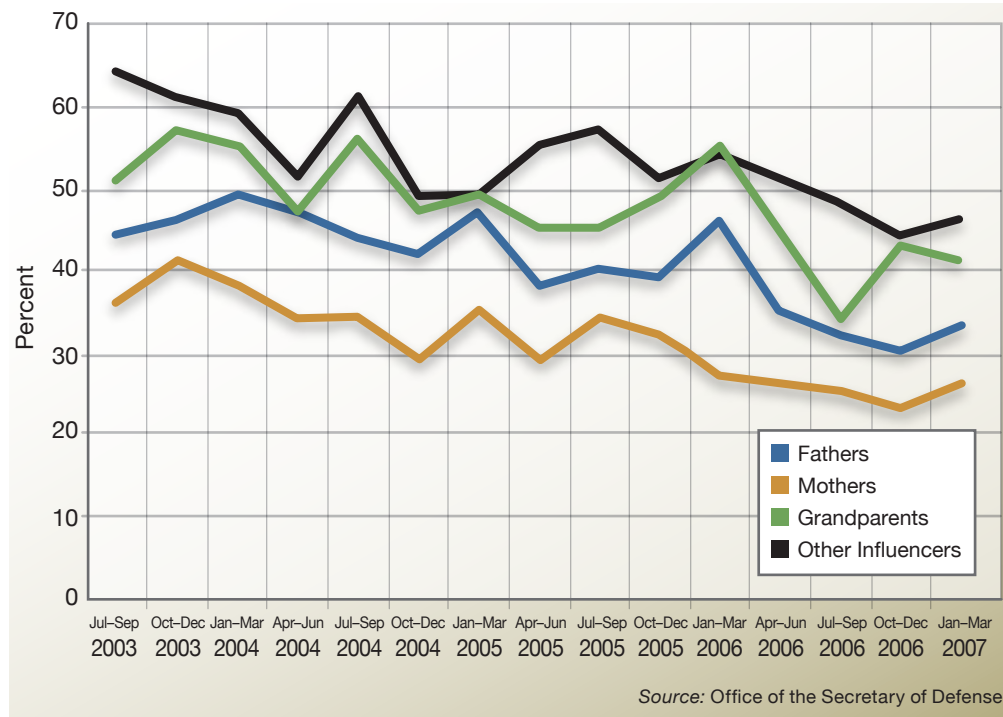


Figure 1-5. Likelihood of Influencers Recommending the Military

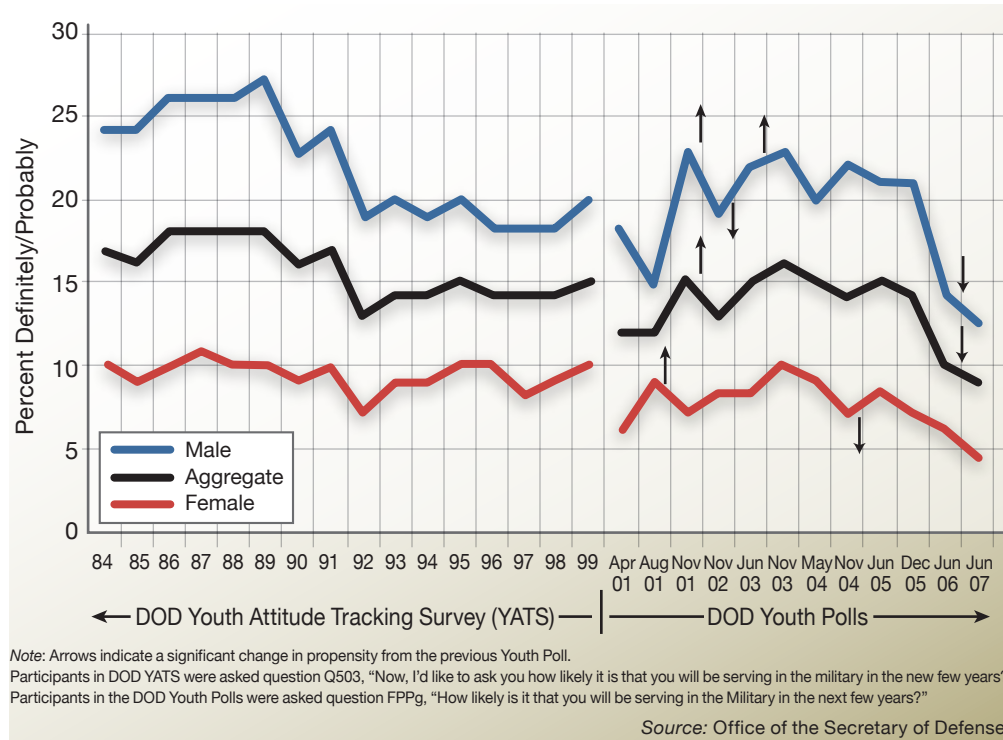


Figure 1-6. Youth Propensity to Enlist in the Armed Forces

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in the future. The Services retain the right people through rewarding opportunities that offer professional growth and leadership development, as well as through bonuses and other incentives.

In 2007, through the use of retention programs and the support of Congress to fund these programs at the requested levels, retention among the active enlisted forces remained extremely strong, with all Services meeting or exceeding their aggregate goals. There were, however, issues with some specialty skills. Special operations forces, for example, required larger reenlistment bonuses to meet expanding manpower requirements. Overall, Selective Reenlistment Bonus (SRB) payments in 2007 cost the Services approximately \$1.0 billion to ensure retention of critical skills. New SRB incentives were also used to encourage retention of members experiencing multiple overseas deployments. Such incentives remain central to the Services' ability to properly manage their forces.

Officers

8 > While officer recruiting has been successful overall, the Services have experienced diminishing success in achieving their goals in the Health Professions Scholarship Program. These unfilled positions translate into unmet accession goals in the future, which, in turn, will compound the current shortages of nurses, dentists, and several physician specialties—affecting all Services. In the past year, the Services sought, and were given, enhanced authorities from the Congress to address these shortfalls in health care professions, but more will clearly need to be done.

Another concern is that the Army and Marine Corps will have difficulty achieving their officer commissioning goals in the Reserve Officer Training Corps (ROTC) program in the near future, due primarily to their growing end strength. ROTC is a critical accession source for young officers with technical skills. Increases in the scholarship program may have to be seriously considered.

The Services monitor officer retention at the functional level rather than in total. As mentioned earlier, with the exception of some technical and medical specialties, overall officer retention remains high. Yet there has been some discussion about the declining retention of Army midgrade officers (captain and major). The Army is retaining midgrade officers at the same historical rate and in sufficient numbers to meet their current strength requirements. However, with a growing force structure, the demand for midgrade officers is higher and requires higher retention in these grades. To meet this need, the Army offered eligible captains a menu of retention incentives to encourage extended tours of service. These incentives include graduate school or military school opportunities, branch or post of choice, or a Critical Skill

Retention Bonus (CSRB). In addition, the other Services used CSRBs to influence positive retention behavior and to address shortfalls in specific career fields such as medical, dental and nursing services, and naval special operations.

In the future, the Services will need to be more creative in how they influence retention decisions. The Services are experiencing retention successes in the aggregate and addressing specific skill/grade issues with existing programs. Retention efforts will be challenged when the operations tempo decreases and the Services enter into an environment of relative stability with predictable and less frequent (or no) deployments. Flexible programs, with implementation at the discretion of the Services and department secretaries, will greatly enhance the Services' ability to shape retention programs to meet future requirements.

The Role of Military Compensation

The primary purpose of military compensation is to support defense manpower policies that in turn support the nation's defense strategy. To that end, as described above, the compensation system must attract, retain, and motivate the high-quality individuals needed to maintain a superior force that can meet the complex and challenging responsibilities facing today's uniformed services. But the system must also be structured and managed in a way that maximizes the impact and effectiveness of the substantial resources devoted to military compensation.

Flexibility in the compensation system is essential if the Services are to respond quickly and efficiently to changing staffing issues and mission objectives that reflect the realities of the high-level technology employed by today's force. In addition, compensation policies should promote top performance; where possible, promote workplace satisfaction by accommodating member preferences; and encourage service members to acquire the skills necessary to meet operational requirements. The system should also allow each Service to more effectively shape the composition of its force, to achieve the optimal mix of skills, experience, and seniority needed to meet its strategic objectives.

In its review of the compensation system, the QRMC evaluated the adequacy of compensation provided to service members, as well as the overall cost effectiveness and force management capacity of the system. In general, the system is extremely effective, offering a competitive compensation package that attracts and retains the high-quality individuals necessary to maintain an all-volunteer force. Moreover, force managers have access to a variety of tools, such as incentive bonuses and special pays, allowing them some flexibility to efficiently address specific staffing needs. However,

the QRMC evaluation identified areas where changes to the system would improve force management capabilities, member satisfaction, and overall effectiveness.

Principles of Compensation

In directing the QRMC to carry out the President's charter, the Department of Defense instructed the review to develop "agile and flexible compensation and benefit tools to optimize force management strategies of the uniformed services." Thus, to guide its efforts, the QRMC established a set of principles that should underlie the compensation system. These principles, in essence, provided a reference point against which to test the QRMC's proposals and recommendations. Proposals that favorably support most or all of these principles would be judged to meet the goal of developing agile and flexible compensation and benefit tools, as the QRMC's guidance directed, as well as to meet the larger goal of recruiting, retaining, and motivating a highly qualified force. Further, these principles are offered not only as a benchmark for QRMC proposals, but also for future proposals and recommendations set forth by others aiming to improve the system that compensates the nation's uniformed services.

The QRMC identified the following four principles as its guidelines:

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1. **All-Volunteer.** Compensation policies support an all-volunteer workforce and members must perceive their compensation to be fair and equitable. Compensation incentives should support policies that guide qualified members to the assignments and locations where they are most needed in the organization while minimizing the costs to members and their families.
2. **Flexible, Responsive.** The Services must be able to quickly and effectively change compensation policies to respond to changing market conditions and Service requirements, in accordance with human capital strategies. Acknowledging the need for coherent and consistent policies, each of the Services must have the discretionary authority to carry out its strategies and quickly address emerging problems and issues.
3. **Strategic Best Value.** Compensation policies must be aligned with other elements of the larger human capital strategies to produce the highest value, maximizing mission contribution and minimizing cost. Targeted compensation can provide cost-effective solutions to address Service-specific needs. Policies should reveal the full costs to current and future budgets, including costs that are derived from tax savings or passed to other departments or agencies.

4. **Support Achievement of Strategic Objectives and Outcomes.** Rational compensation policies support a hierarchy of strategic objectives and outcomes for successfully competing for talent, encouraging and rewarding performance, and recognizing contribution to mission. Compensation policies should reduce complexity to make linkages to objectives more direct, while making the system less difficult to manage and administer, and less difficult for personnel to understand.

These principles underpin a compensation system that must meet a wide range of essential and challenging force management goals that include recruiting and retaining sufficient numbers of high-quality and skilled individuals; encouraging and rewarding top performance throughout the force; effectively assigning personnel; promoting development of the skills necessary to meet occupational needs; and facilitating career transitions that meet both individual and force needs.

Themes of this Study

With these principles and goals as a backdrop for the QRMC's work, two themes emerged as critical drivers of system improvement: flexibility for the Services and choice for the member.

Flexibility

The compensation system should be able to respond quickly to changing force needs, operational demands, or problems in specific occupational areas. To accomplish this, force managers need the flexibility to adjust resources to reflect emerging issues or shifting priorities. They also need to be able to make targeted adjustments to specific problem areas. As policy makers seek to improve the compensation system, particular attention should be paid to reforms that enhance Service flexibility. Such reforms will make the system more effective, responsive, and efficient. While some flexibility exists in the current system, the QRMC's review revealed several instances in which system effectiveness and force management could be improved by increasing flexibility.

Although cash compensation is dominated by basic pay and allowances, force managers rely on some flexible pays to tackle changing staffing requirements and problems in specific occupational areas. Some of these compensation tools address short-term staffing needs, while others are used in response to more chronic manpower issues.

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To address short-term recruiting challenges, force managers utilize accession bonuses, educational benefits, and shorter enlistment terms—as well as increased spending on recruiters and advertising—to attract new enlistees. Retention challenges are often handled through reenlistment bonuses. The Services rely on several special pays to address problems in specific hard-to-fill occupational areas, principally in the aviation and medical professions, where basic pay persistently lags behind private sector salaries. Rather than increase basic pay, which would inflate earnings for all service members, these special pays enable the Services to provide targeted increases to specific occupational areas where regular pay rates are too low to compete with private sector salaries.

While these compensation incentives are largely successful, certain aspects of the current system can limit their effectiveness and potential as force management tools. For example, special occupational pays often have limited flexibility and only cover specific occupational areas, making staffing issues in other occupational areas more difficult to address. Further, budgets for these programs are developed more than a year in advance of execution, and once the budget is in place, funding often cannot be shifted among the different programs. Thus, when unanticipated recruiting or staffing challenges arise, the Services have to request additional funds. While such requests are usually successful, they take time to achieve, meaning that the needed funds are often not available until several months after a problem surfaces.

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The QRMC's recommendations include several proposals that would increase flexibility in the compensation system, including a proposal to consolidate the dozens of Special and Incentive (S&I) pays into several broad categories, as well as an authority to increase financial rewards to certain top performers and facilitate lateral entry of experienced individuals into the military. Recommendations for restructuring the retirement system also introduce greater flexibility in the system, providing tools to shape the profile of the force to better match mission requirements.

With added flexibility in the ability to tailor S&I pays to meet changing needs, the Services could explore other areas that potentially enhance force management capabilities, such as reforms that encourage reentry of former service members into the force or facilitate movement of personnel between the active and reserve components. Force-shaping capacity might also be improved if the Services had more flexibility in awarding incentive bonuses and testing new initiatives through pilot programs. Many such reforms have potential to make the compensation system more responsive to changing needs and mission goals.

Member Choice

A second key theme that underlies much of the QRMC's analysis is the concept of member choice—specifically, mechanisms within the compensation system that increase member choice. Certainly the demands of military operations, such as those ongoing in Afghanistan and Iraq, are such that personnel often have little control over the terms of their service; those terms are dictated by mission objectives and the personnel needs that flow from those objectives. Members frequently have little choice regarding their assignment, where they are stationed, or the frequency and duration of deployments. In some instances, however, member preferences are not inconsistent with operational requirements. In those cases, compensation policies can support member preferences by providing incentives that voluntarily steer qualified personnel to appropriate assignments. If properly designed, strategies that allow members more choice can raise job satisfaction, resulting in increased retention and productivity without damaging mission outcomes.

The Services have begun to recognize the benefits of providing members with more choices—as long as their preferences are consistent with military operational requirements. Since 2003, for example, the Navy has operated an Assignment Incentive Pay (AIP) program that allows qualified personnel to bid for certain hard-to-fill billets through sealed on-line auctions. Interested sailors bid the amount of additional pay they would want to receive in order to accept a particular open assignment. Because sailors have different preferences regarding assignments, the amount of additional pay that they might request in order to accept a specific posting will vary, with some sailors willing to take on an assignment for much less additional compensation than others might demand for the same assignment. Typically, the qualified sailor who submits the lowest bid receives the assignment.

Taking into account individual preferences can increase member satisfaction and retention. Member participation in the AIP program has increased substantially in the five years since the program began; and as of October 2007, about 8,750 jobs had been assigned through the program, with only 5 percent of those positions filled involuntarily. Providing qualified members with some choice in their assignment can also reduce costs—sailors assigned to billets they prefer require less additional pay than sailors who have been assigned to billets involuntarily. In fact, one analysis estimates that annual savings from converting all Sea Pay billets to an auction system would total more than \$100 million. The Services should explore other pays, such as reenlistment bonuses, which could potentially use an auction mechanism to incorporate member preferences into payment rates.

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Member preference can also be factored into other areas of the compensation system, including benefits. Flexible benefits, such as cafeteria plans and flexible spending accounts (FSAs), for example, allow employees to make decisions about the types and levels of benefits they receive. Popular in the private sector, such plans have potential applicability in the military as well. To that end, the QRMC has considered such programs in its assessment and recommends that the Services consider whether such plans are a viable option for the military.

Finally, another aspect of member choice has to do, at a fundamental level, with the enlistment and reenlistment decision. When members choose to enter into service or reenlist at the end of their service obligation, the adequacy of their compensation will be an important, and sometimes principal, factor in that decision. Thus, changes to the compensation system that make compensation more equitable to service members, that ensure comparability with compensation in the civilian sector, or that address quality-of-life matters affecting service members and their families, can significantly impact recruiting and retention choices.

By increasing flexibility and member choice in the compensation system, the Services will be able to more readily adapt to changing views and values of the next generation of recruits.

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Scope of the Report

The QRMC's presidential charter directs it to conduct "a complete review of the principles and concepts of the compensation system for members of the uniformed services."

That review showed a system with a proven track record for successfully attracting and compensating the high-quality personnel that are needed in today's uniformed services. However, the QRMC concluded that there were aspects of the system that could be improved. These findings resulted in a series of recommendations that the QRMC believes will enhance the compensation system and advance the broader objectives that the compensation system supports.

The findings and recommendations of the QRMC will be presented in two volumes. Volume 1 addresses cash compensation. The chapters in this volume are outlined briefly below.

- Chapter 2 provides an overview of the compensation system and evaluates its adequacy to effectively recruit, retain, and motivate sufficient numbers of high-quality individuals into the all-volunteer force. It offers a new basis to compare compensation for the uniformed services to that in the civilian sector.
- Chapter 3 reviews Special and Incentive pays and recommends reforms that will increase Service flexibility to more quickly and effectively respond to changing force management needs and evolving operational strategies.
- Chapter 4 explores how the current compensation system rewards and encourages superior performance among service members, and proposes options that will enable force managers to increase compensation to top performers, facilitate lateral entry into the Services, and promote greater effort throughout the force.
- Chapter 5 considers the Basic Allowance for Housing—focusing particularly on the pay differential between those with and without dependents—and recommends changes designed to make the allowance more equitable and more comparable to civilian housing expenditures.

Volume 2 will consider deferred and in-kind compensation. It will cover the retirement system, the health care system under which service members and their families receive care, and the provision of in-kind benefits directed to improving quality of life for service members and their families. Each volume concludes with a summary chapter of findings and recommendations.

The Military Compensation System

For more than 30 years, the uniformed services have successfully recruited and retained sufficient numbers of high-quality individuals to operate a professional and skilled all-volunteer force responsive to the missions of the national security strategy. Young men and women choose to join and remain in uniform for a variety of reasons, ranging from a desire to serve one's country to aspirations to attend college. But perhaps the most critical factor affecting enlistment and reenlistment decisions is the military compensation package. In order to sustain a high-quality force in sufficient numbers, the Services must offer a compensation package that is competitive with civilian sector wages and benefits, and recognizes the unique responsibilities and burdens of military life.

As the history of the all-volunteer force has shown, when compensation falls relative to the wages paid to comparable civilians, recruitment and retention suffer. A fall in relative pay was a critical factor in the recruiting problems that beset the military services in the late 1970s. The crisis abated after substantial pay increases enacted in the early 1980s restored pay comparability. Maintaining comparability between uniform and civilian compensation is essential if the Services are to continue to meet their recruitment and retention requirements.

As part of its review, the QRMC assessed the adequacy of current compensation for the uniformed services compared to compensation in the civilian sector. Typically, such analyses are based on a comparison of cash compensation in the two sectors. But because benefits make up such a large portion of total uniformed compensation, the QRMC chose to take a different approach, including some specific benefits in its compensation comparison. This more comprehensive evaluation showed that the higher cash compensation paid to uniformed personnel is only one part of their compensation advantage. Benefits provided to service members are substantially more valuable than those provided to civilians with comparable education and experience, meaning that total compensation for service members is more generous relative to civilian compensation than the traditional comparison of cash pays would suggest.

This chapter describes the major elements of the Services' compensation package and the QRMC's comparative analysis of military and civilian compensation.

In order to get a better sense of how a military career affects a service member's lifetime earnings, a review of post-service employment and spousal employment is included in this assessment.

Elements of Compensation

Service members receive a compensation package composed of cash, as well as in-kind or noncash benefits (such as housing) and deferred benefits (such as retirement). Compensation varies by grade, years of service, geographic location, and dependency status. A recent study by the Government Accountability Office (GAO) concluded that cash payments make up approximately 48 percent of average military compensation, in-kind benefits another 21 percent, and deferred compensation 31 percent.⁵ Figure 2-1 shows the major components of military compensation, which are described below.

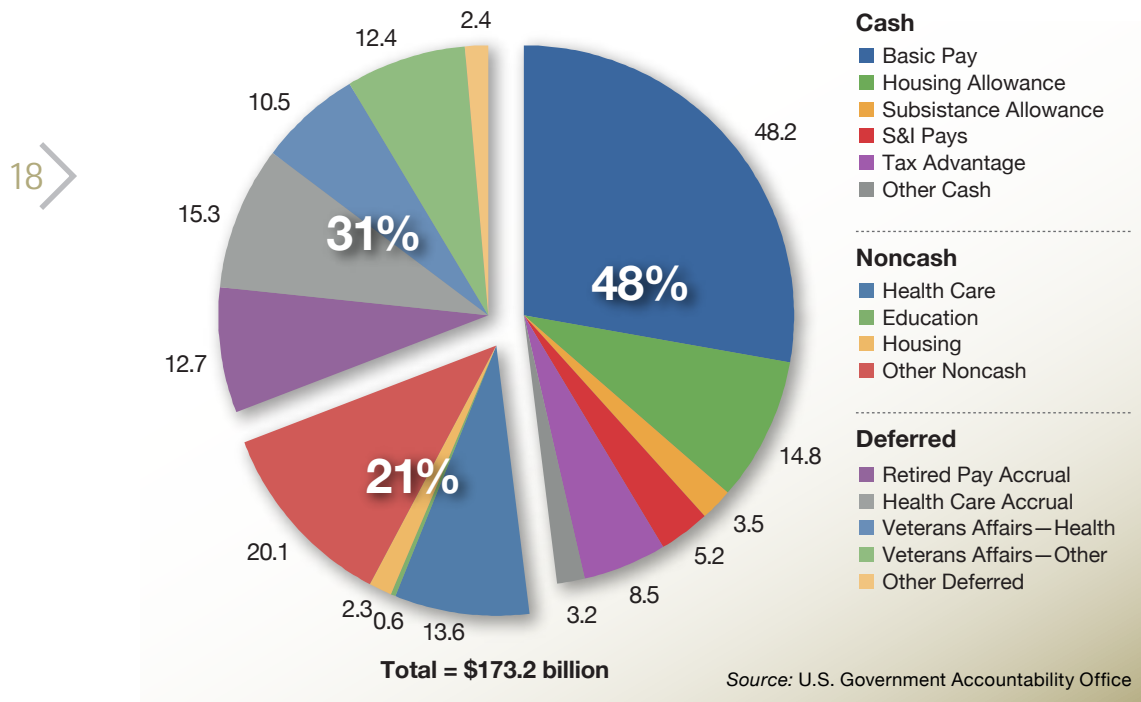


Figure 2-1. Major Components of Military Compensation, Fiscal Year 2006

5. U.S. Government Accountability Office, *Military Personnel: DOD Needs to Establish a Strategy and Improve Transparency over Reserve and National Guard Compensation to Manage Significant Growth in Cost, Appendix I: Updated Active Duty Compensation Costs*, GAO-07-828 (Washington, D.C.: June 20, 2007) http://www.gao.gov/new_items/d07828.pdf.

Cash Payments

Cash compensation makes up nearly half of service member compensation. The major elements of cash compensation are basic pay and allowances for housing and subsistence. Together with the federal income tax advantage resulting from nontaxed allowances, these elements are referred to as Regular Military Compensation (RMC). RMC is the portion of military compensation typically used in comparisons of military and civilian compensation. Cash compensation also includes special pays, bonuses, and other allowances.

- **Basic Pay.** Basic pay makes up approximately 60 percent of RMC and is paid to all personnel.⁶ Basic pay rates are based on rank and years of service, with pay increasing as service members are promoted to higher grades or accumulate additional years of service. Monthly pay amounts for each grade and year of service are provided in the basic pay table. Enlisted personnel pay grades range from E-1 for entry-level positions such as private, to E-9 for the most senior enlisted positions. Most of the enlisted force is junior, in rank E-4 and below.

The pay table is generally updated each January to reflect increases in private sector wages. By law, the annual adjustment is to be equal to the Employment Cost Index, but is often modified by Congress in response to concerns about military pay levels.⁷ From 2000 through 2006, for example, Congress authorized basic pay to increase 0.5 percentage points above the Employment Cost Index.⁸

- **Housing Allowance.** The second largest component of RMC is the Basic Allowance for Housing (BAH), a tax-exempt cash payment designed to cover housing costs of service members not living in government housing. The BAH is based on pay grade, with payments increasing as members advance to higher grades. BAH rates also vary by family status. On average, the BAH for service members without dependents is about 23 percent lower than the BAH for those members with dependents who are at the same pay grade and years of service. Because of wide variations in housing costs across the country, BAH rates also are adjusted by geographic location.

6. For a more detailed discussion of the basic pay table, see Chapter 4 of this volume.

7. Office of the Secretary of Defense, Military Compensation, *Annual Pay Adjustment*, http://www.defenselink.mil/militarypay/pay/bp/05_annual_raise.html.

8. Congressional Budget Office, *Evaluating Military Compensation* (Washington, D.C.: June 2007).

- **Subsistence Allowance.** The Basic Allowance for Subsistence (BAS) is a cash payment designed to defray the costs of service members' meals. Unlike BAH payments, BAS payments do not vary by pay grade. Instead, there is one rate for enlisted personnel (\$279.88 per month in 2007) and another for officers (\$192.74 per month in 2007). Further, because BAS payments are not intended to cover the meal costs of military dependents, rates do not vary by dependency.⁹ On average, the BAS comprises approximately 7.2 percent of enlisted RMC and 2.6 percent of officer RMC.
- **Special and Incentive Pays.** In addition to RMC, many service members also receive S&I pays. Unlike basic pay, which is paid to all service members at statutorily mandated levels, the Services can award S&I pays selectively in response to specific force management needs within limits prescribed by law. S&I pays generally are used to address staffing shortfalls in specific occupational areas, compensate members for hazardous or otherwise less desirable duty assignments, and encourage attainment and retention of valuable skills. In addition, in some occupational categories, such as certain technical and professional fields, special pays are used to ensure pay comparability with civilian sector salaries. Some of the most commonly awarded S&I pays include the Selective Reenlistment Bonus, Aviation Career Incentive Pay, Career Sea Pay, Hardship Duty Pay, and Medical Officers Variable Special Pay.

Given the flexibility associated with S&I pays, the amount of such pays that personnel receive can vary considerably, depending on a member's occupation, assignment, and Service. On average, S&I pays for enlisted members totaled approximately \$3,000 in 2006, or 6.6 percent of total cash compensation. In the same year, S&I pays for officers averaged \$7,000, or 7.3 percent of cash compensation. While these pays can make up a significant portion of members' cash earnings in certain occupational categories, such as the health professions, they are not included in the calculation of RMC since most personnel do not receive these pays.

- **Tax Advantage.** The housing and subsistence allowances are exempt from federal and state income taxes, as well as from Social Security taxes (Federal Insurance Contributions Act, or FICA).¹⁰ The federal income tax advantage

9. Office of the Secretary of Defense, Military Compensation, *Basic Allowance for Subsistence (BAS)*, <http://www.defenselink.mil/militarypay/pay/bas/index.html>.

10. FICA is the Federal Insurance Contributions Act tax for Social Security and Medicare old-age benefits.

is included in the calculation of Regular Military Compensation. The value of the tax advantage varies depending on a member's tax bracket and number of dependents, but the Department of Defense estimates that, on average, it accounts for 6.1 percent of RMC.

- **Other Cash Payments.** Other cash payments include miscellaneous allowances, such as cost-of-living allowances.

Noncash Benefits

As Figure 2-1 shows, over 20 percent of service member compensation is composed of benefits such as health care, educational assistance, government housing, and subsistence in kind.

- **Health Care.** All service members and their dependents are eligible for comprehensive health care services through TRICARE. Health care services are primarily provided at military treatment facilities, but can also be accessed through a network of civilian health care providers. TRICARE is provided to personnel and their dependents free of charge, with service members paying neither premium contributions nor deductibles or copays.
- **Education.** The Services offer a comprehensive array of educational benefits that support members' continuing education while they are in the military and after they return to civilian life—examples include scholarship, loan repayment, and tuition assistance programs.
- **Housing.** In 2006, approximately 43 percent of military personnel lived in government quarters. The remainder of the force received a cash allowance to cover the costs of their nongovernmental housing. The value of government housing varies considerably, depending on member rank; number, age, and gender of dependents; and duty assignment. Many single service members in the junior ranks, for example, reside in barracks-style housing on base or aboard ships. In contrast, married and more senior personnel who reside in government housing typically live in larger, more valuable units, including townhouses and single-family detached homes.
- **Other Noncash Benefits.** In addition, there are a considerable number of other noncash benefits available to service members, including annual leave, commissaries, fitness facilities, exchanges, golf courses, bowling centers, libraries, and many family-oriented services.

Deferred Benefits

Approximately 30 percent of military compensation dollars cover the costs of future, or deferred, benefits, principally military retirement payments and retiree health care. While these benefits are not provided to active duty members, the accrual costs of financing such future liabilities are included in the military personnel budget.

- **Retirement Pay Accrual.** Under the current compensation system, members who serve at least 20 years in uniform receive an inflation-protected lifetime annuity immediately upon retirement. A defined benefit, the annuity provides 2.5 percent of the average of a member's "high-3" years of basic pay for each year of service.^{11,12} While many consider the retirement benefit generous relative to private sector pensions, most members do not remain in service long enough to become eligible for the benefit. In fact, DOD estimates indicate that less than 15 percent of the enlisted force, and 47 percent of officers, will become eligible for military retirement.¹³

In order to cover future military retirement costs, funds are deposited annually into the Military Retirement Fund. It is important to remember, however, that while the cost of future retirement benefits per member is substantial, only a small fraction of enlisted members will ultimately receive a military retirement annuity.

In addition to the defined retirement benefit available to those who serve for 20 years, military service members also can contribute to the Thrift Savings Plan (TSP) that is also offered to federal civilian employees. Unlike the benefit offered to federal civilian employees, however, DOD does not match service members' contributions to the TSP. Thus, the principal benefit of the TSP option is that it enables personnel to contribute more dollars into a

11. Defense Advisory Committee on Military Compensation, *The Military Compensation System: Completing the Transition to an All-Volunteer Force*, April 2006.
12. While the majority of service members receive a retirement annuity based on a member's high-3 years of basic pay, there are actually three retirement plans currently in effect. Retired pay is based upon final month's basic pay for members who entered service prior to September 8, 1980. For those who entered service after September 8, 1980 but before July 31, 1986, retired pay is computed based on the high-3 years of basic pay. Members of the uniformed services who entered service on or after August 1, 1986 have a choice of two retirement programs: 1) High-3 or 2) REDUX. REDUX is a provision of the Military Retirement Reform Act of 1986, under which members receive a \$30,000 career retention bonus at year-of-service 15 and a reduced annuity upon retirement; at age 62, the retirement annuity is adjusted to the level it would have been under high-3.
13. U.S. Department of Defense, *Valuation of the Military Retirement System* (Washington, D.C.: Office of the Actuary, September 30, 2003), 12.

tax-deferred retirement plan than would otherwise be allowed in a typical individual retirement account.

- **Health Care Accrual.** Like their active duty counterparts, military retirees and their families are also eligible for comprehensive health care services through the TRICARE program. In 2006, the DOD accrual cost of funding this future liability was just over \$15 billion, or about \$10,000 per member. In comparison, the 2006 cost of providing health care services to active duty members and their families was about \$13 billion.
- **Veterans Affairs.** In addition to health care and retirement, veterans also may be eligible for other benefits administered by the Department of Veterans Affairs including educational assistance under the Montgomery G.I. bill, home loans, disability compensation, and vocational assistance.
- **Other Deferred Benefits.** This category includes Department of Treasury contributions to deferred benefit programs for service personnel.

Is Service Member Compensation Adequate?

Comparing Military and Civilian Cash Earnings

In order to successfully attract and retain high-quality individuals, the Services must offer compensation that is competitive with the salaries of civilians in the private sector. The 9th QRMC concluded that RMC should be set at around the 70th percentile of earnings for civilians with comparable levels of education and experience if the military is to recruit and retain the high-quality personnel it needs. Fixing military pay above the average for comparable civilians acknowledges the above-average aptitude and achievement of military personnel, as well as the burdens, responsibilities, and potential dangers associated with military life.¹⁴ These negative aspects of military service must be offset by compensation that is higher than it would otherwise have to be.

Until fairly recently, DOD considered high school graduates as the “comparably educated civilians” for purposes of determining the adequacy of military compensation. But in its 2002 analysis, the 9th QRMC found that the education levels of the enlisted force have increased significantly in recent years, much like the education

14. U.S. Department of Defense. *Report of the Ninth Quadrennial Review of Military Compensation*. (Washington, D.C.: Office of the Under Secretary of Defense for Personnel and Readiness, 2002).

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levels of the population in general. Also contributing to service members' higher educational attainment has been the increasingly technological nature of many military occupations and the training that members receive in order to perform the more complex tasks now demanded of them.

As the 9th QRMC noted, “the career enlisted force is being compensated as a high-quality, high-school-educated force when, in fact, the actual composition of the force reflects a much higher level of education—a phenomenon that is expected to continue.” The 9th QRMC concluded that while a high school graduate may be the appropriate civilian comparison for the force’s most junior enlisted personnel, midgrade and senior personnel typically have some college education or college degrees. This led the 9th QRMC to recommend that the “comparable civilian” used in compensation comparisons be more highly educated, and that the educational level of that comparable civilian vary to reflect the different educational levels within the force.

When the 9th QRMC compared military pay to the salaries of civilians with higher educational attainment, it found that compensation rates were below the 70th percentile benchmark, particularly among midgrade and senior enlisted personnel and junior officers. To address this issue, and to make the military pay table better reflect the increased educational levels within the force, the 9th QRMC recommended a series of basic pay increases. Congress included the first of these pay increases in the 2002 National Defense Authorization Act and provided additional increases in subsequent years.

As a result of the pay raises recommended by the 9th QRMC, RMC now exceeds the 70th percentile threshold of earnings for comparable civilians. The average enlisted member earned approximately \$5,400 more in 2006 than his or her civilian counterpart, with the actual difference running as high as \$9,100, depending on grade and years of service. The average officer received \$6,000 more than comparable civilians, with actual earnings ranging from \$1,000 to as much as \$14,500 more than the earnings of his or her civilian counterpart.

Figure 2-2 compares earnings of enlisted personnel and comparable civilians for each year of service over a 20-year career; Figure 2-3 shows the same compensation comparison for officers. While the size of the differential between military and civilian pay varies over the course of the 20-year period, military pay for both enlisted personnel and officers is about the same or higher than the earnings of comparable civilians.

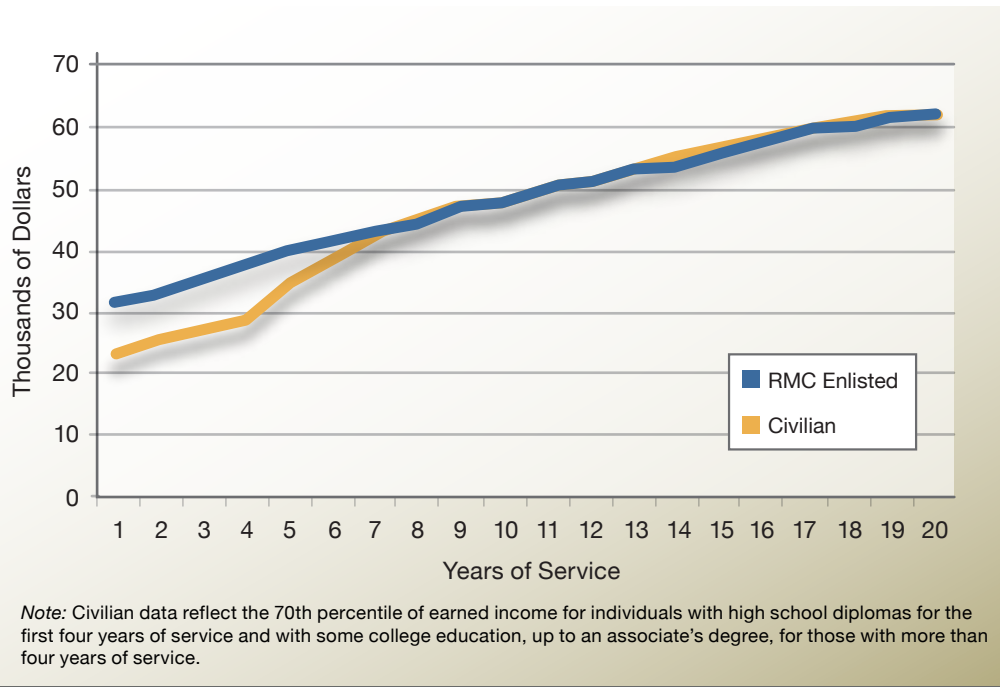


Figure 2-2. Enlisted Regular Military Compensation versus Civilian Earnings, 2006

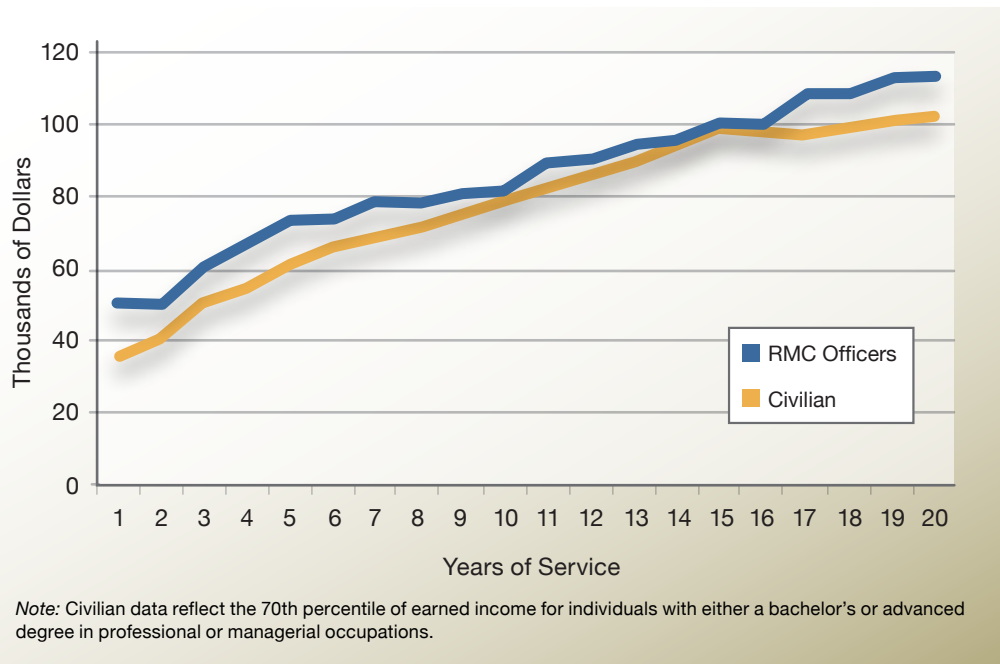


Figure 2-3. Officer Regular Military Compensation versus Civilian Earnings, 2006

A More Meaningful Comparison of Military and Civilian Compensation

Regular military compensation paid to service members compares favorably to civilian sector salaries and is an important selling point for recruiters and force managers trying to attract and retain high-quality individuals in the uniformed services. However, cash earnings comprise only a portion of the military compensation package, as described previously in this chapter. Service members also receive a comprehensive array of in-kind and deferred benefits, including health care and retirement benefits, as well as educational assistance and a range of installation services such as commissaries, gyms, and child care. Indeed, GAO estimates that the military benefits package makes up over half of a service member's total compensation.¹⁵ This contrasts sharply to civilian compensation packages offered by large private employers, where noncash and deferred benefits typically comprise only about one third of total compensation.¹⁶ Yet this major piece of the military compensation package is not captured in the traditional "cash pay" comparison with civilian compensation.

As it began its analysis of service member compensation, the 10th QRMC concluded that any meaningful comparison of uniformed and civilian compensation should include cash compensation as well as benefits—selected elements of in-kind and deferred compensation. Including benefits in the comparison is a departure from previous analyses, which have generally focused solely on cash earnings in the two sectors. However, the QRMC believes that omitting military benefits results in an incomplete analysis that substantially understates the value of the compensation package available to service men and women.

While it would be difficult to assess the value of all benefits in the compensation package, the QRMC concluded that the comparison of uniformed and civilian compensation could be significantly improved if all tax advantages were included. Although RMC includes the federal income tax advantage, it omits state and FICA tax advantages, which are considerable. The QRMC also considered other benefits not included in RMC. As mentioned above, service members have a wide variety of benefits available to them. These have clear financial benefit to the members and therefore were considered for inclusion as part of the compensation measure.

To be included, the QRMC believed that a benefit would have to be tangible, traditionally considered as part of a compensation package, and widely offered within

15. U.S. Government Accountability Office, June 20, 2007.

16. Congressional Budget Office, June 2007.

the private sector. Health care and retirement have clear financial benefits to all members, are commonly considered parts of civilian compensation packages, and are widely available. Therefore the QRMC analyzed these two items for inclusion in compensation comparisons in order to provide a more comprehensive and accurate measurement of the difference between total uniformed and civilian compensation.

The QRMC considered other benefits as well. While it is costly for the government to provide education, commissary, exchange, child care, and other morale and welfare benefits, many of these benefits are considered intangible, and few private sector employers offer these to their entire workforce. Moreover, these benefits are also considered contingent benefits. That is, the benefits are received only under specific conditions. These conditions impose a cost to the member in time or money in order to use the benefit. To the member for whom the conditions are too costly, the benefits have zero value. Thus, the QRMC recommends that the new compensation measure exclude these other benefits.

Because quantifying the overall value of noncash benefits is a particularly difficult undertaking, the QRMC analysis focuses on the difference in payments for selected noncash elements in the uniformed and civilian compensation packages. For example, while service members and their dependents receive their health care at no cost, civilians usually pay a portion of their health care expenses in the form of premium payments, copays, and deductibles. Although it is difficult to estimate the dollar value of the entire health care benefit, it is possible to quantify the out-of-pocket payments that civilians typically face but that Service personnel avoid. These avoided out-of-pocket costs are a quantifiable difference between the uniformed and civilian health benefit and a “benefit” to service members. The sections below compare the state and FICA tax advantages and health care and retirement benefits in uniformed and civilian compensation packages.¹⁷

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State and FICA Tax Advantage

As noted earlier, RMC includes the federal income tax advantage that personnel receive from not having to pay federal taxes on housing and subsistence allowances. However, that is only one part of the tax advantage afforded to most uniformed personnel. Housing and subsistence allowances are also exempt from state and FICA taxes, and 11 states exempt all or part of service income from state income

17. For a more detailed discussion of the process used to quantify the difference in value between military and civilian benefits, see James E. Grefer, *Comparing Military and Civilian Compensation Packages*, in a subsequent volume of this report.

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taxes. Further, unlike civilians, who typically pay taxes to the state in which they work, service members pay taxes to their home state, regardless of where they are stationed. Because six states do not tax the income of service residents stationed outside their home state, personnel with residency in those states receive a state tax advantage if they are stationed outside their home state. Further, because members of the military have some flexibility in choosing their home state, they may select for residency one of the 14 states that does not have an income tax or that does not tax military income.

Unlike the federal income tax advantage associated with the housing and subsistence allowances, neither the FICA nor state income tax advantage is included in estimates of RMC. One reason for this may be the potential complexities of quantifying the state and FICA tax advantages. Tax advantages vary by state, depending upon state law regarding taxation of military income. Not all personnel, for example, live in states that tax military income. While the exemption from FICA certainly reduces service member's current tax liability, it also may result in lower Social Security benefits during retirement. However, earnings from the early years of an individual's career are often not included in the calculation of Social Security benefits so any loss is likely to be minimal. Further, given personal discount rates, the current value of any future benefit reductions will be low.

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In order to capture the state-by-state variation in taxation law, estimated tax advantages were calculated for each of the 41 states that tax income. Based on these calculations, the QRMC estimates that the state and FICA tax advantages described in this section are worth \$1,900 to \$3,400 per year to enlisted members, and \$2,200 to \$5,300 to officers. Not including these tax advantages underestimates RMC for enlisted personnel and officers by 4 to 6 percent per year.

Health Care Benefits

The largest benefit in the service members' compensation package is the health care plan, accounting for approximately 8 percent of total compensation. Compared to the health benefit package typically offered in the civilian sector, the health care benefit for the uniformed services is generous. This is due primarily to differences in out-of-pocket costs. As noted above, personnel and their dependents receive medical care free of charge, while civilian workers typically must pay a portion of premium costs as well as other out-of-pocket expenses, such as copays or deductibles. These out-of-pocket costs represent a tangible difference in benefits that should be included in comparisons of civilian and uniformed service compensation.

In calculating avoided health costs, other factors must also be considered, including the likelihood that service members would receive employer-sponsored health benefits if they were employed in the private sector. It is estimated, for instance, that 30–45 percent of junior enlisted personnel would not have access to either employer-sponsored health care or publicly financed health care were they instead working in the civilian sector. Hence, many junior members are avoiding not only the cost of employee premium contributions or health care copayments, but also the cost of the full premium they would have to pay if they were employed in the private sector. Among the officer corps, in contrast, it is estimated that even the most junior officers would have a 70 to 85 percent chance of receiving employer-sponsored or publicly financed health care in the private sector—a difference due largely to the fact that new officers tend to be more educated and slightly older than junior enlisted members.

Avoided costs are also affected by a member's family status. In 2005, private sector employee premium contributions for family coverage under the average HMO plan were about four times greater than contributions for individual coverage.¹⁸ The fact that personnel are less likely to have dependents during their first few years of service reduces their avoided health costs during those years. As they become more senior, however, both enlisted personnel and officers are more likely to have dependents, thus increasing avoided costs.

Among enlisted personnel, annual avoided health care costs range from about \$3,400 in the early years of service to more than \$4,400 for more senior enlisted personnel. The higher costs for more senior personnel reflect the fact that they are more likely to have dependents, which would require them to contribute to the cost of more expensive family health plans if they were employed in the private sector. Among officers, avoided costs range from \$2,400 for junior officers to as much as \$4,100 for more senior officers who—like senior enlisted members—are more likely to have dependents. Officers experience lower avoided costs than enlisted members because, as mentioned above, officers would be more likely than their enlisted counterparts to have access to employer health plans if employed in the civilian sector. Hence, they are more likely to be avoiding the costs of an employee share of a health premium, not the entire premium.

The difference between uniformed service and civilian health benefits is substantial, and trends in the civilian health care market suggest that the size of the differential will increase in the future. For example, costs for group health care

18. The Kaiser Family Foundation and Health Research and Educational Trust, *Employer Health Benefits: 2005 Annual Survey*.

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premiums increased by almost 73 percent between 2000 and 2005,¹⁹ and many employers passed part of that increase onto their employees in the form of higher premiums and other out-of-pocket costs. If employee health costs continue to rise, so too will the relative value of the free health care provided to Service personnel through TRICARE.

Retirement

A second significant benefit is retirement pay, which provides a generous annuity to service members who remain in uniform for at least 20 years. Because the annuity is available immediately upon retirement, personnel can begin to receive retirement benefits at a young age—in some cases as early as their late thirties or early forties. Such early access to a full retirement annuity is less common in the civilian sector, where employees typically must work for longer periods and until an older age before they can begin to draw a full retirement benefit.

The uniformed services retirement benefit differs from civilian retirement plans in other ways as well. Most notably, because only personnel who serve for at least 20 years are eligible for military retirement, less than 15 percent of enlisted personnel and 47 percent of officers ultimately receive an annuity.²⁰ This contrasts sharply with the private sector, where employers who offer retirement benefits are required under federal law to vest their employees to 80 percent within 5 years and 100 percent after 7 years, depending on the type of vesting. So while the benefits provided under civilian retirement packages may not be as generous as the benefits provided to Service retirees, a much higher percentage of civilian workers ultimately receive some sort of annuity payment.

A comparison of service and civilian retirement benefits must take these differences into account. For example, because service retirement is a deferred benefit, its estimated value to members *today* has to reflect the extent to which personnel discount the value of a *future* annuity. The estimated value of the military retirement benefit also has to be adjusted to reflect the likelihood that a member will stay in uniform long enough to become eligible for the benefit. In combination, these two factors result in service members attaching lower value to the retirement benefit in their early years—when far-off retirement benefits are heavily discounted and the probability of remaining in service for 20 years is low—and greater value as their tenure increases.

19. *Ibid.*

20. Some military personnel who serve less than 20 years join the reserves after leaving active duty and ultimately qualify for a retirement annuity through their combined active duty and reserve service.

In contrast, the estimated value of civilian retirement plans is not affected by discounting or variable probabilities regarding eligibility. In civilian retirement plans, an employer typically pays into a retirement fund that quickly becomes owned by the employee. Most private sector retirements are defined contribution plans; that is, the employer and the employee both contribute under specified provisions.²¹ The majority of these are 401(k) accounts wherein the employee is not eligible to receive the benefits without penalty until age 59½, except for a few specific circumstances. This type of plan differs sharply from military retirement in two respects. First, the military has a defined benefit retirement, requiring no contribution from the members. Second, ownership of the pension does not shift to the service member until he or she has reached 20 years of service.

Because civilian retirements vest nearly immediately, and are therefore owned by the employee, and because junior members highly discount retirement benefits, civilian retirement plans are worth somewhat more than military retirement during the early years of a member's service. As members become more senior, however, the likelihood that they will serve 20 years and actually become eligible for the retirement benefit increases. In the early years of service, for example, the probability that an average enlisted member will become eligible for retirement is between 20 and 30 percent. By the 14th year of service, however, that probability jumps to 90 percent. As the likelihood of actually receiving the benefit increases so too does the value that personnel place on the benefit.

Thus, as members become more senior, the value of the retirement benefit dramatically increases, and the differential between the civilian and uniformed plans becomes more substantial. For example, the annual differential between civilian and service retirement plans is only \$300 for an enlisted member with nine years of service. But when service members reach 20 years of service, at which point they are eligible to receive the retirement benefit, the differential grows to \$8,800 per year. Likewise, the differential for officers grows from \$100 per year for personnel with five years of service, to \$20,600 per year for those with 20 years of service.

21 Under a defined-*contribution* plan, the employer provides a set amount of money to the employee, who then invests it towards his own retirement. Under a defined-*benefit* plan, such as military retirement, an employer promises a specific pension to an employee, and makes investments designed to pay for those pension benefits when they come due. As of 1998, over 90 percent of retirement plans offered in the private sector were defined-contribution plans. One of the major differences between these two constructs is that employees with defined-contribution plans typically receive full ownership of their plan early on, or even immediately. In the case of defined-benefit plans, in contrast, full or partial ownership of the plan typically remains with the employer for several years.

Aggregate Impact of Benefits on Compensation Comparisons

As the analysis of the various benefit components indicates, the uniformed service benefit is substantially more valuable than the comparable civilian benefit in each instance. In Figures 2-4 and 2-5, the difference in value between the uniformed and civilian benefits is added to RMC to show total Military Annual Compensation (MAC) for enlisted personnel and officers over a 20-year career.

By extending the compensation comparison to include some benefits, the advantages of compensation for members of the uniformed services are significantly greater than a comparison of cash-only compensation suggests. As noted earlier, in 2006, the average enlisted member received about \$5,400 more in cash compensation than comparable civilians; while cash compensation paid to the average officer was \$6,000 more. When the benefits outlined above are factored into the comparison, however, the difference between civilian and military compensation increases dramatically. Among the enlisted force, the differential between RMC and MAC increases by \$4,400 to \$16,100, bringing the total compensation package to about \$6,400 to \$15,400 more than the compensation provided to comparable civilians. Among officers, the differential increases by \$4,200 to \$30,000, with total compensation increasing to \$13,300 to \$40,700 more than that paid to their civilian counterparts.

Figures 2-6 and 2-7 update the comparisons of military and civilian compensation displayed in Figures 2-2 and 2-3 to include the state and FICA tax advantages, health care benefit, and the value of the military pension. As the figures show, the Military Annual Compensation package for both enlisted personnel and officers compares to approximately the 80th percentile of compensation for civilians, as compared to the 70th percentile when using only RMC as the point of comparison.

The value of the additional tax advantages and benefits included in MAC is 13 to 26 percent higher than RMC for enlisted members and 8 to 27 percent higher for officers. The implication of this analysis is that military members who focus solely on cash compensation will tend to systematically undervalue the compensation package they receive.

RECOMMENDATION

In order to more accurately compare the full value of service members' compensation, the QRMC recommends that Military Annual Compensation be adopted as the measure used for future pay comparisons.

The Military Compensation System

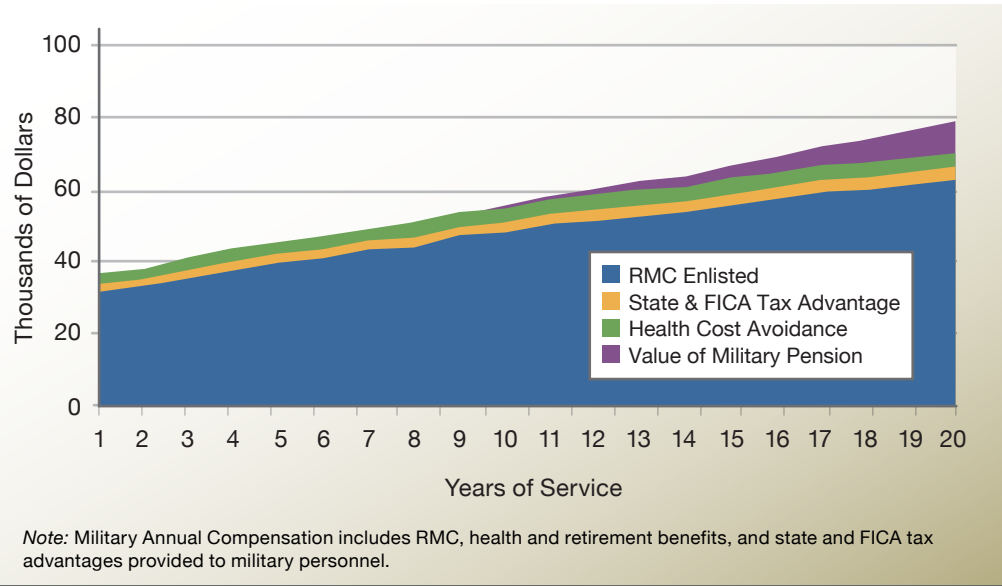


Figure 2-4. Military Annual Compensation for Enlisted Personnel, 2006

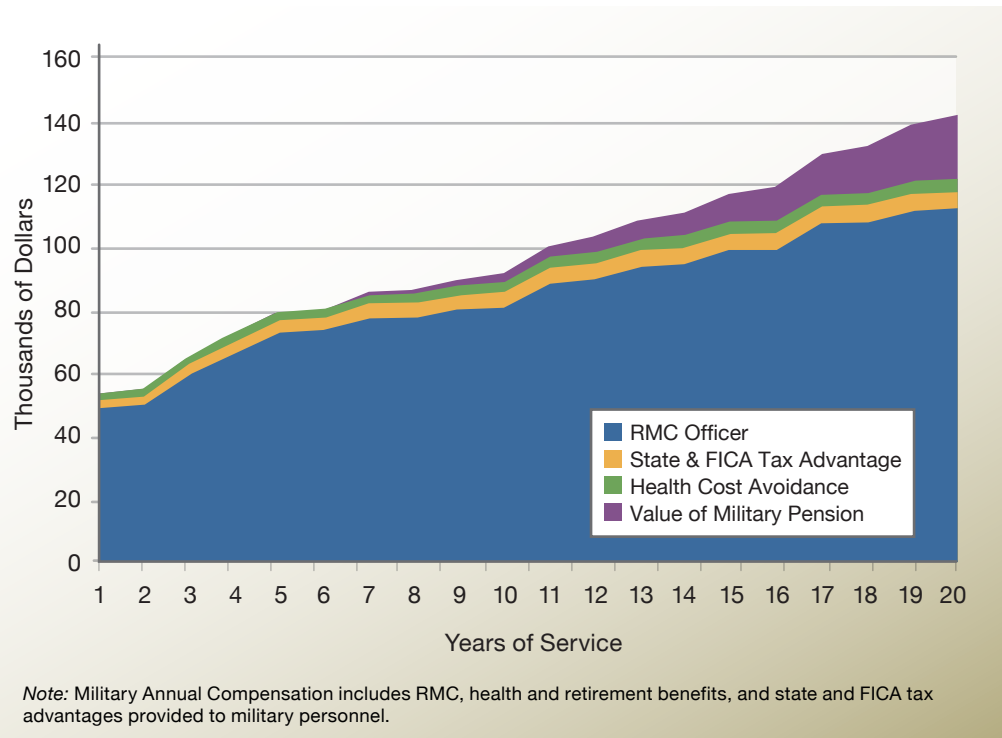
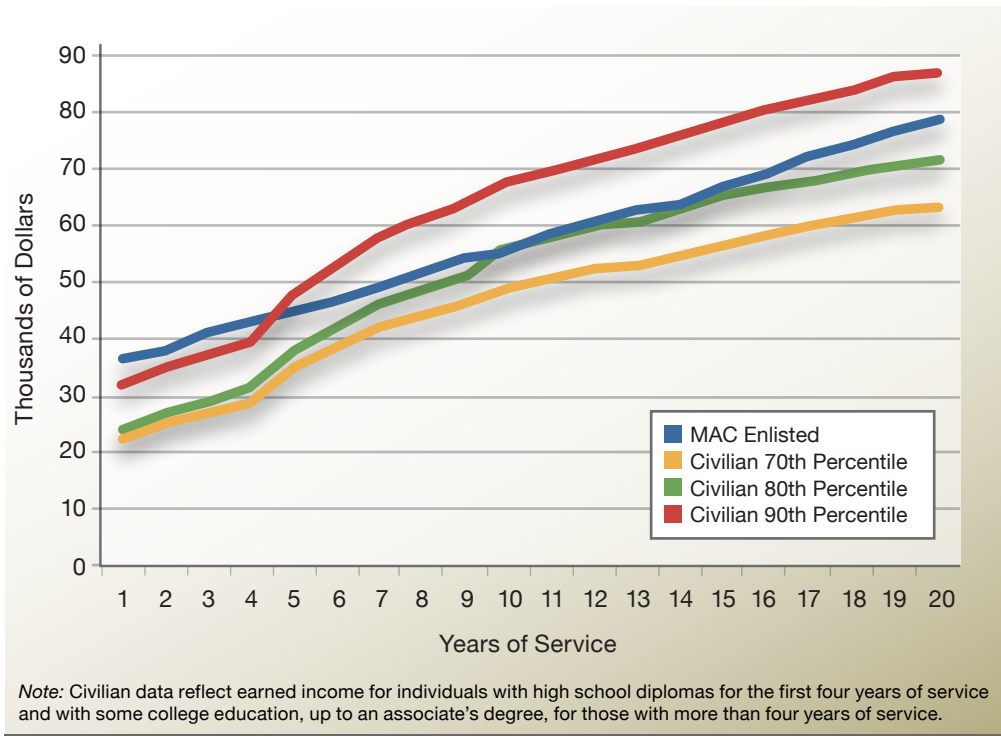


Figure 2-5. Military Annual Compensation for Officers, 2006



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Figure 2-6. Enlisted Military Annual Compensation versus Civilian Earnings, 2006

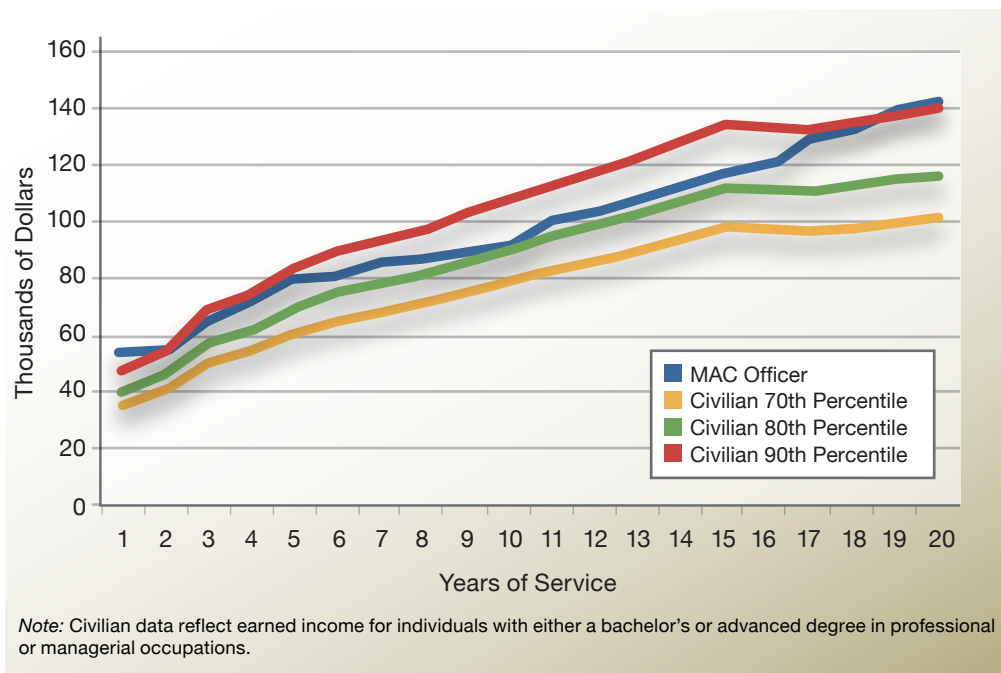


Figure 2-7. Officer Military Annual Compensation versus Civilian Earnings, 2006

With the inclusion of key benefits in the calculation, this measure better communicates to service members the important differences between civilian and uniformed service compensation. Further, in accordance with the recommendations of the 9th QRMC, the comparisons should be made to similarly educated civilian employees. However, as shown in Figures 2-6 and 2-7, the 70th percentile is no longer an appropriate standard for this more comprehensive measure. Maintaining the same standard for service member compensation requires that the standard for MAC should be the 80th percentile of comparable civilian compensation.

Impact of Military Service on Post-Service and Spousal Employment

As the analysis in the previous section shows, following five years of targeted pay raises, the standards of pay comparability established by the 9th QRMC have been achieved. But what happens after personnel leave the military—either upon retirement or earlier? How does military service affect members' post-service employment opportunities and future earnings? When individuals consider whether or not to enter or remain in the military, the impact of military service on lifetime earnings can factor into their decision.

The impact of military service on spousal income is another important factor that can influence reenlistment decisions and job satisfaction of service members. Previous studies have concluded that the frequent relocations required by the military's rotation policies can make it difficult for spouses to develop full-fledged careers. Deployments can also have a negative effect on spousal employment, due primarily to the increased child care responsibilities that fall to a spouse when his or her partner is deployed.

In order to provide a better picture of how military service affects an individual's earnings throughout his entire working life, the QRMC analyzed how members' post-service earnings compare with earnings of comparable civilians.²² The QRMC also reviewed how the earnings of military spouses differ from the earnings of civilian sector spouses.

The results of the analysis show that post-service employment of personnel who retire from the military compares favorably with that of their civilian counterparts (Table 2-1). Retirees who served for at least 20 years in the military are employed at about the same rate as comparable civilians, but their private sector wages are significantly higher than those of their civilian counterparts, with former military personnel earning more than \$4.00 more per hour, on average.

22. This analysis also controls for labor supply and demand.

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Table 2-1. Comparison of Employment Outcomes for Veterans and Comparable Civilians

	Percentage Difference in Likelihood of Being Employed	Hourly Wage Difference	Difference in Hours Worked Per Week	Difference in Weeks Worked
Relative to similar individuals who have never served in the military				
In military more than four and fewer than twenty years	6.5%	No difference	6.13	4.68
In military twenty years or more	No difference	\$4.33	7.18	No difference

Those personnel who served between 4 and 20 years in the military were nearly 6.5 percent more likely than their civilian counterparts to be employed. Although differences in hourly wages between these personnel and comparable civilians were generally insignificant, their annual incomes were substantially higher (approximately \$4,500 per year) as a result of working more hours than their civilian counterparts.

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Similarly, and consistent with previous studies, the analysis found that Black service members also experience better employment outcomes in the civilian labor market than do their counterparts without military experience. Specifically, the likelihood of being employed is higher, as are earnings, wages, and time worked.

In terms of spousal employment, the QRMC's analysis found that spouses of personnel who are in the military for less than 20 years are, in general, less likely to be employed—a finding consistent with other studies in this area. However, the analysis also concluded that spouses in this group who do work tend to work more hours per week than spouses of comparable civilians. Results for spouses of personnel with more than 20 years of military experience were somewhat different; that group did not experience lower employment rates than their civilian counterparts.

Conclusion

As the analyses in this chapter illustrate, compensation for members of the uniformed services compares favorably to compensation in the civilian sector, and the differential is substantial when the comparison includes not only cash compensation but also elements of a generous benefits package. But this fact is not well understood by service members in general. While service members tend to understand that their cash compensation compares favorably to the cash earnings of comparable civilians, they do not appreciate the full extent to which their total compensation—including benefits—exceeds that of their civilian counterparts.

Providing service personnel with a better understanding of their compensation package is critically important, since the adequacy of compensation is a key factor in an individual's decision to enlist or reenlist. When individuals make those enlistment and reenlistment decisions, they should do so with a full understanding of the cash, in-kind, and deferred compensation included in the compensation plan. Anecdotal evidence suggests that this is not the case today. Service members are often attracted by higher salary offers in the private sector without regard for the value of their total compensation package.

As the Services work to maintain recruitment and retention, they should promote a more comprehensive picture of compensation and better educate service members about the total value of their compensation package, including the generous in-kind and deferred benefits available to personnel. Adopting the measure of Military Annual Compensation will aid in this education process. Similarly, service members and potential recruits should understand the positive impact that military service can have on future civilian sector earnings. Such education programs need to occur not only early in a member's career, but also at various times throughout a career, particularly when members are nearing decision points to stay in or leave service.

Special and Incentive Pays

As described in the previous chapter, the vast majority of cash compensation for service members is composed of basic pay and allowances. These payments, on average, account for nearly 90 percent of service members' cash compensation. There are many positive features in the basic pay table, but flexibility is not one of them. Special and Incentive (S&I) pays provide the Services with flexible compensation dollars that can be used to address specific staffing needs and other force management issues that cannot be efficiently addressed through basic pay increases.

Unlike basic pay and allowances, which vary by pay grade and years of service, S&I pays can improve recruiting and retention by increasing compensation in key occupation specialties or critical skill areas. Such pays can also be used to compensate for onerous or hazardous duty assignments or conditions. In addition, S&I pays can provide incentives for service members to develop certain skills that are important to national security objectives. Even when basic pay is generally competitive, there are certain hard-to-fill skills and occupations that command substantially higher salaries in the private sector. S&I pays that can be targeted at specific skills and occupations are an effective and economical way to attract and retain qualified personnel to these hard-to-fill areas.

Over the years, the number of S&I pays has proliferated, with new pays added to address emerging staffing concerns, such as increased private sector competition for certain skills that are also highly valued by the uniformed services. Once part of the compensation system, however, these pays are rarely reviewed, updated, or discontinued, even if the staffing concern they were designed to address has abated. Currently, there are over 60 S&I pays on the books.

Moreover, for many special pays, detailed eligibility rules and precise payment amounts are set in statute and can only be changed by Congressional action. Hence, when staffing needs or market conditions change, force managers sometimes cannot adjust S&I pay eligibility criteria or payment levels in response to those changing circumstances. These less flexible pays are essentially permanent entitlements that are paid to service members because statute requires it, not because they necessarily address a current force management priority.

Despite the utility of this element of compensation, spending on S&I pays is quite modest compared to the rest of the compensation budget. In fiscal year 2006,

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the budget for S&I pays for all four Services totaled approximately \$5.2 billion—about 4.8 percent of the active duty military personnel budget and 7 percent of cash compensation.²³ S&I pays account for a larger proportion of cash compensation for officers (7.3 percent) than for enlisted members (6.6 percent). In fiscal year 2006, the average officer S&I pay was about \$7,000, compared to just over \$3,000 for the average enlisted member. Despite the large number of S&I pays, the majority of the S&I budget is used to fund just four types of pay: reenlistment bonuses, flying duty pays, sea and foreign duty pays, and medical pays. In fiscal year 2006, these pays made up 60 percent of the S&I pay budget.

The types of S&I pays offered to service members, as well as usage rates, vary by Service (see Table 3-1). Compensation for personnel in all Services starts out with the basic pay table, but then each Service supplements that compensation with S&I pays that address their specific staffing requirements and operational missions.

The differences among the Services result partly from the unique occupational and skill mix that each must maintain in its force in order to meet its mission objectives. The relatively high use of S&I pays in the Navy, for example, is due partly to the fact that so many sailors (about 40 percent of the enlisted force) receive supplemental pay to compensate for the burdens of sea duty. The Navy also relies on S&I pays to pay competitive wages to pilots, those employed in the nuclear field, and other skilled service members who could command higher salaries in the private sector.

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Table 3-1. Utilization of S&I Pays by Service, Fiscal Year 2006

	Army	Navy	Marine Corps	Air Force	Total DOD
Average S&I pay (dollars)					
Officers	\$5,870	\$9,585	\$3,210	\$7,762	\$6,914
Enlisted	4,509	3,474	1,519	1,308	3,059
Average S&I pay (percent of cash compensation)					
Officers	6.0%	9.7%	3.7%	8.4%	7.3%
Enlisted	8.6	7.6	4.2	3.0	6.6

23. Cash compensation is composed of basic pay, the Basic Allowance for Housing, the Basic Allowance for Subsistence, the federal tax advantage resulting from tax-free allowances, and special pays and bonuses.

Concerns with the Current System

Since before the advent of the all-volunteer force, S&I pays have provided the uniformed services with much needed flexibility to increase pay to those service members whose occupations, assignments, or expertise demanded additional compensation. Even with a conscripted force, the military relied on S&I pays as a flexible tool to supplement basic pay. Yet there are several aspects of the current system that limit its effectiveness and potential as a force management tool. In its 2006 report, *The Military Compensation System: Completing the Transition to an All-Volunteer Force*, the Defense Advisory Committee on Military Compensation (DACMC) identified three key weaknesses with the S&I pay system: the large number of pays, the limited flexibility of some pays, and the lack of performance incentives. These shortcomings reflect long-standing concerns with S&I pays that had been identified in previous compensation reviews.

Large Number of Pays

As the DACMC concluded, the large number of S&I pays makes the system unwieldy and difficult to administer and oversee. The Departments and the Services must track over 60 different sets of rules and budgets, which has resulted in a substantial and complex bureaucracy to administer a relatively small portion of the total compensation budget. These administration requirements take up management resources and make the system less agile and responsive than it could be. Nor is it user-friendly for service members, who often find the large number of pays difficult to decipher. Moreover, because the pays are so diffuse, many do not influence behavior or further staffing priorities as effectively as would a more cohesive and consolidated system in which the Services could more easily realign pays as demand for particular skills changes.

Limited Flexibility

The degree of flexibility among the many different pays varies considerably. Some pays are flexible, and can be used by the Services to address short- or long-term personnel issues across a range of occupations or assignments. For example, the Services can offer SRBs to personnel in any critical enlisted occupation. Likewise, Assignment Incentive Pay is available to channel personnel into hard-to-fill assignments or to reward service members for onerous or hazardous duty conditions.

Such flexibility is critical, as it allows the Services to adjust the disbursement of S&I pays in response to changing force needs. The annual budget for the various

S&I pays is established months before the beginning of the fiscal year; missions, as well as supply and demand for personnel, can change in the interim. Providing the Services with the flexibility to modify the allocation of funds within an S&I pay category ensures that those resources are used in a way that reflects the latest supply and demand conditions and supports current readiness priorities.

Other pays, in contrast, are more narrowly focused, with strict statutory limits on how they are disbursed. Unlike SRBs, which can be used to enhance retention in a range of critical enlisted occupations, officer retention is encouraged through a number of specific pays that only can be used for a particular occupational category, such as the Nuclear Officer Annual Incentive Bonus and Medical Officer Incentive Special Pay. In other words, the Services cannot reallocate officer retention pays earmarked for one occupation to another occupational area that may be experiencing more acute retention problems. Other pays, such as Parachute Duty Pay, are even more prescribed, with both the eligibility for the pay and the payment amount mandated in statute.

Typically accounting for over 60 percent of S&I pays, these legislatively prescribed pays are not necessarily ineffective at addressing staffing needs or force management issues. But eligibility and payment levels for these pays are based on long-standing statutory requirements, not on up-to-date analyses of their effectiveness in addressing current force needs or their effectiveness and value compared to other pays.

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Of course, there are some occupational and skill areas where less flexible, more stable pays might make sense. For example, service members who make the long-term commitment to learn a new language should have some sense of how that investment will pay off over an extended period of time. Professions that consistently garner lower wages in the uniformed services than in the civilian sector, such as medical professions, may also warrant well-established and predictable pays over the long term. But even these pays would benefit from periodic review to confirm that discrepancies between Service and civilian sector wages persist.

Making S&I pays more flexible would allow the Services to better target these resources to high-priority staffing needs and to adjust allocations in response to changing circumstances. Enhanced flexibility would also enable each Service to tailor its S&I pay system to meet its unique staffing needs and mission.

Performance Incentives

In addition to the proliferation of pays and the limited flexibility associated with many of them, there is another weakness inherent in most S&I pays—they do not provide sufficient incentives to motivate personnel to top performance. An effective

compensation system must encourage performance through financial incentives that motivate and reward effort and achievement. In the uniformed services, personnel performance is rewarded by promotion—the higher the pay grade, the higher the pay and allowances.

Because most S&I pays are not linked to pay grade, they can weaken the monetary incentive that the promotion system provides to encourage top performance. Unlike basic pay, which varies by grade, S&I pays are typically flat sums, and if they vary, it is in relation to time in service, not pay grade.²⁴ Indeed, some S&I pays are eliminated at higher pay grades, further weakening the tie between supplemental pays and performance. When members receive large S&I pays that are unrelated to performance, those dollars can overwhelm the more modest pay increases associated with promotion and performance.

Consolidating S&I Pays

Benefits of Consolidation

Consolidating the many existing S&I pays into a smaller number of broad categories would offer a number of advantages in terms of efficiency, flexibility, and effectiveness, and would address some of the concerns with the current system. Under such a consolidation plan, a limited number of pay categories designed to cover a broad range of personnel needs would replace the more than 60 existing pays, which tend to be narrow in focus. Within each category the Services would have flexibility to allocate resources to those areas that would most effectively meet staffing needs. There is some precedent for this approach within the current system. As mentioned earlier, the Services have the authority to allocate the SRB across a range of occupations and assignments, which enables them to target the bonus to their most critical specialties.

Such a consolidation of S&I pays was a key recommendation of the DACMC. Although the DACMC did not advocate a specific consolidation scheme, it did propose that—within legislatively defined limits—budgetary resources be fungible within pay categories and that the Secretary of Defense and the Services have authority to set eligibility and payment levels for S&I pays. The DACMC also recommended eliminating statutory limits that govern the amount of certain pays.

24. There are some exceptions to this, including Career Sea Pay, which does vary with pay grade. The SRB is also linked to pay grade, but that policy is designed to address staffing issues within specific pay grades, not to tie SRB pays to performance.

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From a management perspective, the Departments and Services would no longer have to keep track of over 60 different sets of rules and funding streams. Yet dropping from over 60 S&I pays to a much smaller number of pay categories does not necessarily mean that the occupations, assignments, and skills specified in those 60 categories will no longer receive supplemental pays. Eligibility under the new categories would, instead, be sufficiently broad to cover a wide range of occupations, skills, and assignments.

By giving the Services more flexibility in allocating S&I pay resources, consolidating pays also would ensure that S&I pay dollars are concentrated on the force's most critical staffing issues. Statutory earmarks—which do not necessarily focus on current mission priorities—would be eliminated, and instead, within legislative parameters, the Services would have the authority to allocate S&I pays to their highest priority manpower needs. Making resources within a category fungible would also allow the Services to respond quickly to changing staffing needs throughout the fiscal year. Under the existing system, if unanticipated staffing issues in a specific occupational or duty area emerge after the budget is enacted, the Services often have limited ability to transfer resources from another pay to help address the new—and possibly more pressing—concern.

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Methods for Consolidation

There are many different ways to consolidate S&I pays, and the QRMC reviewed two consolidation schemes during its deliberations. The first was an illustrative example from the DACMC that consolidated all S&I pays into seven categories:

1. Occupation Differential Pay
2. Retention Pay
3. Accession Pay
4. Conversion/Separation Pay
5. Skill Retention/Proficiency Pay
6. Assignment/Duty Pay
7. Hardship/Hazardous Duty Pay²⁵

25. The DACMC did not endorse a specific S&I pay consolidation scheme. The consolidation plan described in its report was intended as an illustrative example for discussion purposes. Appendix A describes in more detail the seven consolidated pay categories included in that scheme.

The QRMC also reviewed a DOD proposal to consolidate existing S&I pays into five pay categories:

1. Enlistment/Accession/Affiliation Bonus
2. Occupation/Skill Differential
3. Duty/Assignment Differential
4. Combat Differential
5. Retention/Conversion/Transfer Bonus

The DOD plan was similar to the DACMC plan, except that it combined DACMC's occupational and skill/proficiency categories into one occupational or skill category, and DACMC's conversion/separation and retention pays into one pay that covered all of those functions.

Both the DACMC and DOD designs include several principles that are critical components in any successful consolidation scheme. An effective consolidation plan will:

- replace existing S&I pays with simplified and consolidated pay categories
- increase fungibility within categories to facilitate cost-effective tradeoffs
- craft new pay categories broadly enough to cover current and future requirements for S&I pays
- organize pay categories functionally

QRMC Consolidation Proposal

RECOMMENDATION

Based on these principles, the QRMC recommends an S&I pay consolidation plan that will aggregate S&I pays into eight broad categories. Within these categories, the Services will have flexibility to set pay rates and eligibility criteria, and allocate resources to meet staffing needs. The proposal also authorizes the Secretary of Defense to establish eligibility criteria as warranted by changing mission needs.

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The eight pay categories included in the proposed consolidation scheme are:

1. Enlisted Force Management Pay
2. Officer Force Management Pay
3. Nuclear Officer Force Management Pay
4. Aviation Officer Force Management Pay
5. Health Professions Officer Force Management Pay
6. Hazardous Duty Pay
7. Assignment or Special Duty Pay
8. Skill Incentive/Proficiency Pay

46 > The first five categories are force management pays that would be used to attract and retain personnel into hard-to-fill occupations or specialties and, when necessary, to encourage voluntary separations in areas with surplus personnel. These pays would include incentives that address both short- and long-term market imbalances. In addition to enlisted and officer force management pays, which will apply to all enlisted personnel and officers, the proposal also includes three force management pays that target officers in specific professions: nuclear, aviation, and health. The remaining three S&I pay categories would cover hazardous duty, assignment or special duty, and proficiency pays.

Separate pay categories for managing officers in the nuclear, aviation, and health professions reflect the unique aspects of these occupations and the fact that personnel in these fields likely will receive wage differentials over the long term to compensate for the persistently higher civilian earnings available in their professions. In addition, the large budgetary resources devoted to these pays—particularly aviation and health professions pays—would have dominated other spending if they had been included within the broader Officer Force Management Pay category. In 2006, for example, spending on these three pay categories totaled \$1.2 billion, compared to just \$330 million on all other officer force management pays combined.

The eight proposed pay categories are described below. How current S&I pays might be distributed within the eight new consolidated categories is shown in Table 3-2. Existing pays that target multiple issues may fit into more than one category, as indicated in the table. One example of such a dual purpose pay is Diving Duty Pay, which is used both to reward proficiency in a critical skill and to compensate for a hazardous duty assignment.

- **Enlisted Force Management Pay** is a broad-based category that provides compensation to enlisted members who enter or remain in critical skill areas. This pay category also can be used to address short-term personnel surpluses in specific areas by paying members to leave voluntarily or to transfer into another occupation or Service. This category includes both short-term retention pays and, where appropriate, long-term occupational differentials.
- **Officer Force Management Pay**, like Enlisted Force Management Pay, is a broad pay category that compensates officers to enter or remain in particular skill areas. This category also can be used to address short-term personnel surpluses in particular areas by paying members to leave voluntarily or to transfer to a different occupation or Service. The category includes both short-term retention pays, such as the current Critical Skills Retention Bonus, and long-term occupational differentials, such as Surface Warfare Officer Continuation Pay.
- **Nuclear Officer Force Management Pay** provides incentives to officers to join or remain in the Navy's nuclear power community. The pay includes both short-term retention pays, such as Nuclear Officer Continuation Pay, as well as long-term occupational differentials.
- **Aviation Officer Force Management Pay** offers incentives to officers to join or remain in aviation fields. Occupations eligible for this pay include pilots, navigators, and naval flight officers. This pay could be used to finance short-term retention pays like the current Aviator Continuation Pay, as well as long-term differential pays, such as Aviation Career Incentive Pay, which provides officers additional compensation when there is a short-fall in military compensation compared with wages in the private sector.
- **Health Professions Officer Force Management Pay** provides incentives to officers in the medical and dental fields to join or remain in service. Covered occupations include physicians, dentists, nurses, veterinarians, optometrists, psychologists, and pharmacists. This category includes short-term retention pays, such as the current Medical Officers Multi-Year Retention Bonus, as well as long-term occupational differential pays, such as Medical Officers Incentive Special Pay.
- **Hazardous Duty Pay** is paid to members serving in dangerous conditions. It is targeted at unpredictable aspects of service, such as deployment to combat zones. This pay is a form of insurance that members know they will receive if their duty situation meets the conditions for eligibility.

Table 3-2. Proposed Consolidation of Current S&I Pays

Enlisted Force Management Pay

Enlistment Bonus
 Bonus for Affiliation or Enlistment in the Selected Reserves*
 Prior Service Enlistment Bonus
 Bonus for Enlistment in the Individual Ready Reserve (IRR)
 Incentive Bonus for Conversion to Military Occupational Specialty to Ease Personnel Shortage
 Bonus to Transfer Between Armed Forces*
 Career Enlisted Flyer Incentive Pay
 Crew Member Flying Duty Pay*
 Submarine Duty Pay*
 Selective Reenlistment Bonus
 Critical Skills Retention Bonus or Bonus for Assignment to High Priority Unit*
 Reenlistment Bonus for Selected Reserves
 IRR Enlistment, Reenlistment, or Extension Bonus
 Bonus for Reenlistment, Enlistment, or Voluntary Extension of Enlistment in the IRR
 Nuclear Trained and Qualified Enlisted Members
 Severance Pay*

Officer Force Management Pay

Accession Bonus for Officers in the Selected Reserve
 Judge Advocate Continuation Pay
 Special Warfare Officer Continuation Pay
 Surface Warfare Officer Continuation Pay
 Bonus for Affiliation or Enlistment in the Selected Reserves*
 Bonus to Transfer Between Armed Forces*
 Submarine Duty Pay*
 Critical Skills Retention Bonus or Bonus for Assignment to High Priority Unit*
 Severance Pay*
 Crew Member Flying Duty Pay*

Nuclear Officer Force Management Pay

Nuclear Officer Accession Bonus
 Nuclear Officer Continuation Pay
 Nuclear Officer Annual Incentive Bonus
 Nuclear Qualified Officer Continuation Pay
 Submarine Duty Pay*

Aviation Officer Force Management Pay

Aviation Career Incentive Pay
 Aviator Continuation Pay

Health Professions Officer Force Management Pay

Dental Officer Accession Bonus
 Registered Nurse Accession Bonus
 Pharmacy Officer Accession Bonus
 Medical Officers Variable Special Pay
 Reserve Medical Officers Special Pay
 Dental Officers Variable Special Pay
 Reserve, Recalled, or Retained Health Care Officers
 Optometrists (Regular) Special Pay
 Veterinary Corps Officer Special Pay

Table 3-2. Proposed Consolidation of Current S&I Pays (continued)

Health Professions Officer Force Management Pay (continued)

Medical Officers Additional Special Pay (ASP)
 Medical Officers Multi-Year Retention Bonus
 Medical Officers Incentive Special Pay (ISP)
 Dental Officers Multi-Year Retention Bonus
 Dental Officers Additional Special Pay
 Dental Officer Oral or Maxillofacial ISP
 Reserve Dental Officers (called to active duty) Special Pay
 Certified Registered Nurse Anesthetists ISP
 Pharmacy Officer Retention Special Pay
 Optometrists Retention Special Pay
 Critically Short Wartime Health Specialists in Selected Reserves
 Incentive Bonus for Conversion to Military Occupational Specs to Ease Personnel Shortages
 Medical Officers Board Certification Pay (BCP)
 Dental Officers BCP
 Psychologists and Non-Physician Health Care Providers BCP

Hazardous Duty Pay

Parachute Duty Pay (to include Free Fall/High-Altitude Low-Opening [HALO])*
 Demolition Duty Pay*
 Experimental Stress Duty Pays: Pressure Chamber; Acceleration/Deceleration; Thermal Stress
 Flight Deck Duty Pay
 Toxic Pesticides/Dangerous Organisms (Virus/Bacteria) Duty Pay
 Toxic Fuel/Propellants, Chemical Munitions Duty Pay
 Maritime Visit, Board, Search, and Seizure (VBBS) Teams
 Duty Involving Ski-Equipped Aircraft on Antarctica or Arctic Icepack
 Firefighting Crew Member Duty Pay
 Hostile Fire/Imminent Danger Pay (HF/IDP)
 Combat-Related Injury Rehabilitation Pay
 Weapons of Mass Destruction (WMD) Civil Support Team
 Diving Duty Pay*
 Crew Member Flying Duty Pay*

Assignment or Special Duty Pay

Special Duty Assignment Pay (SDAP) for Enlisted Members
 Officers in Positions of Unusual Responsibility and of Critical Nature
 Assignment Incentive Pay
 Hardship Duty Pay
 Special Pay for Enlisted Members in Selected Reserves Assigned to Certain High Priority Units
 Special Pay or Bonus; Members Extending Duty at Designated Overseas Locations
 Career Sea Pay and Career Sea Pay Premium
 Family Separation Allowance
 Personal Money Allowance
 Submarine Duty Pay*

Skill Incentive/Proficiency Pay

Bonus for Members with Foreign Language Proficiency
 Parachute Duty Pay (to include Free Fall/High-Altitude Low-Opening [HALO])*
 Demolition Duty Pay*
 Diving Duty Pay*

Note: Asterisks (*) denote pays that are listed under more than one pay category.

There are several issues that DOD will have to address when establishing pay rates under this category. The first is whether the pay amount should vary with the level of danger or arduousness of the assignment. For example, members in more dangerous combat zones could receive higher pay than those in less hazardous combat situations, such as peacekeeping duty. Making such determinations, however, can be difficult, and may argue for less variation in Hazardous Duty Pay.

A second issue is whether Hazardous Duty Pay should vary by pay grade and level of experience. An argument against differentiating this pay based on seniority is that hardship and danger vary by situation, not by pay grade or tenure. But if seniority were not a factor in Hazardous Duty Pay, the supplemental compensation paid to a first-term enlisted member would be the same as that provided to a midgrade officer. One could argue that if members with substantially different base salaries receive the same dollar amount of Hazardous Duty Pay, those members with lower salaries may perceive the pay as more substantial compensation than would those members with higher base salaries. To address this concern, Hazardous Duty Pay could be set as a percentage of basic pay, so that members would receive the same proportional increase in income, but different absolute dollar amounts.

Another issue related to Hazardous Duty Pay concerns variation across the Services in terms of pay levels and eligibility criteria. While it may make sense for this pay to be consistent across all the Services, it might be difficult to capture and quantify in one set of criteria all the arduous aspects of various types of duty assignments and missions. To that end, the Services may petition for some latitude in setting different rates and eligibility for this pay.

- **Assignment or Special Duty Pay** compensates members who accept undesirable or burdensome assignments, including those considered “hardship” assignments. Traditionally, the Services have assigned personnel where they are needed. While such an approach is efficient, it can create retention problems in a volunteer force. Pays that offset negative aspects of assignments—such as atypical work hours, the quality of area schools, and the probability of deployment—can make less desirable assignments more palatable, and reduce attrition.

The precise nature of the pay should vary depending on the staffing need being addressed and could range from fixed monthly payments to auction mechanisms.²⁶ The pay would not include cost-of-living allowances as such adjustments will still be available through a separate mechanism.

- **Skill Incentive/Proficiency Pay** provides incentives for members to acquire, maintain, or improve proficiency in a critical skill. The member need not be using the skill in his or her current job or occupation in order to receive proficiency compensation, as the pay is also used to encourage and reward individuals who acquire valuable skills that the Services wish to retain. For example, while most recipients of Foreign Language Proficiency Pay (FLPP) are language professionals who utilize their language skills in their current assignments, other personnel in completely different occupations receive FLPP simply for maintaining proficiency in a high-priority language or one which may become mission-critical in the future. Likewise, a former member of special operations assigned to a desk job could continue to receive Parachute or Diving Duty Pay to encourage the member to maintain those skills for future assignments—a less expensive investment than retraining or training someone new.

Financial Management and the S&I Pay Budget

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Along with flexibility in setting rates and eligibility criteria, the new system would afford the Services greater budgetary flexibility. As described above, budgetary resources within each of the eight categories would be fungible, enabling the Services to target resources towards the highest priorities and to adjust pays when staff needs or mission objectives change. This represents a departure from current practices, where statutorily mandated pay rates and eligibility criteria often predetermine the amounts budgeted for specific pays. Under the new system, budgetary requests would be based on estimates of staffing needs and priority skills, not on statutorily driven formulas.

As discussed earlier, S&I pays represent a small part of total pay, only 4.8 percent in fiscal year 2006. These pays are the primary mechanism for the Services to maintain

26. A relatively new concept that has shown some success in the Navy, auction-based pays allow qualified members to bid on less desirable and hard-to-fill assignments. The Service sets a maximum supplemental pay amount, and the qualified members with the lowest bids are typically chosen for the position. Presumably, those low-bidding members who “win” will be less concerned about the undesirable aspects of the assignment than their higher bidding colleagues. For example, members without dependents may not care if the quality of schools in a particular location is below average.

the required quality and quantity of personnel in particular skills and jobs. Historically, the Services have built their S&I pay budget to address projected near-term shortfalls, minimizing the size of the total budget. Because of the discretionary nature of many S&I pays, there has been a reluctance to risk budget cuts to compensation dollars by placing them into S&I accounts. However, there is strong evidence that this strategy limits the Services' ability to most effectively and efficiently shape their forces to meet long-term requirements. Proper S&I budget levels help to ensure that the Services have the flexibility to execute significant changes in the size and shape of their forces, both in the aggregate and within specific occupations.

Balancing basic pay and S&I pay levels is critical. The Department of Defense has stated that maintaining RMC at the 70th percentile of comparable civilian compensation is an important objective. In the past, when RMC fell below the 70th percentile, recruiting and retention suffered, measures of recruit quality declined, and manpower shortages increased. While it is imperative to set MAC at levels competitive with private sector labor market conditions, each Service needs additional flexibility in its S&I program to meet its own manpower needs—reflecting both differences in occupational mixes and challenges in recruiting and retention.

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Determining the right mix is not straightforward since the Services have never had the opportunity to significantly increase the S&I budget relative to other compensation expenditures. The average civilian employer with 500 or more employees in goods-producing industries spends about 6.6 percent of its total cash compensation on supplemental pays. These include shift differentials, overtime, and bonuses. This is not a completely relevant comparison, however, since private sector employers are not required to maintain a common salary structure for all employees as is implied by the military's basic pay table. The occupational differences for which the Services must compensate with S&I pays are already included in private sector wage structures. Thus, the private sector does not provide any clear signal as to what the balance should be between these two components of cash compensation.

It is clear that the current budget for S&I pays may be hard-pressed to meet force management requirements in the future. For example, as the Army and Marine Corps increase total strength over the next few years, more recruiting and retention incentives will be required. Increasing such incentives will in turn require a larger budget for S&I pays—resources that must be obtained either by an increase in the S&I budget directly, or through a combination of reductions from other areas of the budget and requests to Congress for supplemental funds. Neither of these latter two options is likely to provide the depth of resources required. As the Navy and Air

Force reduce their force sizes, they, too, have inventory-shaping needs that larger S&I budgets would enable them to address more effectively.

Changing the relationship of S&I pays to all other forms of cash compensation does not mean that personnel budgets must grow beyond current projections. Yet, for this process to be effective, all organizations involved in the budget process must recognize that these proposed changes constitute a fundamental change in the compensation system, and resist the temptation to make arbitrary reductions. Large multipurpose pots of money are often tempting targets for funding cuts, since the specific program or benefit that will be affected by a funding reduction is not explicitly identified. A cutback could be absorbed in any number of ways “within the pot.” This characteristic of a consolidated S&I structure contrasts sharply with the current system of narrowly defined and individually budgeted pays, in which proposed budget reductions must target specific pays.

To defend against funding cutbacks, the Services will have to balance budget flexibility against some specificity about how they plan to allocate S&I pays within the broad pay categories. To that end, budget submissions for the five force management pays will likely include detailed justifications within the broader categories that identify funding requirements in major functional areas such as enlistment, reenlistment, and career pays. Including such estimates will provide Congressional funding committees with a more detailed picture of how funding changes would likely affect force management priorities and service members. The Services would have the authority to adjust these functional subtotals later if warranted by changing staffing needs or mission priorities. As the purpose of the remaining three pay categories is not related to enlistment, reenlistment, or career pays, such breakouts would not be applicable in those budget submissions.

In transitioning to the consolidated system, aggregate budgetary resources initially could be roughly equivalent to the sum of the budgets for each of the individual pays subsumed within the new pay category. In other words, budgetary resources associated with each existing S&I pay could simply travel with the pay to the new category. To provide some idea of how current S&I pay budget totals would be allocated among the new consolidated pay categories, Table 3-3 distributes the fiscal year 2004 budget for S&I pays using the proposed consolidation scheme.

Once the new S&I pay structure has been implemented, the S&I accounts should begin to grow. The DACMC also advocated increasing the share of S&I pays within the total compensation budget as part of its consolidation proposal.

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Table 3-3. Illustrative Budget for Consolidated S&I Pays, Fiscal Year 2004
(thousands of dollars)

	Army	Navy	Marine Corps	Air Force	Total DOD
Enlisted Force Management Pay	\$268,919	\$471,870	\$61,234	\$391,482	\$1,193,505
Officer Force Management Pay	1,402	31,885	750	2,713	36,750
Nuclear Officer Force Management Pay		53,571			53,571
Aviation Officer Force Management Pay	83,107	117,222	38,784	371,935	611,048
Health Professions Officer Force Management Pay	162,298	137,691		180,323	480,312
Hazardous Duty Pay	792,062	107,474	61,442	67,390	1,028,368
Assignment or Special Duty Pay	82,431	325,678	33,335	37,458	478,902
Skill Incentive/Proficiency Pay	16,153	3,122	2,125	11,130	32,530

Note: Budgetary amounts from some existing pays have been distributed among more than one category, reflecting the fact that different aspects of some multipurpose pays will be assigned to different categories.

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RECOMMENDATION

To ensure sufficient resources are available to most effectively use this more flexible system, the QRMC recommends that portions of future pay raises that exceed the Employment Cost Index (ECI) be reallocated between basic pay and S&I pay. Once it is determined that the S&I pay budget is in correct proportion to other forms of cash compensation, further increases should be tied directly to increases in basic pay.

Reallocation of pay raises is not unprecedented. Previous pay raises have been allocated among various components of compensation other than basic pay (such as to realize increases in the housing allowance), or have been targeted to specific grades or years of service. Over the past nine years (fiscal years 2000 to 2008), Congress has provided pay increases that exceeded the ECI by at least 0.5 percent. Since, as seen in Chapter 2, pay comparability with the private sector has been achieved, any pay increase in excess of the ECI could be reallocated to each Service's S&I pay account. This approach would keep overall compensation competitive, while facilitating increased efficiency in the compensation system. DOD will have to continue to monitor military

and civilian pay rates to ensure pay comparability is maintained under this reallocation plan. If, at some point in the future, military pay declines relative to civilian pay, the portion of pay raises that exceeds the ECI would likely be needed to increase basic pay levels, and would not be available for reallocation to S&I pays.

Using fiscal year 2006 pay data as a basis, if 0.5 percent of the 2007 pay raise had been reallocated to S&I pays, \$390.8 million would have been transferred, resulting in the growth of the overall DOD S&I pay budget from 4.8 to 5.1 percent of cash compensation. Table 3-4 shows the effect of this reallocation.

Table 3-4. Effect of Increasing the Consolidated S&I Pay Budget, Fiscal Year 2007 (millions of dollars)

	Dollars Transferred To S&I Account	Percent Increase in S&I Account
Army	\$153.3	6.3%
Navy	92.7	6.1
Marine Corps	41.8	13.3
Air Force	102.9	11.4
Total DOD	\$390.8	7.6%

Oversight Committee

By consolidating the more than 60 current S&I pays into eight broad S&I pay categories and eliminating the statutory mandates that govern those pays, this proposal will give the Departments and the Services greater flexibility to set pay levels and establish eligibility criteria. However, in the judgment of the QRMC, such a system would benefit from an organizing body designed to ensure sufficient oversight, guidance, and coordination within this more flexible system.

RECOMMENDATION

The QRMC recommends the creation of a two-tiered oversight committee to establish S&I pay policies and review the Services' S&I pay programs. The tiers would consist of a working group and a senior oversight group.

Roles and Responsibilities

The committee would be responsible for providing clear program parameters and a consistent, rigorous, and defensible review process, while still allowing the Services greater autonomy in setting S&I pay levels and eligibility. But the oversight process must be structured in a way that adds value to the compensation system, not simply another layer of bureaucracy that can slow response time when urgent staffing needs arise.

The QRMC recommends that the oversight committee have two tiers—a working group that would handle the bulk of S&I pay issues, and a senior oversight group that would address issues that cannot be resolved by the working group. An effective oversight authority must be sufficiently high level to make the oversight process credible and rigorous, but at the same time must also be agile and flexible enough to provide timely feedback on pressing issues. The tiered system would allow the committee to have all these attributes—the senior group would have the authority and standing to oversee and guide the system, and the working group would have the capacity to convene quickly in order to promptly handle time-sensitive S&I pay issues.

56 > The Secretary of Defense would have ultimate authority regarding S&I pay policy decisions. As such, the Secretary or a designee would define the scope of the committee's authority and solicit its advice and recommendations. To be effective, the committee's powers must strike a sometimes difficult balance—oversight must be robust enough to ensure consistent, efficient, defensible, and effective results within clearly defined parameters, but also accommodating enough to preserve the Services' flexibility to address their unique missions and needs. For example, in terms of pay rates and eligibility criteria, the committee would have authority to establish overall parameters, but actual payment amounts will be set by the Services, within the approved parameters.

Most of the committee work would occur at the working group level, which should meet several times a year, perhaps quarterly, as needed. In addition to establishing annual pay-rate and eligibility parameters for each type of pay, the working group should review pay levels proposed by the Services, confirm that pays are operating within statutory authorities, review budget estimates and pay justifications, resolve inter-Service disagreements, manage exception or waiver applications, and evaluate Service requests to modify pay categories or policies or to add new pays.

The working group should also review pays from a cross-Service perspective to ensure that, where appropriate, pays are consistent across the Services. For example, uniform pays may make sense for members from different Services who are working together in joint operations. Deployment to a combat zone is another situation in which members should possibly receive the same Hazardous Duty Pay.

It must be emphasized, however, that consistent oversight of S&I pay policies does not mean “one size fits all.” There may be many circumstances where differences between the Services justify—and even necessitate—different S&I pay rates and eligibility criteria. Operations at Guantanamo Bay during the Iraq war illustrate how different pay policies may be appropriate when the Services use different strategies to staff an assignment. The Navy, for example, assigned *individuals* to Guantanamo, and relied on assignment and incentive pays to encourage the most qualified personnel to serve in these positions. The Army and Marine Corps, in contrast, deployed entire *units* to Guantanamo, a strategy that required less extensive use of S&I pays.

In addition to the oversight activities discussed above, the working group should review about one third of all pays each year to ensure their continued relevance and value to force management. Many current S&I pays have not been evaluated for some time. Under the new review schedule, each pay will be reassessed every three years, with ineffective and obsolete pays revised or eliminated.

Unlike the working group, the senior oversight group will not hold meetings on a regular basis, convening only when necessary. If the working group is functioning well, the senior oversight group would need to meet infrequently to vote on issues that cannot be resolved at the working group level and to solicit guidance and recommendations from the working group.

Committee Membership

As discussed above, oversight of the new S&I pay system should be structured with multiple tiers. Final authority for the program should rest with the Secretary of Defense, whose designee should be the Under Secretary of Defense for Personnel and Readiness. Membership on the senior oversight group should be determined by the Under Secretary, and may include representatives from the Services’ offices of Manpower and Reserve Affairs, as well as delegates from other federal agencies with personnel eligible for S&I pays, including the Coast Guard, the National Oceanic and Atmospheric Administration (NOAA), and the Public Health Service (PHS). The Under Secretary should also determine which committee members have voting rights.

The working group should be chaired by a designee from the Office of the Under Secretary of Defense for Personnel and Readiness, and should include standing members as well as other representatives with expertise or interest in S&I pay issues who could participate on an *ad hoc* basis as needed. Membership should be determined by the Under Secretary, and may include, among others, representatives from the four military services, the Joint Staff, the Coast Guard, NOAA, and PHS.

Conclusion

Consolidating the many existing S&I pays will take considerable time and effort. It will also require changes in legislation.²⁷ Before the new system becomes operational, the Departments must promulgate regulations that cover all administrative, management, and policy aspects of the new program. The rulemaking process should be as inclusive as possible to ensure broad support for the new system among the Services, members of the force, and other interested parties. The Departments also must revise existing budget and financial management systems so that they are consistent with the new program parameters and budget submission requirements, and determine appropriate resource levels for the new pay categories. In addition to the policy, administrative, and budgetary issues that must be resolved before the new system is implemented, the Services also must educate the force about the change, and manage the transition in a way that minimizes disruptions to force management and to individual members.

58 > Over the years, S&I pays have become inextricable and expected parts of the compensation package for many occupations and assignments. Under the consolidated system, use of some of these long-standing pays may change, or perhaps decline. The transition to the new system must be handled in a way that honors outstanding S&I pay obligations, minimizes financial disruptions to members, meets ongoing force management priorities, and creates realistic and informed expectations among the force.

The new consolidated S&I pay system should become fully operational three years after enactment. This time frame will give the Secretary and the Services adequate time to establish program regulations, revise budgetary systems, and prepare the force for the change.

27. Appendix B contains the legislative language, drafted for the Fiscal Year 2008 National Defense Authorization Act, that would establish the consolidated S&I pay structure in law.

Pay for Performance

Rewarding personnel for exceptional performance is a common attribute of many compensation systems and contributes to employee retention and morale. Salary advancement associated with promotion, bonuses, and other means of recognition, such as “employee of the month,” are examples of ways that exceptional performance can be rewarded. While performance rewards exist in the uniformed services compensation system, their impact on service member compensation is not as significant as it might be.

The QRMC believes that the compensation system should do more to recognize outstanding performance among service members as well as their contributions towards organizational goals and missions. Compensation must be sufficient not only to attract and retain high-quality men and women into the force, but also to provide incentives that motivate those men and women to perform to their highest levels.

Today, the Services primarily recognize performance through the promotion system, in which service members advance in rank. Basic pay—which comprises about 60 percent of service members’ RMC—is calculated from a pay table based on rank and time in service. Thus, a service member’s compensation rises as he or she progresses to higher grades and accumulates more years of service.

The general structure of the basic pay table has been in place for nearly 60 years, prescribing compensation for the conscripted force of the 1950s and 1960s, as well as today’s all-volunteer force. Since the basic pay table was first put in place in 1949, several groups charged with assessing the military compensation system have reviewed whether a “time-in-service” pay table, with its dual emphasis on performance and longevity, is the best way to encourage and reward performance among service members.

The QRMC reviewed how effective the current pay table is in meeting force management needs, and explored ways to revise the table to make it more responsive to performance. As part of this assessment, the QRMC considered a recommendation by DACMC to replace the current time-in-service pay table with a “time-in-grade” pay table designed to better encourage and reward performance in the force. Such time-in-grade tables have often been proposed in the past. The QRMC also analyzed more modest modifications to the existing pay table, as well as other mechanisms outside of the pay table structure that the uniformed services could use to further motivate top performance. This chapter describes these assessments and the conclusions drawn by the QRMC.

Current Pay Table

The bulk of service members' cash compensation is composed of basic pay, allowances for housing and subsistence, and the tax advantage derived from not taxing those allowances. The basic pay table stipulates monthly basic pay by pay grade and time in service. Housing allowances are also tied to a member's pay grade, with monthly allowances increasing with pay grade.

Table 4-1 displays the basic pay table for 2007, and illustrates how promotion is rewarded with monthly pay increasing as members move to higher pay grades. For example, an E-4 with three years of experience will be paid \$1,883.10 per month. When that E-4 becomes an E-5 with four years of service, his or her monthly salary will rise to \$2,171.40, reflecting both the higher pay grade and the additional year of service.

The DACMC expressed concern about top performers who advance more quickly than their peers. They questioned whether or not the time-in-service pay table sufficiently rewards such individuals and provides incentives to encourage more members to strive for superior performance. The answer is yes, to a degree. When a service member is promoted early and moves up to the next pay grade, the member receives the higher pay associated with that next pay grade. For example, an E-5 with five years in service who is promoted a year early to rank E-6 will make \$248.40 more per month in basic pay, as well as increases in other pays and allowances.

Because the pay table is based on both performance and longevity, however, the higher pay associated with an early promotion is not sustained beyond the point at which the on-time promotion would have occurred. Consider again the E-5 with five years of experience who is promoted one year early to E-6. During the first year as an E-6, the service member will receive monthly basic pay of \$2,419.80. This compensation is higher than the \$2,171.40 monthly basic pay he or she would have received had the early promotion not taken place. Yet in the following year, the E-6's monthly basic pay will be \$2,519.40. This is the same amount that the member would have received had the promotion occurred "on time," and the same amount provided to the member's same-year peers who were promoted to E-6 a year later.

So while fast-promotees enjoy higher compensation until their due-course peers are promoted, compensation then equalizes between the early and on-time promotees. The longevity component of the pay table essentially eliminates any significant long-term impact from early promotion and ensures that personnel in the same grade and with the same years of service receive the same basic pay, regardless of when they were first promoted to that grade.

Table 4-1. Monthly Basic Pay Table, April 2007

Pay Grade	<2	2	3	4	6	8	10	12	14	16	18	20	22	24	26	28	30	32	34	36	38	40
Commissioned officers																						
O-10	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	13659.00	13725.00	14011.20	14508.60	14508.60	15234.00	15234.00	15995.70	15995.70	16795.50	16795.50
O-9	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	11946.60	12118.50	12367.20	12801.30	12801.30	13441.50	13441.50	14113.50	14113.50	14819.10	14819.10
O-8	8453.10	8729.70	8913.60	8964.90	9194.10	9577.20	9666.30	10030.20	10134.30	10447.80	10900.80	11319.00	11598.30	11598.30	11598.30	11598.30	11888.40	11888.40	12185.70	12185.70	12185.70	12185.70
O-7	7023.90	7350.00	7501.20	7621.20	7838.40	8052.90	8301.30	8548.80	8797.20	9577.20	10236.00	10236.00	10236.00	10236.00	10287.90	10287.90	10493.70	10493.70	10493.70	10493.70	10493.70	10493.70
O-6	5206.20	5719.20	6094.50	6094.50	6117.60	6380.10	6414.60	6414.60	6779.10	7423.80	7802.10	8180.10	8395.20	8613.00	9035.70	9035.70	9216.30	9216.30	9216.30	9216.30	9216.30	9216.30
O-5	4339.80	4888.80	5227.50	5291.10	5502.00	5628.60	5906.40	6110.10	6373.20	6776.40	6968.10	7158.00	7373.10	7373.10	7373.10	7373.10	7373.10	7373.10	7373.10	7373.10	7373.10	7373.10
O-4	3744.60	4334.70	4623.90	4688.40	4956.90	5244.60	5602.80	5882.40	6076.20	6187.50	6252.30	6252.30	6252.30	6252.30	6252.30	6252.30	6252.30	6252.30	6252.30	6252.30	6252.30	6252.30
O-3	3292.20	3732.30	4028.40	4392.00	4602.00	4833.00	4982.70	5228.40	5355.90	5355.90	5355.90	5355.90	5355.90	5355.90	5355.90	5355.90	5355.90	5355.90	5355.90	5355.90	5355.90	5355.90
O-2	2844.30	3239.70	3731.40	3857.40	3936.60	3936.60	3936.60	3936.60	3936.60	3936.60	3936.60	3936.60	3936.60	3936.60	3936.60	3936.60	3936.60	3936.60	3936.60	3936.60	3936.60	3936.60
O-1	2469.30	2569.80	3106.50	3106.50	3106.50	3106.50	3106.50	3106.50	3106.50	3106.50	3106.50	3106.50	3106.50	3106.50	3106.50	3106.50	3106.50	3106.50	3106.50	3106.50	3106.50	3106.50
Commissioned officers with over 4 years of active duty service as an enlisted member or warrant officer																						
O-3E	0.00	0.00	0.00	4392.00	4602.00	4833.00	4982.70	5228.40	5435.40	5554.20	5715.90	5715.90	5715.90	5715.90	5715.90	5715.90	5715.90	5715.90	5715.90	5715.90	5715.90	5715.90
O-2E	0.00	0.00	0.00	3857.40	3936.60	4062.00	4273.50	4437.00	4558.80	4558.80	4558.80	4558.80	4558.80	4558.80	4558.80	4558.80	4558.80	4558.80	4558.80	4558.80	4558.80	4558.80
O-1E	0.00	0.00	0.00	3106.50	3317.70	3440.10	3565.50	3688.80	3857.40	3857.40	3857.40	3857.40	3857.40	3857.40	3857.40	3857.40	3857.40	3857.40	3857.40	3857.40	3857.40	3857.40
Warrant officers																						
W-5	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	6049.50	6356.40	6585.00	6838.20	6838.20	7180.20	7180.20	7539.30	7539.30	7916.40	7916.40
W-4	3402.00	3660.00	3765.00	3868.50	4046.40	4222.00	4400.70	4669.20	4904.40	5128.20	5310.90	5489.70	5752.20	5967.60	6213.60	6213.60	6337.80	6337.80	6337.80	6337.80	6337.80	6337.80
W-3	3106.80	3236.40	3369.00	3412.80	3552.00	3825.90	4110.90	4245.30	4400.40	4560.30	4847.70	5042.40	5158.50	5282.10	5450.10	5450.10	5450.10	5450.10	5450.10	5450.10	5450.10	5450.10
W-2	2749.20	3009.30	3089.40	3144.60	3322.80	3600.00	3737.10	3872.40	4037.70	4166.70	4284.00	4423.80	4515.90	4589.40	4589.40	4589.40	4589.40	4589.40	4589.40	4589.40	4589.40	4589.40
W-1	2413.20	2672.40	2742.90	2890.50	3065.10	3322.20	3442.20	3610.20	3775.50	3905.10	4024.50	4170.00	4170.00	4170.00	4170.00	4170.00	4170.00	4170.00	4170.00	4170.00	4170.00	4170.00
Enlisted members																						
E-9	0.00	0.00	0.00	0.00	0.00	0.00	4110.60	4203.90	4321.20	4459.50	4598.40	4821.60	5010.30	5209.20	5512.80	5512.80	5788.50	5788.50	6078.00	6078.00	6381.90	6381.90
E-8	0.00	0.00	0.00	0.00	0.00	3364.80	3513.90	3606.00	3716.40	3835.80	4051.80	4161.30	4347.30	4450.50	4704.90	4704.90	4799.10	4799.10	4799.10	4799.10	4799.10	4799.10
E-7	2339.10	2553.00	2650.80	2780.70	2881.50	3055.20	3152.70	3226.70	3471.00	3569.70	3676.40	3715.50	3852.00	3925.20	4204.20	4204.20	4204.20	4204.20	4204.20	4204.20	4204.20	4204.20
E-6	2023.20	2226.00	2324.40	2419.80	2519.40	2744.10	2831.40	3000.00	3051.90	3089.70	3133.50	3133.50	3133.50	3133.50	3133.50	3133.50	3133.50	3133.50	3133.50	3133.50	3133.50	3133.50
E-5	1854.00	1977.90	2073.30	2171.40	2323.80	2483.70	2613.90	2630.10	2630.10	2630.10	2630.10	2630.10	2630.10	2630.10	2630.10	2630.10	2630.10	2630.10	2630.10	2630.10	2630.10	2630.10
E-4	1699.50	1786.50	1883.10	1978.50	2062.80	2062.80	2062.80	2062.80	2062.80	2062.80	2062.80	2062.80	2062.80	2062.80	2062.80	2062.80	2062.80	2062.80	2062.80	2062.80	2062.80	2062.80
E-3	1534.20	1630.80	1729.20	1729.20	1729.20	1729.20	1729.20	1729.20	1729.20	1729.20	1729.20	1729.20	1729.20	1729.20	1729.20	1729.20	1729.20	1729.20	1729.20	1729.20	1729.20	1729.20
E-2	1458.90	1458.90	1458.90	1458.90	1458.90	1458.90	1458.90	1458.90	1458.90	1458.90	1458.90	1458.90	1458.90	1458.90	1458.90	1458.90	1458.90	1458.90	1458.90	1458.90	1458.90	1458.90
E-1>4 mon	1301.40	1301.40	1301.40	1301.40	1301.40	1301.40	1301.40	1301.40	1301.40	1301.40	1301.40	1301.40	1301.40	1301.40	1301.40	1301.40	1301.40	1301.40	1301.40	1301.40	1301.40	1301.40
E-1<4 mon	1203.90	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

C/S 17,972.10
M/S 6,642.60

Note: Basic pay for O-7-O-10 is limited to \$14,000.10 to Level II of the Executive Schedule. Basic pay for O-6 and below is limited to \$11,349.90 to Level V of the Executive Schedule.

The longevity component in the current basic pay table also hampers the Services' ability to offer competitive compensation to lateral entrants—that is, individuals with civilian experience who enter the Services at pay grades above entry level. Lateral entrants are brought into the Services at higher grades in recognition of their experience and skills. But because they have no time in service, they start out in the lowest pay cell in their grade, even if they have several years of relevant civilian sector experience. There is simply no mechanism within the current table for crediting lateral entrants for their non-Service experience, other than advanced grade. As a result, the Services often have to place lateral accessions into higher grades than are otherwise merited in order to give these individuals appropriate compensation. This can be problematic, however, because higher grades imply greater responsibility and experience than the lateral entrant may have. Hence, when a lateral entrant is placed into an artificially high grade, the individual could end up supervising personnel who are in a lower grade, but have far more service experience—an untenable position for everyone.

This same circumstance applies to members who leave the uniformed services and then reenter later in their careers. Like lateral entrants, their years of work in the civilian sector are not included in the calculation of their time in service. Service members with comparable skills and experience who have spent their entire careers in uniform, in contrast, enter a pay grade with more years of service, which translates into higher compensation. With the exception of health care professionals, lateral entrants are currently not a major source of personnel in the uniformed services. But as the need for highly specialized and technologically proficient personnel grows, lateral entrants may become more valuable and sought after by the Services as a means to tap into private sector experience and capabilities in specialized skill areas.

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Is a Time-In-Grade Pay Table a Better Alternative?

Several groups have questioned whether a time-in-service pay table, with its dual emphasis on performance and longevity, is the best way to encourage top performance among military personnel. In 1948, for example, the Hook Commission observed that compensation based partly on tenure reduces the financial inducements for members to progress to higher grades.²⁸ Many of these groups explored whether other pay table configurations could provide more enduring—and thus more effective—incentives to military personnel.

28. The historical information included in this section is based on the summary provided in the report of the Defense Advisory Committee on Military Compensation.

The most commonly considered alternative to a time-in-service pay table has been a time-in-grade table. Under a time-in-grade table, a service member's position in a pay grade is determined not by how many years the member has been in the military, but by how many years the member has been *in a particular grade*. Hence, the member promoted a year early to a new grade is permanently one year further along in the pay grade than those who receive due-course promotions—*thus receiving higher compensation for the duration of his or her career*. Unlike the results under a time-in-service table, the higher compensation associated with an early promotion is sustained, with the fast-promotee's compensation permanently above that of his or her counterparts who are promoted on time.

The Defense Advisory Committee on Professional and Technical Compensation (1957), the Gorham Commission (1962), and the President's Commission on Military Compensation (1978) all supported the time-in-grade concept as a more effective way to link military pay to performance and financially reward top performers. Most recently, the DACMC included in its recommendations a proposal to replace the existing time-in-service table with a time-in-grade table.

Other groups, however, have raised concerns about a time-in-grade table. Both the 1st and 7th QRMCs, for example, observed that promotion speed is not always based on performance. Some occupations typically have relatively slow promotion speeds, while others promote more quickly, with the variation based not on merit, but on differences in supply and demand of personnel in those occupational areas. Those panels feared that a time-in-grade table would penalize competent members in slow-promoting occupations, while rewarding those in fast-promoting areas, regardless of whether those fast promotions were based on superior performance or simply on a large number of vacancies.

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Benefits of a Time-in-Grade Pay Table

The DACMC concluded that the current time-in-service pay table limits the financial rewards associated with early promotion. As discussed earlier, members who advance in grade more quickly than their peers experience an immediate increase in compensation, but then see their pay revert to the same level it would have been had they been promoted in due course. The committee recommended replacing the time-in-service table with a time-in-grade table, arguing that it would increase the financial compensation associated with early promotion and also motivate the rest of the force to strive for greater performance.

Chapter 4

While the DACMC did not recommend a specific time-in-grade pay table, it did include an illustrative table in its report as a basis for analysis. The table was designed so that, over a 30-year career, pay to on-time promotees would be generally consistent with their compensation under the current system. The table was cost neutral relative to the 2005 time-in-service table, assuming promotion rates remained at current levels.

The QRMC constructed its own time-in-grade pay table, displayed in Table 4-2. The table differs from the DACMC table in four ways in that it:

1. has been updated to be comparable to the 2007 time-in-service pay table
2. reduces the number of time-in-grade pay increases in the lower pay grades
3. ensures there can be no inter-grade pay inversions
4. continues some time-in-grade increases beyond 30 years of service

Some of these changes were designed to address specific flaws in the DACMC time-in-grade table. For example, under the DACMC table, enlisted personnel above pay grade E-6 who are promoted to warrant officer (W-1) or commissioned officer (O-1) ranks would experience a pay cut. The time-in-grade table used in the QRMC analysis was constructed in a way that avoids such pay inversions.

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Another concern with the DACMC table is that it would provide annual time-in-grade pay increases to members who remain in a pay grade for up to nine years. While this is appropriate in the more senior ranks, for junior personnel, continued pay increases after the first few years in a grade have the effect of rewarding the poor performance that led to failure to be promoted. The table used in the QRMC analysis, in contrast, curtails the number of time-in-grade increases that members can receive while in lower pay grades. For example, pay grade E-4 provides no time-in-grade pay increases beyond four years of service in that grade.

Under the illustrative time-in-grade table, the permanently higher pay stream would indeed increase compensation for members promoted more quickly than their on-time counterparts. Using the example of an E-5 promoted one year earlier than normal under a time-in-service pay table, the early promotion would increase the present value of basic pay by about 2 percent over the course of a 20-year career. In contrast, under a time-in-grade pay table, the 20-year payment stream to that same early promotee would be 4.3 percent higher than pay to his on-time counterparts—more than double the earnings differential in the time-in-service example. The impact on officers would be similar. Under the time-in-service table, fast-promoting officers currently receive a 0.7 percent increase in basic pay over the course of a career. This differential would grow to 1.8 percent under the time-in-grade table.

As well as increasing the financial rewards for outstanding performance, a time-in-grade table rewards fast-promoting members for their *experience in grade*. That is, an E-6 with one year in grade is likely more experienced in the skills and responsibilities relevant to that grade than is a newly promoted E-6. The time-in-grade table acknowledges—and rewards—the value of that in-grade experience. Under a time-in-service table, in contrast, early promotees who have more experience in grade than their on-time counterparts are paid the same amount as on-time promotees.

Table 4-2. Illustrative Time-in-Grade Basic Pay Table

Pay Grade	<1	1	2	3	4	6	8	10	12	14
O-10	15995.70	15995.70	16795.50	16795.50	16795.50	16795.50	16795.50	16795.50	16795.50	16795.50
O-9	13441.50	13441.50	14113.50	14113.50	14819.10	14819.10	14819.10	14819.10	14819.10	14819.10
O-8	11888.40	11888.40	11888.40	12185.70	12185.70	12185.70	12185.70	12185.70	12185.70	12185.70
O-7	10287.90	10287.90	10493.70	10493.70	10493.70	10493.70	10493.70	10493.70	10493.70	10493.70
O-6	8180.10	8395.20	8504.10	8613.00	8824.35	9035.70	9126.00	9216.30	9216.30	9216.30
O-5	6776.40	6872.25	6968.10	7063.05	7158.00	7373.10	7410.00	7447.20	7447.20	7447.20
O-4	5602.80	5839.50	6076.20	6131.00	6187.50	6252.30	6283.50	6315.00	6315.00	6315.00
O-3	4392.00	4497.00	4602.00	4833.00	4982.70	5228.40	5355.90	5355.90	5355.90	5355.90
O-2	3239.70	3731.40	3857.40	3936.60	3936.60	3936.60	3936.60	3936.60	3936.60	3936.60
O-1	2469.30	2519.10	2569.80	3106.50	3106.50	3106.50	3106.50	3106.50	3106.50	3106.50
O-3E	4982.70	5105.10	5130.60	5156.40	5228.40	5280.30	5331.90	5358.60	5358.60	5358.60
O-2E	4062.00	4167.00	4273.50	4355.10	4437.00	4558.80	4558.80	4558.80	4558.80	4558.80
O-1E	3317.70	3440.10	3502.80	3565.50	3627.00	3857.40	3857.40	3857.40	3857.40	3857.40
W-5	6049.50	6202.20	6356.40	6470.70	6585.00	6838.00	7009.10	7180.20	7359.00	7539.30
W-4	5310.90	5400.30	5489.70	5517.00	5544.60	5752.20	5781.00	5809.80	5838.90	5868.00
W-3	4400.40	4480.35	4560.30	4704.00	4847.70	4945.10	5042.40	5100.45	5158.50	5184.30
W-2	3600.00	3668.00	3737.10	3804.00	3872.40	3955.20	4037.70	4102.20	4166.70	4284.00
W-1	2742.90	2816.70	2890.50	2977.70	3065.10	3193.20	3322.20	3382.20	3442.20	3459.30
E-9	5010.30	5209.20	5361.00	5512.80	5512.80	5788.50	5788.50	6078.00	6078.00	6381.90
E-8	4161.30	4254.00	4347.30	4398.90	4450.50	4704.90	4704.90	4799.10	4799.10	4799.10
E-7	3471.00	3520.20	3569.70	3622.20	3674.40	3715.50	3852.00	3925.20	4101.00	4101.00
E-6	2744.10	2831.40	2915.70	3000.00	3066.60	3133.50	3133.50	3133.50	3133.50	3133.50
E-5	2171.40	2323.80	2403.30	2483.70	2548.80	2613.90	2630.10	2630.10	2630.10	2630.10
E-4	1786.50	1883.10	1978.50	2020.50	2062.80	2062.80	2062.80	2062.80	2062.80	2062.80
E-3	1534.20	1630.80	1729.20	1729.20	1729.20	1729.20	1729.20	1729.20	1729.20	1729.20
E-2	1458.90	1458.90	1458.90	1458.90	1458.90	1458.90	1458.90	1458.90	1458.90	1458.90
E-1 >4	1301.40	1301.40	1301.40	1301.40	1301.40	1301.40	1301.40	1301.40	1301.40	1301.40
E-1 <4	1203.90	1203.90	1203.90	1203.90	1203.90	1203.90	1203.90	1203.90	1203.90	1203.90

A time-in-grade table could also offer more competitive pay to lateral entrants and reentrants into the force. In contrast to the time-in-service system, a civilian entering the uniformed services at a higher pay grade would earn the same basic pay as a career service member just promoted to that pay grade. For example, in the illustrative time-in-grade design shown in Table 4-2, a civilian entering the military at pay grade O-4 would receive the same monthly pay as a service member with eight years of service who had just been promoted to O-4—\$5,602.80. Likewise, former service members who return to the force after working in the civilian sector would not be financially penalized because of their reduced years of service.

In addition to increasing rewards for high-performing personnel and facilitating lateral entry, a time-in-grade table would benefit the force in other ways, the DACMC contended. Perhaps most important, the DACMC believed that the increased financial incentives associated with a time-in-grade table would encourage greater effort and increased performance throughout the force, hence promoting a culture of excellence and increasing overall force productivity. The DACMC believed that force-wide performance would also be improved through increased retention of top performers, for whom the uniform services would be a more attractive career option once additional performance incentives were in place. If the Services want a competent, hard-working, and high-quality force, the DACMC argued, they need a compensation system that offers adequate incentives to encourage all service members to strive for and achieve those results.

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Concerns about a Time-in-Grade Pay Table

While there are potential advantages to a time-in-grade pay table, such an approach also raises several concerns. Fundamental difficulties with a time-in-grade pay table involve equity.

Time-in-grade pay tables are designed to better reward performance, *as measured by the promotion system*. Fast promotees receive relatively more compensation under a time-in-grade table; slow promotees relatively less. A critical assumption underlying this approach is that promotion is merit based, and that fast promotees are performing better than their slow-promoting counterparts. But as mentioned above, this is not always the case. In some occupational areas, the timing of promotions is based not on performance, but largely on the supply and demand for personnel.

Because supply and demand vary among occupational categories, some occupations have slower promotion rates than others. So although a service member in a slow-promoting occupational area will typically not advance as quickly as peers in a fast-promoting occupation, that slower promotion speed is not necessarily related to inferior

performance. Similarly, for some fast promotees, their quick ascent results more from being in a high-demand occupational area than from their performance. Promotion speeds also vary somewhat among the military services, although, with the exception of the Air Force, that differential is generally small, particularly among officers.

As the DACMC report noted, members in slow-promoting occupations are already disadvantaged under the current time-in-service table, as their advances in grade lag behind those of their counterparts in due-course or fast-promoting occupational areas. But the compensation discrepancy would be more pronounced in a time-in-grade table, since slower promotees would not catch up to their peers when they finally were promoted.

To understand the extent to which a time-in-grade table would affect pay differentials between fast- and slow-promoting occupations, the QRMC calculated basic pay under both time-in-service and time-in-grade pay tables for selected fast- and slow-promoting occupations in the Army and Coast Guard. The Army's fast-promoting occupation was military occupational specialty (MOS) 18C, Special Operations Engineer; its slow-promoting occupation, MOS 42L, Administrative Specialist. For the Coast Guard the fast-promoting occupation was an Operational Systems Specialist, while Gunner's Mate Technician represented a slow-promoting occupational area.

In comparison to the time-in-service table, pays for fast-promoting occupations were somewhat higher under the time-in-grade pay table, while pays for slow-promoting occupations were just negligibly different under the time-in-grade table. But the relative differential between the fast- and slow-promoting occupations grows more significantly under the time-in-grade table than under the time-in-service table. Table 4-3 shows the difference in pay between fast- and slow-promoting occupations over a 30-year career, under both time-in-service and time-in-grade pay tables. In both the Army and Coast Guard, the relative difference in pay under a time-in-service table nearly doubles under a time-in-grade table, growing from 7 to 13 percent in the Army and from 14 to 25 percent in the Coast Guard. The differentials in the Army occupations are illustrated in Figures 4-1 and 4-2.

Switching to a time-in-grade table would exacerbate the pay differential that currently exists between personnel in fast- and slow-promoting occupations. Moreover, a system that links compensation to promotion may not motivate members to perform to higher standards if they believe that their chances for promotion are based on supply and demand, and not on performance. A time-in-grade table could also hurt force morale if those in slow-promoting occupational specialties are perceived as underperforming.

Table 4-3. Basic Pay in Fast- and Slow-Promoting Occupations: Time-in-Service versus Time-in-Grade

	Time-in-Service	Time-in-Grade
Army		
Fast promoting—Special Operations Engineer	\$338,911	\$370,804
Slow promoting—Administrative Specialist	315,946	321,584
Difference	7%	13%
Coast Guard		
Fast promoting—Operational Systems Specialist	\$345,936	\$384,193
Slow promoting—Gunner’s Mate Technician	296,190	289,953
Difference	14%	25%

Note: Pay totals are present value estimates of 30-year payment streams, assuming a 10 percent discount rate and rounded to the nearest dollar.

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A time-in-grade table also presents challenges regarding treatment of warrant officers, due largely to the fact that warrant officers’ prior experience varies widely, with some coming from the enlisted ranks and others recruited from the civilian sector. The current time-in-service pay table captures such differences in military service automatically, with pay varying based on years of military experience. Under a time-in-grade pay table, in contrast, all newly appointed warrant officers—regardless of their prior military experience—would enter the warrant officer pay grade with zero years in grade and, thus, identical pay.

Given the variation in compensation that currently exists among members entering the warrant officer ranks, devising an entry level warrant officer pay rate under a time-in-grade table is problematic. Compared to the current pay table, a time-in-grade table designed to maintain the pay of more senior enlisted personnel would result in substantial pay raises for warrant officers with no military experience. On the other hand, setting entry level warrant officer pay equal to the pay currently provided to warrant officers without military experience may be too low to continue to attract experienced enlisted personnel into the warrant officer ranks.

Another concern with a time-in-grade table is that it would result in a major overhaul of the current pay system in order to improve compensation to a small

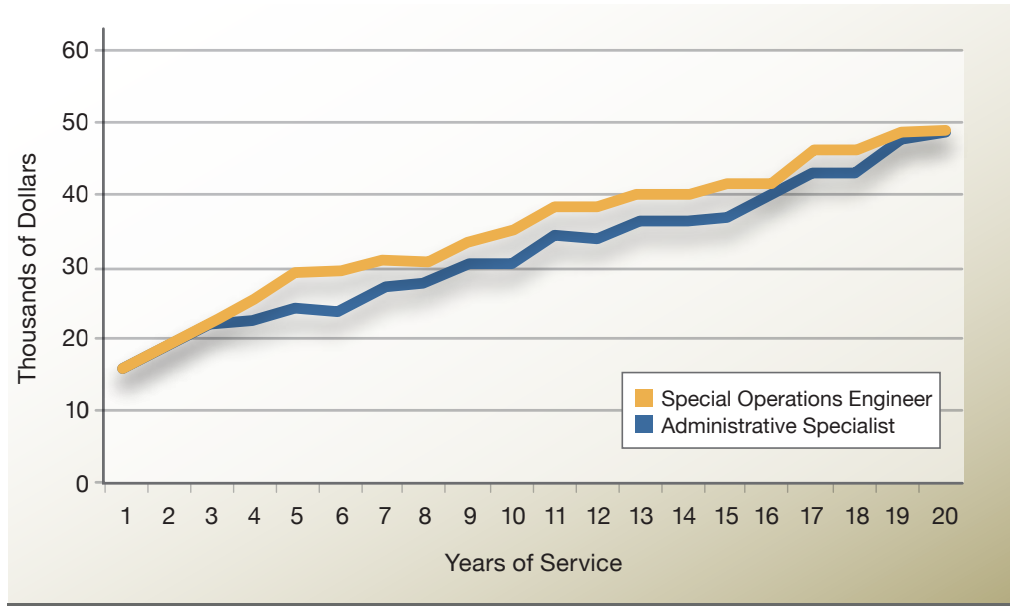


Figure 4-1. Basic Pay in Fast- and Slow-Promoting Army Occupations, Time-in-Service Pay Table

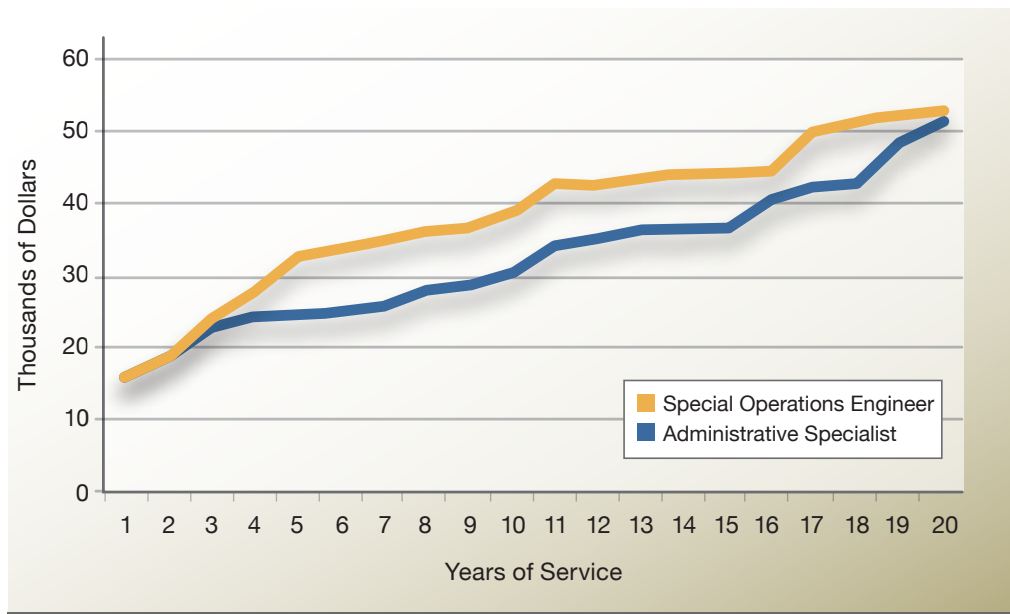


Figure 4-2. Basic Pay in Fast- and Slow-Promoting Army Occupations, Time-in-Grade Pay Table

percentage of the force. For example, among DOD officers, an average of only 600 officers per year are promoted early. It is not clear whether concerns about this small portion of the force are sufficient to warrant elimination of a pay table that works well for the vast majority of service members. While the DACMC believed that enhancing performance-based compensation would increase performance and productivity force wide, the monetary rewards of such a system would still be limited to a small number of service members, calling into question whether it would be an efficient means of improving performance. This issue was one of the principal concerns to the QRMC in considering the merits of a time-in-grade pay table.

An additional concern about a time-in-grade pay table relates to retirement pay. Under a time-in-grade pay table, personnel who serve the same amount of time and achieve the same final grade could receive different retirement pay merely as an artifact of the differences in promotion phase points of their particular Service. Consider the case of an officer promoted in due course, who serves 26 years and retires at the grade of O-6. If his Service's average promotion point to O-6 is 22 years, his retired pay would be \$5,735.83 under the QRMC's illustrative time-in-grade pay table. If that same officer served in a Service whose average promotion point is 23 years, his retired pay would be \$5,598.45, a loss of 2.4 percent for the rest of his life.

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A final issue regarding the transition to a time-in-grade table is the potential budgetary impact. Assuming any new pay scheme is cost neutral relative to the current system, the higher pay provided to top performers will necessarily come at the expense of other personnel. In the time-in-grade pay table displayed in Table 4-2, for example, 22.8 percent of enlisted personnel would experience a reduction in pay, compared to 25.2 percent who would see their pay increase. Among those whose pay would decline, nearly 40 percent would experience a pay cut of 5 percent or less. In the officer ranks, 28.5 percent would face reductions in pay, while 20.6 percent would experience pay increases. Approximately 27 percent of those officers facing pay cuts would realize a decline in pay of 5 percent or less.²⁹

Personnel pay cuts could be prevented if the proposal included a transitional “save-pay” provision, so that those in the force during the conversion would continue to receive as much basic pay as they would have absent the change. Such a provision would cost roughly \$1.1 billion in the first year, with annual costs declining each year thereafter. A less costly alternative that would ensure no reductions in *nominal* basic

29. Losses and gains result from the fact that the cost of the restructured time-in-grade pay table is approximately the same as the cost of the time-in-service pay table. Hence, if some members experience increases in pay, others must necessarily see their pay reduced.

pay levels would cost approximately \$354 million in the first year of the transition to the time-in-grade table. However this approach would result in a pay freeze for many personnel, creating significant morale problems.³⁰

Based on the concerns described above, the QRMC recommends that the military services retain the current time-in-service table, rather than replace it with a time-in-grade table. While a time-in-grade table would somewhat strengthen the link between pay and performance, members' promotion rates often vary for supply and demand reasons that have little to do with merit. By increasing the financial compensation to fast-promoting personnel, a time-in-grade table would further disadvantage personnel in slow-promoting occupational areas whose slower advancement may have little to do with performance. Furthermore, the QRMC does not support such a widespread change to the compensation system for the benefit of a relatively small segment of the force.

Constructive Credit: Targeted Improvement to Time-in-Service Pay Table

While the QRMC does not endorse adoption of a time-in-grade pay table, it does appreciate the DACMC's concerns with increasing the rewards for performance. To that end, the QRMC reviewed other changes that would recognize and reward performance but without some of the negative consequences potentially associated with a time-in-grade table.

Two of the most frequently mentioned concerns with a time-in-service table are the temporary nature of the financial rewards associated with early promotion and the difficulty of attracting high-quality lateral entrants into the Services. Rather than jettison the time-in-service system, these two problems could be alleviated through an adjustment in the calculation of time-in-service under the current pay table. Specifically, the Services could credit individuals with extra years of service—or constructive credit—for purposes of calculating their basic pay.

Under this proposal, the Services would have the flexibility to award a fast-promotee credit for an additional year in service. That credit would allow a member to move up a pay cell in the time-in-service pay table, thereby remaining one cell above peers who are promoted on time and making permanent the pay differential generated by the early promotion.

30. This estimate assumes that the transition to a new pay table would occur on January 1.

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Consider, for example, an O-4 with 14 years of experience who is promoted to the O-5 pay grade a year early. In the first year in the new pay grade, the member would earn \$6,373.20 per month, the monthly pay for an O-5 with 14 years of service. In the following year, the Service would have the flexibility to bump the member up to the 16-year time-in-service cell (\$6,776.40 monthly pay), even though the member has only 15 years of service and would normally remain in the 14-year time-in-service cell. This compares to on-time cohorts just promoted into the O-5 pay grade, who (with 15 years of service) will be in the 14-year time-in-service pay cell, and earn the lower \$6,373.20 per month. Thus, the early promote would permanently remain one year ahead of his or her due-course peers. Such years-in-service adjustments should only be used when calculating basic pay and would not apply when calculating retirement eligibility or benefits.

This approach could also be used to address the problems with lateral entrants. As mentioned earlier, lateral entrants may enter a Service in the appropriate grade, but are placed in the lowest time-in-service pay cell despite the fact that they often have several years of relevant civilian sector experience. Under the constructive credit proposal, the Services would be able to include private sector experience in the calculation of a member's time-in-service designation. Hence, medical professionals entering the military with eight years of private sector experience would no longer have to be placed in pay grade O-6 to receive competitive compensation. Instead, the Services would be authorized to select a pay grade that is commensurate with the years of relevant private sector experience and a time-in-service pay cell that is competitive with the private sector. Here again, the adjusted years of service should only be used for the calculation of basic pay and would not apply for retirement or other purposes.

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RECOMMENDATION

The QRMC recommends that the Services adopt constructive credit to reward fast promotees and better facilitate lateral entry into the force—thereby offering a means to provide service members with permanent credit for additional time in service.

This proposal gives the Services the flexibility within the existing pay table to reward performance and offer competitive compensation to high-quality service members. It effectively addresses two of the main problems with a time-in-service table—treatment of fast promotees and lateral entrants—yet avoids the potential drawbacks of a time-in-grade table. (Draft legislative language is included at Appendix C.)

In estimating the budgetary impact of this recommendation, the QRMC relied upon historic averages of officers selected for early promotion. Using the 2007 pay tables, the annual budgetary cost would be \$3.35 million. For lateral entrants, their compensation would likely stay the same, but through different means. Today the Services place such individuals in higher ranks than their experience may otherwise warrant in order to provide them with competitive compensation; under this proposal, the same level of compensation would be achieved by placing the individual into a lower grade, but with constructive credit—resulting in little, if any, budget impact.

Other Pay for Performance Options

The QRMC also explored other pay for performance concepts that could reward members for superior performance. This section describes two such initiatives—credential pay and performance bonuses—that the Services could easily implement within the new S&I pay construct outlined in the previous chapter.³¹

The QRMC urges each Service to assess other pay for performance incentives and to include such pays within their new S&I pay structures if it is determined that they would add value to their force management efforts.

Credential Pay

The Services could use credential pay to reward members who receive certifications in critical skills. Such pays could cover a wide range of skills that the Services identify as improving performance (e.g., certifications in information technology or physical fitness training credentials). Each Service would determine whether to offer the pay and, if offered, which credentials would be eligible for payment. The Services would also have flexibility to periodically modify the list of eligible credentials and payment levels so that the program reflects and addresses changing force needs.

While several existing programs already compensate members for certain skills and credentials, a credentials program could be applied more broadly to an expanded list of skills identified by each Service and awarded to any member who attained a qualifying skill, regardless of rank or occupational assignment. While members from different Services with the same credential might receive different credential pay, this would merely reflect the different value that each Service places on particular skills.

31. Background information on the credential pay and commander bonus programs, as well as discussion of how they could be implemented by the Services, can be found in supporting research papers prepared for the 10th QRMC and contained in forthcoming volumes of this report.

In addition to rewarding performance, credential pays would make military compensation more competitive for credentialed members who may have attractive private sector career opportunities, thus improving retention among members with critical skills and reducing training costs. Such a program could also encourage the Services to utilize civilian training resources, which in some instances may be less expensive than comparable in-house training. In addition, using private sector training could potentially free up personnel serving as instructors to be used in areas other than training, and also allow the Services to add new skills quickly, even when the training infrastructure for a particular skill does not exist in the government.

Performance-Based Bonus

Another pay for performance incentive used widely in the private sector is a cash bonus. Establishing a performance-based bonus within the S&I pay structure would provide the Services with another financial mechanism to motivate and reward performance and to improve retention among high-quality personnel.

74 > An S&I pay to award high-performing service members could be structured any number of ways. One promising approach explored by the QRMC would provide senior level commanders with a limited pool of bonus money to distribute at their discretion to outstanding units and individuals under their command. Under this configuration, the Services could target bonuses to those areas they consider crucial to force operations. Unit bonuses, for example, could be paid to the top recruiting unit in a Service, or to the unit that had the top rifle range or fitness score in a major command. For individuals, the Services could provide bonuses to top performers, such as the Sailor of the Year at an installation. Program guidelines would be left up to the individual Services, subject to Department oversight.

A second way to introduce performance-based bonuses into the compensation system would be to tie reenlistment bonuses to performance. Reenlistment bonuses are already available to members in certain occupational areas through the Selective Reenlistment Bonus, an S&I pay. Eligibility for this bonus could be expanded to cover more of the force, and payment amounts could be adjusted to reflect member performance during the current enlistment period. This approach could potentially improve retention of top performers, as those personnel would be offered relatively larger reenlistment bonuses than the bonuses offered to their peers.

The military has used proficiency pay in the past to reward outstanding personnel. That program, however, was eliminated in 1976 amid charges of favoritism. To avoid such perceptions with any new program, the criteria for awarding bonuses would have

to be clearly communicated to all personnel. In addition, any such initiative would have to be carefully monitored to ensure that negative effects are minimized.

Conclusion

As the uniformed services continue to transform to meet the challenges of the 21st century, management tools that further enhance force performance, productivity, and professionalism will be critically important.

While some observers believe that the link between compensation and performance could be strengthened by replacing the current time-in-service pay table with a time-in-grade table, the QRMC does not support such a change. In place for nearly 60 years, the current pay table has a proven track record. It has been modified periodically in response to market changes and force needs, yet its basic structure and effectiveness have remained intact. Rather than replace the current table, the QRMC concluded that concerns over the link between pay and performance can be addressed through targeted changes to the existing pay table structure.

Allowing the Services to provide members with constructive credit towards their time in service will increase the rewards of early promotion and facilitate lateral entry of more senior individuals into the force. The proposal gives the Services the flexibility to decide how to apply constructive credit to their personnel. Force managers have the best sense of their staffing needs and of the compensation rates necessary to successfully compete for top caliber personnel.

Finally, the QRMC believes that the Services should consider other pay for performance concepts that could strengthen the link between pay and performance. Two promising ideas that the QRMC reviewed—credential pay and performance bonuses—could be incorporated into the new S&I pay structure. A credential pay program would give the Services another management tool to encourage personnel to improve their performance by developing skills critical to military operations and priorities. Performance bonuses, meanwhile, could be used to recognize and reward top personnel and units, and to increase retention among top performers. The flexibility of the new S&I pay structure, as proposed by the QRMC, will enable the Services to offer these or other pays if they determine that such incentives will improve force management in a cost-effective manner.

The Basic Allowance for Housing

After basic pay, the most significant component of cash compensation for service members is the Basic Allowance for Housing. BAH is designed to provide personnel in nongovernment housing with the resources necessary to lease housing comparable to their civilian counterparts. Each year DOD spends nearly \$15 billion to ensure that service members and their families can enjoy the same standard of housing as comparable civilian families.

Averaging about 27 percent of regular military compensation, BAH payments vary by dependency status, geographic location, and pay grade. Although service members who live in government housing do not receive BAH, service members without dependents who live in shared government quarters, such as aboard ship, receive a partial BAH payment.

As part of its review, the QRMC examined three aspects of the BAH program:

1. the pay differential between those with and without dependents, which was the principal area of investigation
2. the adequacy of partial BAH provided to junior members who reside in shared military quarters
3. the accuracy of BAH program budgetary estimates

This chapter provides background information on the BAH program, summarizes the results of the analyses listed above, and provides a number of recommendations to improve the program's equity among service members.

Background

History

Housing assistance has been a component of military compensation since the formation of the armed forces. The 1949 Career Compensation Act created the Basic Allowance for Quarters (BAQ). Like the later BAH, BAQ rates varied by members' dependency status, though they did not vary by geographic location. Rates initially

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varied by dependency for officers and enlisted personnel in pay grades E-5 and above, while rates for more junior personnel were not tied to dependency. A year later, however, the Dependents Assistance Act of 1950 reversed that decision and temporarily extended the “with-dependents” rate to include junior members with dependents. In 1973, junior members’ eligibility for the with-dependents rate was made permanent with enactment of a new Career Compensation Act.

BAQ rates were set at the same level regardless of where a service member was stationed. This meant that a member stationed in San Francisco would receive the same allowance as a member in rural Louisiana. In 1980, in response to members’ complaints about inadequate housing allowances, as well as the fact that some members were refusing assignments in high-cost locations, Congress created the Variable Housing Allowance (VHA), a payment designed to reflect variation in housing costs in different geographic locations.

VHA rates were based upon surveys administered to members. Increases to the VHA were the lower of the survey-reported data or an aggregate measure of housing costs from the Bureau of Labor Statistics. Because increases to the BAQ were based upon changes to basic pay, and increases to VHA were constrained, out-of-pocket housing costs started to creep up and, by 1997, were over 30 percent in high-cost areas and over 20 percent overall.

As complaints about the inadequacy of housing allowances increased, Congress wanted major changes in the way housing allowances were calculated. In 1998, building upon a recommendation of the 7th QRMC, Congress created the Basic Allowance for Housing to replace the BAQ and VHA.

BAH Program Today

Paid to each service member not living in government housing, BAH is a tax-exempt allowance designed to equal the average rental housing costs of a comparably paid civilian in the same geographic area with the same dependency status. BAH rates increase with pay grade, so that service personnel—like their civilian counterparts—can spend more on housing as their income and buying power increases.

BAH rates also vary with dependency status. Hence, service members of the same rank but different dependency status receive different BAH payments, with higher BAH allowances paid to those with dependents. BAH rates also vary by geographic area. The geographic adjustment reflects different housing costs in different parts of the country, with higher allowances paid to members serving in more expensive housing markets.

By law, BAH was to be based on market data for rentals in the private sector. Initially, BAH payments were intended to cover approximately 85 percent of the costs of comparable civilian housing—i.e., housing expenditures for civilians with comparable levels of income. Service members were expected to cover the remaining 15 percent of national average housing costs. Under this construct, average out-of-pocket expenses for members of the same grade and dependency status would be equal, regardless of local housing costs where they were stationed. In 2000, DOD announced plans to phase out out-of-pocket housing costs by 2005. As a result, BAH rates are now designed to fully cover, on average, the costs of comparable civilian housing.

Setting BAH Rates

Calculating BAH rates is a multi-step process based upon a representative set of housing standards that is used to identify comparable civilian housing and calculate appropriate housing allowances. The BAH system uses six housing standards (or anchor points), ranging from a one-bedroom apartment to a single family home with four bedrooms. DOD has estimated the average income of civilians who typically reside in each of these types of housing and calculated the pay grade equivalent to that average civilian income. These pay grades are the designated pay grades for the six housing standards (see Table 5-1).³²

Like the BAH rates themselves, these calculations vary with dependency status. For members without dependents, for example, the pay grade associated with the “three bedroom townhouse” anchor is an O-3E;³³ for those with dependents, in contrast, the pay grade associated with this housing standard is E-6.

Because housing costs can vary substantially by region, the Department annually estimates average rental, utility, and insurance costs for each of the housing standards in approximately 400 military housing areas. The Department uses a range of sources to gather and cross-check rental information on appropriate housing for each area, including real estate listings, newspaper realty sections, local realtors, military housing offices, and site checks of selected units.³⁴ Local utility cost estimates are based on

32. The National Defense Authorization Act for Fiscal Year 2001 mandated that members with dependents in pay grades E-1 through E-4 receive the same BAH rate.

33. O-1E, O-2E, and O-3E are the pay grades for officers who have spent at least four years as enlisted members or warrant officers.

34. Inadequate housing units—such as mobile homes, furnished residences, and housing in neighborhoods where members would opt not to live—are excluded from the local rental market calculations.

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Table 5-1. BAH Housing Standards

With Dependents				Without Dependents			
Grade	Housing Type	Plus, This Percent of Difference Towards Next Higher Standard*		Grade	Housing Type	Plus, This Percent of Difference Towards Next Higher Standard*	
E-1	2br-ap	--		E-1	1br-ap	--	
E-2	2br-ap	--		E-2	1br-ap	--	
E-3	2br-ap	--	Anchor	E-3	1br-ap	--	
E-4	2br-ap	39%		E-4	1br-ap	--	Anchor
E-5	2br-th	--	Anchor	E-5	1br-ap	67%	
O-1	2br-th	11		O-1	2br-ap	--	Anchor
O-2	2br-th	98		E-6	2br-ap	7	
E-6	3br-th	--	Anchor	W-1	2br-ap	31	
W-1	3br-th	1		E-7	2br-ap	53	
E-7	3br-th	36		O-2	2br-ap	83	
O-1E	3br-th	44		O-1E	2br-th	--	Anchor
W-2	3br-th	52		W-2	2br-th	19	
E-8	3br-th	75		E-8	2br-th	20	
O-2E	3br-th	93		O-2E	2br-th	44	
O-3	3br-th	98		E-9	2br-th	51	
W-3	3br-sf	--	Anchor	W-3	2br-th	54	
E-9	3br-sf	16		O-3	2br-th	64	
W-4	3br-sf	22		O-3E	3br-th	--	Anchor
O-3E	3br-sf	26		W-4	3br-th	9	
W-5	3br-sf	48		O-4	3br-th	40	
O-4	3br-sf	58		W-5	3br-th	45	
O-5	4br-sf	--	Anchor	O-5	3br-th	63	
O-6	4br-sf	--		O-6	3br-sf	--	Anchor
O-7	4br-sf	--		O-7	3br-sf	--	

* For example: Standard for E-6 with dependents is 3br-th and standard for E-7 with dependents is 3br-th PLUS 36% of local cost difference between 3br-th and 3br-sf.

Note: ap = Apartment; th = Townhouse/Duplex; sf = Single Family Detached.
Pay grades in housing cost order.

current utility rates, historical consumption patterns, and climate information in each local geographic area. BAH rates for all other pay grades are interpolated from the six anchor points.

The process is rigorous and comprehensive, and yields an extremely accurate snapshot of housing costs across the country. But it is also lengthy, taking nearly a year to complete. The process begins in December of each year when the military housing areas are mapped. Preliminary data on rental costs are gathered in April and May, with additional data collected in June and July. Quality checks of the data are conducted in the fall, and the rates are finalized in December, just weeks before they take effect on January 1.

The timing and duration of the BAH rate-setting process has both advantages and disadvantages. For service members, having the rates finalized just weeks before they take effect results in BAH payments that more closely reflect actual rental market conditions. For the Services, in contrast, receiving the upcoming calendar year's BAH rates after the fiscal year has already begun makes it difficult to establish realistic budgets, which are submitted many months in advance. Because BAH payments are an entitlement to service members, the Services are obligated to pay them to all eligible members, whether or not they have the budgetary resources to do so. Hence, when the funds in the BAH budget are insufficient to cover actual BAH costs, the Services are forced to reallocate money from elsewhere in their budgets, or to request additional funding from Congress to cover the shortfall.

Dependency Pay Differential

As mentioned above, BAH rates vary not only by pay grade, but also by members' dependency status. On average, the BAH for service members without dependents is about 23 percent lower than the BAH for those at the same pay grade and years of service with dependents—although the actual difference varies considerably by grade as well as by geographic location. Table 5-2 shows average 2007 BAH payments by pay grade and dependency status. As the table indicates, members with dependents receive substantially higher housing allowances than their counterparts with no dependents. The average dollar differential ranges from \$118 per month for a W-5, up to \$333 per month for officers above grade O-6.

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Table 5-2. Average Monthly BAH Rates by Pay Grade and Dependency Status, 2007

Grade	With Dependents ^a	Without Dependents ^a	Dollar Difference ^{a,b}	Without Dependents as Percentage of With
E-1	\$1,064	\$877	\$187	82.4%
E-2	1,087	881	206	81.0
E-3	1,148	930	218	81.0
E-4	1,151	911	241	79.1
E-5	1,239	1,021	218	82.4
E-6	1,389	1,085	304	78.1
E-7	1,429	1,158	271	81.0
E-8	1,519	1,282	237	84.4
E-9	1,628	1,342	287	82.4
M/S	1,628	1,342	287	82.4
W-1	1,302	1,014	288	77.9
W-2	1,498	1,289	209	86.0
W-3	1,587	1,327	260	83.6
W-4	1,637	1,436	201	87.7
W-5	1,678	1,560	118	93.0
O-1E	1,416	1,169	247	82.6
O-2E	1,535	1,265	270	82.4
O-3E	1,679	1,438	240	85.6
O-1	1,213	1,023	190	84.3
O-2	1,388	1,221	166	88.0
O-3	1,629	1,417	212	87.0
O-4	1,857	1,612	245	86.8
O-5	2,039	1,718	321	84.3
O-6	2,121	1,823	298	86.0
Flag Rank ^c	2,285	1,953	333	85.5

a. Monthly rates are rounded to the nearest dollar.

b. May not add due to rounding.

c. Includes O-7, O-8, O-9, O-10, and C/S.

Note: These rates represent the weighted average of all members receiving BAH as a cash allowance.

Source: Department of Defense and QRMC.

It is important to note that the rates and differentials displayed in Table 5-2 are force-wide averages, and therefore do not capture variations in rates by geographic area. So while the average BAH paid to an E-5 without dependents is \$218 less than the BAH paid to an E-5 with dependents, in some areas of the country that difference is much greater. For example, in San Francisco, California, a single E-5 receives \$740 less per month than an E-5 with dependents. In fact, in some geographic locations, personnel without dependents receive BAH payments that are nearly half the size of the allowances paid to their married counterparts.

While BAH dependency differentials exist at every pay grade, personnel affected by the disparity are concentrated in the junior ranks. This is because most midlevel and senior personnel are married and have dependents. In pay grades below E-3, in contrast, only 30 percent of personnel have dependents, meaning that a full 70 percent of service members in those pay grades receive the lower BAH rate or are housed on base in single accommodations.³⁵

Concerns with the Current System

By varying members' compensation based on dependency status, the BAH program's two-tiered rate system raises concerns about equity among service members and the adequacy of BAH payments to cover members' housing costs.

Federal law requires that BAH payments be based upon "the costs of adequate housing for civilians with comparable income levels in the same area."³⁶ But recent research conducted for the QRMC suggests that, in order to obtain comparable housing to their peers, single service members face significantly higher out-of-pocket costs for their housing than do their married counterparts.

The QRMC's research updated the original analysis used to establish housing standards with the most recent Bureau of Labor Statistics survey data. The study compared BAH rates with housing expenditures of civilians of similar age, education, income, dependency status, and geographic region. It concluded that the BAH rate for those with dependents was generally consistent with housing expenditures of comparable civilians, thus revalidating the current standards. However, it also found that, typically, the rate for members without dependents was substantially less than the housing expenditures of comparable civilians without dependents when the full cost of housing, including utilities, is considered. This suggests that, on average, BAH

35. Office of the Under Secretary of Defense (Comptroller), *National Defense Budget Estimates for FY 2007*, March 2006. http://www.defenselink.mil/comptroller/defbudget/fy2007/fy2007_greenbook.pdf.

36. 37 U.S. Code, Section 403.

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payments to service members without dependents are insufficient to rent the type of housing enjoyed by their civilian counterparts. Hence, many single members wishing to live in comparable housing have to supplement their BAH payments with their own funds in order to cover housing costs. Table 5-3 illustrates this point. A single O-3, for example, would have to expend an additional 16 percent above his housing allowance to obtain comparable housing to his civilian peers, while the married O-3 would face virtually no out-of-pocket expenses.

Table 5-3. BAH Rates Compared to Civilian Housing Expenditures, 2004

Rank or Civilian Equivalent	Civilian Expenditures		BAH Rates		Ratio of Civilian to Military	
	Dependents	No Dependents	Dependents	No Dependents	Dependents	No Dependents
E-1	\$808	\$775	\$870	\$632	0.93	1.23
E-2	824	792	874	653	0.94	1.21
E-3	848	815	892	660	0.95	1.23
E-4	918	871	884	667	1.04	1.31
E-5	1,039	971	965	796	1.08	1.22
E-6	1,157	1,092	1,103	847	1.05	1.29
E-7	1,255	1,189	1,152	904	1.09	1.31
E-8	1,339	1,271	1,231	1,020	1.09	1.25
E-9	1,448	1,366	1,342	1,088	1.08	1.26
O-1	1,037	965	944	787	1.10	1.23
O-2	1,167	1,123	1,074	936	1.09	1.20
O-3	1,308	1,270	1,289	1,099	1.01	1.16
O-4	1,471	1,452	1,523	1,332	0.97	1.09
O-5	1,614	1,564	1,723	1,446	0.94	1.08
O-6	1,713	1,675	1,814	1,573	0.94	1.06

Note: Includes rents and utilities.

The study also showed that, unlike BAH rates, civilian housing expenditures do not vary significantly based on dependency status. In other words, single civilians typically choose housing that is comparably priced to that of their peers—individuals of similar age, education, and professional status—regardless of whether those peers have dependents. Among service personnel, in comparison, the housing allowance for

single personnel is, on average, 67 percent of the allowance provided to their married peers. If, like their civilian counterparts, single service members want housing similar to their peers with dependents, they have to pay for a significant part of that housing out of their own pocket.

RECOMMENDATION

Based on this analysis, the QRMC recommends that the BAH dependency differential be narrowed, so that all members without dependents receive BAH payments equal to 95 percent of the with-dependents rate for their pay grade.

To implement this recommendation, the QRMC proposes that BAH payments to members without dependents initially be set to at least 75 percent of the rate for those with dependents. Over the subsequent four years, subject to budget constraints, DOD should increase the rate by five percentage points per year, so that in five years, the BAH rate for single members would equal 95 percent of the rate for those with dependents and the disparity in out-of-pocket expenses between those with and without dependents would be eliminated. BAH rates for members with dependents would be unaffected by the change.

Once this proposal is fully implemented, only one set of housing standards would be maintained. The housing standards used for members without dependents would be eliminated and their BAH rate would simply be set at 95 percent of the rate for those with dependents.

During the implementation period, as the differential between the two rates is reduced, the rates for both those with and without dependents should continue to be calculated to ensure that no one would receive a lower payment than they do currently. Those single members whose BAH payments already exceed 75 percent of the with-dependents BAH rate would continue to receive BAH payments at their current rates, as determined by the housing standards for those without dependents.

With the average BAH rate for single members currently about 67 percent of the with-dependents rate, a proposal to increase the without-dependents rate to 75 percent of the with-dependents rate may seem modest. But as mentioned earlier, the actual dependency differential varies depending on pay grade and geographic location, with single members in some areas receiving BAH payments that are only 52 percent of the payments provided to their married counterparts. For those single members whose rates are less than 75 percent of the rate of their same-grade counterparts with dependents, the 75 percent floor would result in an increase in their BAH allowance

and a reduction in their out-of-pocket housing expenses. As the 75 percent floor is raised, the proposed reform would eventually encompass more of the force, and ultimately all members without dependents would see their BAH rates increase to near the level of those with dependents, and the disparity in out-of-pocket expenses would be eliminated.

Aside from eliminating the out-of-pocket disparity, raising the without-dependents rate would also encourage recruitment and retention, as compensation to those without dependents rises under the proposal. Research has shown that both recruitment and retention rates rise when compensation is increased. For example, one study of military pay relative to civilian pay found that an increase of 10 percent in military pay would increase high-quality enlistments by 6 to 9 percent. The effect of a similar pay increase on retention is estimated to be between 10 and 15 percent.³⁷

In addition to improving recruiting and retention, reducing the BAH dependency differential could also generate cost savings by reducing dependency rates. Military personnel are more likely than their civilian counterparts to have dependents. This difference is particularly large among junior personnel. One recent study, conducted for the QRMC, found that 23–25 year old high school graduates who have served in the military for at least two years are almost three times more likely to be married than comparable civilians. Increasing the housing allowance for those without dependents would reduce the marriage incentive currently embedded in the BAH program and possibly lower dependency rates. Moreover, by increasing the pay of personnel without dependents, an increase in BAH rates could also encourage more single members to join and remain in service. To the extent that the number of dependents declines, so too will dependent benefit costs, such as dependent health care and education expenditures.

Costs

Paying at least 75 percent of the with-dependents BAH rate to all service personnel without dependents would increase annual BAH payments by approx-

37. For further information on the relationship between military pay, enlistments, and retention see: John T. Warner and Curtis J. Simon. *Estimates of Army Enlistment Supply 1988–2005*. Briefing presented to the military recruiting summit, November 2, 2005. Arlington, Va. (Clemson University, S.C.); J. Warner, C. Simon, and D. Payne. The Military Recruiting Productivity Slowdown: the Roles of Resources, Opportunity Cost, and Tastes of Youth. *Defence and Peace Economics* 14(5), 329–342, 2003; M. Hansen and J. Wenger. Is the Pay Responsiveness of Enlisted Personnel Decreasing? *Defence and Peace Economics*, 16, 29:43, 2005; and B. Asch, J. Hosek, and J. Warner, “The Economics of Military Manpower in the Post-Cold War Era,” in: K. Hartley and T. Sandler, eds., *Handbook of Defense Economics Volume 2* (Elsevier, Amsterdam, 2007).

imately \$34.2 million.³⁸ When fully implemented, paying 95 percent of the with-dependents rate to single personnel would increase annual costs by \$535 million.

The QRMC evaluated the implementation proposal recommended by the DACMC to eliminate the BAH dependency differential immediately, but concluded that the costs of eliminating the differential in one year would be prohibitive. Instead, the QRMC proposal begins to address the greatest inequities in the current system and sets the program on a course for elimination of the out-of-pocket expense differential. In the short term, the proposal generates relatively modest annual budgetary cost increases while reducing out-of-pocket housing expenses for those single service members force wide whose current BAH payments are less than 75 percent of the rate paid to their counterparts with dependents, most of whom are likely to be in the junior ranks. Raising the rates of these service members was a priority, and this proposal would accomplish that goal in a cost-effective manner.

Partial BAH

Personnel residing in government housing do not receive a housing allowance—their government quarters are considered to be “in-kind” equivalents to the BAH. Most service members above pay grade E-4 can choose whether or not to live in government housing, so personnel in those higher pay grades who live in quarters likely feel that their “in-kind” housing benefit is at least as valuable as the BAH they would have received had they opted for nongovernment accommodations.

In contrast, quarters for more junior members in pay grades E-4 and below are less likely to be comparable to cash BAH payments. Junior personnel are often required to live in government housing, even if that housing is less valuable than the BAH payment they would receive if they lived in private housing.

This situation is most acute for those junior members who are required to live in barracks or aboard ships. The value of such shared quarters is substantially less than what junior personnel would receive in BAH payments. Currently 83 percent of personnel in pay grades E-4 and below, or 332,000 service members, live in government quarters. Although not eligible for regular BAH payments, members without dependents living in shared quarters do receive partial BAH payments. Partial BAH rates vary by pay grade, ranging from \$6.90 per month for an E-1, to \$50.70 per month for an O-10 (Table 5-4).

38. This estimate assumes that members without dependents are assigned in the same patterns (by pay grade) as are members with dependents. It also assumes a static force composition.

Table 5-4. Partial BAH Monthly Rates, Fiscal Year 2006

Grade	Partial BAH
O-10	\$50.70
O-9	50.70
O-8	50.70
O-7	50.70
O-6	39.60
O-5	33.00
O-4	26.70
O-3	22.20
O-2	17.70
O-1	13.20
O-3E	22.20
O-2E	17.70
O-1E	13.20
W-5	25.20
W-4	25.20
W-3	20.70
W-2	15.90
W-1	13.80
E-9	18.60
E-8	15.30
E-7	12.00
E-6	9.90
E-5	8.70
E-4	8.10
E-3	7.80
E-2	7.20
E-1>4	6.90
E-1<4	6.90

Concerns with the Current System

Initially created to bridge the gap in housing compensation between those living in government quarters and those living off base, the partial BAH allowance no longer serves that function. Partial BAH payments only partly compensate members for the difference between the value of their in-kind government housing and the cash allowance they would receive if not residing in governmental quarters. On average, partial BAH payments cover roughly one percent of the differential.

Partial BAQ payments (the precursor to BAH) were established in 1977 as part of a legislative initiative designed to increase military housing allowances. At that time, the Basic Allowance for Quarters was supposed to cover 65 percent of national median housing costs, but it rarely met that target. In order to increase housing allowance resources, the 1977 Department of Defense Authorization Act authorized the President to reallocate that year's pay raise among the three major components of military compensation: basic pay, the housing allowance, and the subsistence allowance. Under this authority, housing allowances were increased by 10.95 percent compared to a 6.2 percent increase in basic pay. The additional funding allowed BAQ rates to "catch up" to housing costs.

Members living in government quarters, however, did not receive this increased housing allowance and consequently received less of an increase in overall compensation than their counterparts living off base. As a counter to this inequity, the 1977 legislation also created the partial Basic Allowance for Quarters, or partial BAQ.

While BAH rates have increased substantially over the past 30 years, rates for partial BAH are still set at 1977 BAQ levels. For example, the average housing allowance for an E-5 without dependents has increased from \$124.20 per month to \$1,020.79 since 1977—an increase of over 700 percent. The partial BAH, in contrast, has not increased at all. If partial BAH rates *had* kept pace with regular BAH rates over the past 30 years, the \$8.70 monthly payment provided to an E-5 in 1977 would now equal \$71.50.

While the quality of housing for most single members has improved, others, especially those aboard ships, have not benefited from significantly improved quarters. In short, single members living in government quarters have not received the same increased compensation as have their counterparts living in nongovernmental housing. Although initially created to lessen the differential between on- and off-base housing benefits, the partial BAQ/BAH has actually decreased in terms of purchasing power over the past 30 years.

Moreover, despite the fact that some shared housing situations are better than others, the partial BAH rate does not vary based on the type, or adequacy, of housing in which the member resides. Hence, an E-2 whose living space is a bunk aboard ship receives the same partial BAH payment as an E-2 who has his or her own bedroom and shared kitchen and bath.

RECOMMENDATION

The QRMC recommends adjusting partial BAH payments to more appropriately compensate single members in government quarters for their reduced standard of living. Specifically, the QRMC recommends that partial BAH be expanded to include a second component based upon the adequacy of a member's quarters.

Under this proposal, single members who live in housing below the Department's standard and receive partial BAH payments would be eligible for additional compensation. The additional payments would range from 5 percent to 25 percent of BAH, with the amount of the supplemental payment varying, based upon actual housing

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conditions—a factor currently not included in the calculation of partial BAH rates. Single members living in the most inadequate conditions—chiefly those aboard ship—would be eligible to receive the maximum additional payment of up to 25 percent of BAH, while those living in marginally better quarters would be eligible for smaller amounts. Personnel living in the DOD standard of 1+1—private bedroom, shared kitchen and bath—would not receive supplemental payments. The proposed graduated payment structure is outlined in Table 5-5. (Draft legislative language is included in Appendix D.)

While BAH rates typically vary by geographic area, the BAH rate used here would be a force-wide average that varies only by pay grade. The reason for this is that many of those service members who would be eligible for the supplemental payment spend most of their time at sea. Living conditions aboard ship are fairly consistent across the force, and do not vary based on a member's home port. Hence, partial BAH payments to personnel on sea duty should be the same, regardless of whether their home port is Norfolk or San Diego.

The Services would determine the implementation timeframe and extent to which the additional partial BAH payments would be made available, subject to budget availability.

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Table 5-5. Supplemental Partial BAH Payments

Housing	Description	Partial BAH Supplement
Standard 1+1	Own BR, share kitchen, share bath	0% BAH
Single room	1 BR, 0 kitchen, private bath	5% BAH
Single room dorm	1 BR, 0 kitchen, share bath	10% BAH
Multi-person	Share BR, 0 kitchen, gang bath	15% BAH
Ship	Variable berthing conditions	15–25% BAH (determined by Sea Service)

Note: The QRMC recommendation applies to permanent party personnel, and excludes those in basic officer or enlisted training, or skill training, as well as patients and prisoners.

Because this proposal is focused on junior personnel living in substandard housing, the reform should provide financial relief to those personnel who generally have the lowest income and the least desirable housing in the force. In addition, by increasing compensation to the force's most junior members, this proposal could increase retention among first-term enlistees, as well as recruitment into the Services. It would also motivate the Services to improve the quality of single government quarters so that more of their housing inventory meets DOD's standard of 1+1, resulting in fewer personnel being eligible for the additional partial BAH payment.

Costs

Under this proposal, single enlisted personnel living in substandard government quarters would be eligible for additional compensation of between 5 and 25 percent of the without-dependents BAH rate. Currently, the Army houses 20,000 junior enlisted service members in such housing, the Navy another 35,000, and the Air Force 10,000. Providing additional compensation to all those personnel would increase costs by approximately \$80 million (\$20 million for Army personnel, \$50 million for those in the Navy, and \$10 million for the Air Force). Because the Services would have some flexibility regarding implementation of this proposal, actual costs may be somewhat less. In addition, as housing is improved, partial BAH costs would decline.

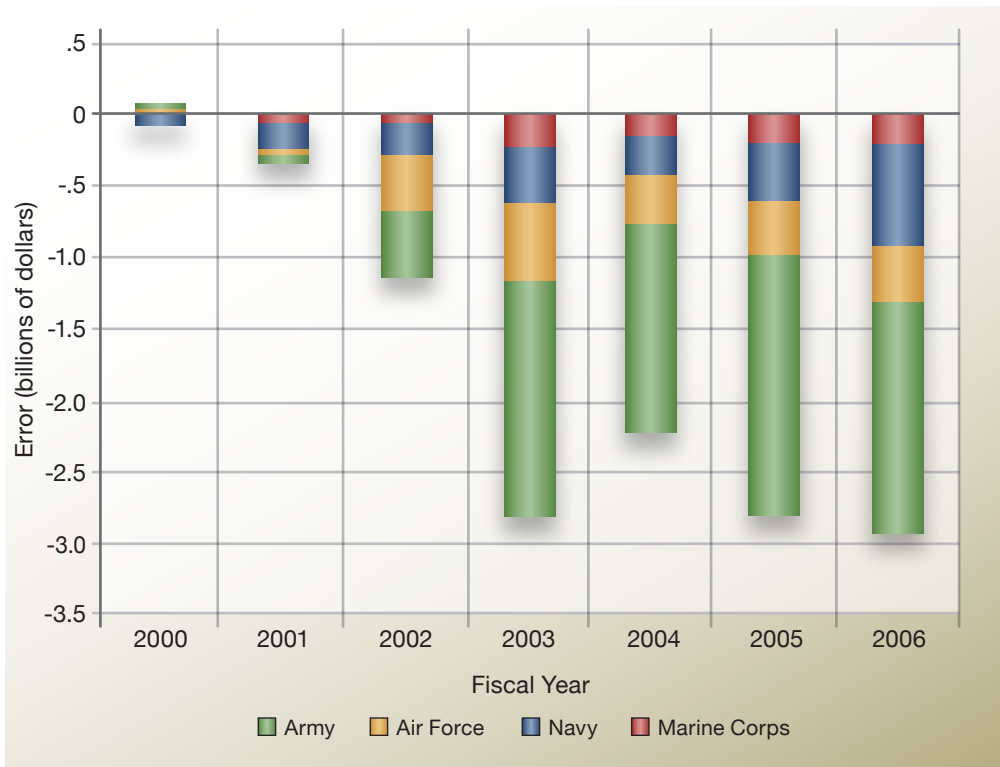
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BAH Budget Estimates

Because BAH is an entitlement, it is critical that the BAH budget be as accurate as possible—BAH payments have to be paid at the specified rates, regardless of whether sufficient budgetary resources are available. The BAH budget is based on data gathered during the rate-setting process and, because of the timetable of that process, some of the data is collected 18 months before the budget year begins. For example, the initial BAH rate estimates for the fiscal year 2009 budget (which covers program operations from October 1, 2008 to September 30, 2009) are based on preliminary estimates developed in April and May of 2007. So while the Department's BAH budget is based on preliminary rate estimates (plus an inflation factor), actual program expenditures are driven by final rates established up to 18 months later.

Concerns with the Current System

There are some concerns that the resulting time lag may affect the accuracy of BAH budget estimates. The House Appropriations Committee that funds the



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Figure 5-1. BAH Funding Shortfalls, Fiscal Years 2000–2006

BAH program has noted that “the annual process for determining basic allowance for housing (BAH) rates is too cumbersome to keep pace with a dynamic family housing market, leading to shortfalls in the year of execution that must be made up with additional appropriations or funds from other accounts.”³⁹ As Figure 5-1 shows, in the Department of Defense, the appropriation of funds for the BAH program has consistently underestimated actual program costs, with annual shortfalls in excess of \$1 billion since fiscal year 2002.

While much of the concern regarding BAH budgetary estimates has focused on the timing and duration of the rate-setting process, Figure 5-2 shows that most of the estimating errors in the BAH budget result from underestimating the population eligible for BAH, not from underestimating actual BAH rates. One weakness with the population estimates is that they are based on the current dependency status mix, not on what the dependency mix is predicted to look like in the budget year.

39. 109th Congress 2nd Session House of Representatives Report 109-464.

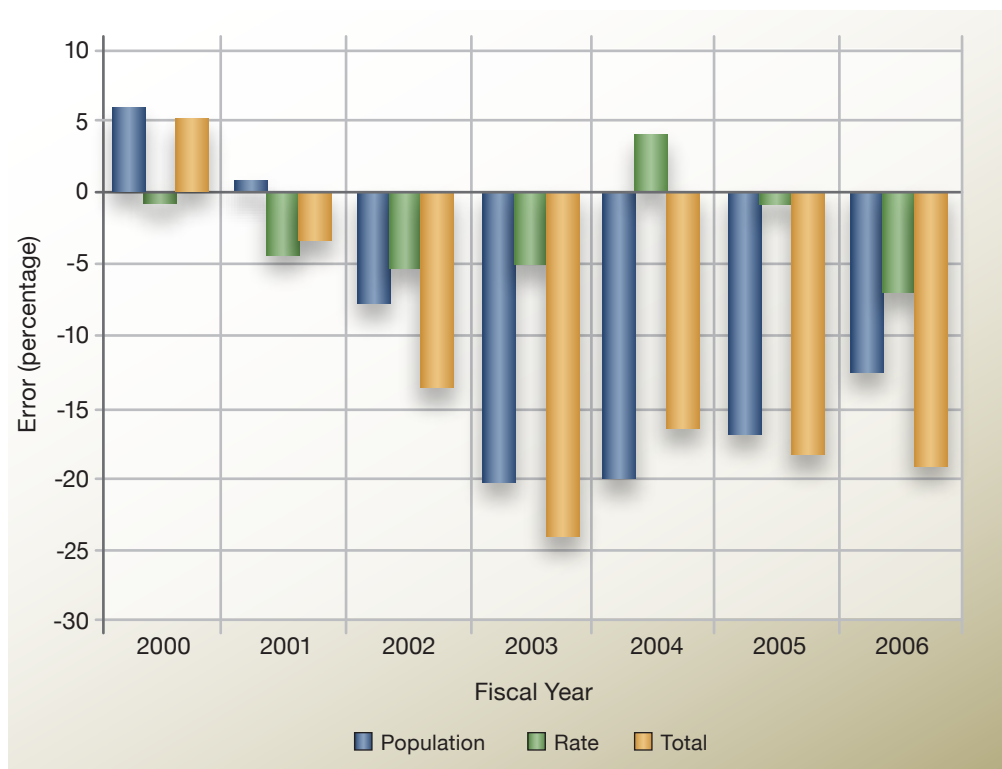


Figure 5-2. Forecasting Errors in the BAH Budget, Fiscal Years 2000–2006

Because personnel with dependents generate greater BAH costs, if the proportion of personnel with dependents increases above current levels, costs will increase beyond what was forecasted in the budget.

Estimating the number of reservists eligible for BAH has also contributed to the problem. Given the unprecedented number of reservists activated since 2001, it is not surprising that the Services have had difficulties estimating the number of members who will be eligible for BAH payments more than a year into the future. Further, the proportion of reservists with dependents (who generate higher BAH costs than single members) is greater than the proportion of active duty personnel with dependents. Recently enacted legislation, which reduced the number of days a reservist must be activated before becoming eligible for BAH, will increase the number of reservists who receive BAH payments, making it even more challenging to develop accurate estimates of the BAH-eligible population.

RECOMMENDATION

The QRMC recommends that the Defense Department continue to improve its population estimating procedures to ensure that the BAH budget is as accurate as possible.

As mentioned earlier, the preponderance of the problem with the BAH budgetary estimates is related to forecasts of the BAH-eligible population, not to the BAH rate estimates. This suggests that more accurate BAH budget estimates will require better methodologies for predicting the BAH-eligible population.

The QRMC recommends two areas where the estimating process could be improved.

- **Until the dependency status differential is eliminated, incorporate trends in dependency status into the population estimates.** Currently, the population forecasts use the current dependency status mix, even though participation trends among the two populations do not always move in tandem. In order to improve the BAH population forecast, the QRMC believes that DOD should use separate adjustment factors for these two groups when estimating the BAH-eligible population, at least as long as the rates for both with and without dependents are calculated.
- **Improve the forecast of reserve component members who will be mobilized and, hence, entitled to housing allowances.** Reservists' relatively higher dependency status rates, as well as the recent legislative change that expands reservist eligibility for BAH, should be incorporated into the forecasting model. Failing to produce better estimates in this area—particularly during periods of high reserve mobilization—will ensure that the Department continues to substantially underestimate the BAH budget.

In terms of the BAH rate estimates, some have suggested that rates be finalized earlier in the calendar year so that budget estimates could be based on final, rather than preliminary, rates. But finalizing the rates months earlier than is currently the case will result in rates that are more dated and less reflective of the actual housing costs that members will face. Moreover, as discussed above, it does not appear that inaccurate rate estimates are driving the shortfalls in the BAH budget. For these reasons, **the QRMC does not recommend changes in the timeline of the rate-setting process.**

Conclusion

The Basic Allowance for Housing is an integral part of the Services' compensation package, designed to ensure that service members live in housing comparable to their civilian counterparts. In its review of the BAH program, however, the QRMC found that, in some areas, BAH rates were inequitable and insufficient to provide members with housing comparable to their peers. As such, the QRMC makes the following recommendations to improve the BAH:

- Narrow the BAH dependency differential so that all members without dependents receive BAH payments equal to 95 percent of the with-dependents rate for their pay grade.
- Expand partial BAH to include a second component based on the adequacy of a member's quarters. The additional payments should vary based on the member's actual housing conditions.

The recommendations presented in this chapter would, over time, narrow the gap in BAH payments between single service members and those with dependents, and eliminate the disparity in out-of-pocket housing expenses between those with and without dependents. They would also ensure better compensation to those service members living in substandard housing—such as on ships or in barracks.

These proposals would increase average RMC for personnel without dependents living off base by 4.8 percent. Among junior members in pay grades E-4 and below, the combined income gain from these proposals would increase average RMC by 4.9 percent.

The higher compensation resulting from these changes would also encourage recruitment and retention. Together, the recommendations would increase the number of high-quality recruits by approximately 4.8 percent, and increase first-term retention by 7.0 percent.⁴⁰ At a time when achieving recruiting and retention goals has become increasingly challenging, these enlistment and reenlistment increases could prove critical to meeting staffing needs.

40. These estimates are based on analyses from several recent studies of the sensitivity of high-quality youth to changes in military compensation. Consistent with these studies, the estimated impact on recruitment assumes an elasticity of 1.0; while the impact on retention assumes an elasticity of 1.5. For more information on the impact of pay increases on enlistment and retention behavior see Warner and Simon 2005; Warner, Simon, and Payne 2003; Hansen and Wenger 2005; and Asch, Hosek, and Warner 2007.

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Finally, the suggested improvements to the eligible population forecasting model would yield more accurate budgetary estimates and reduce the persistent funding shortfalls that the program has experienced over the last several years.

Summary

At the outset, this report identified two themes that shaped the perspective of the 10th QRMC and served as a gauge of system improvement: *flexibility for the uniformed services* and *choice for the service member*. This concluding chapter evaluates how well the QRMC’s recommendations in the area of cash compensation stand up against these measures.

- It is well documented that if the uniformed services are to be an “employer of choice” they must offer competitive compensation. **Military Annual Compensation** is a new measure for comparing service member compensation to that in the civilian sector—a measure that takes into account benefits and some tax advantages that are important components of the compensation package. In fact, using this more meaningful basis for comparing compensation shows that service member compensation is more generous relative to civilian compensation than traditional comparisons suggested.

If service members are better able to understand the value of their compensation package relative to civilian compensation then they are able to make more informed *choices* at the time of their initial enlistment and, even more so, at various reenlistment points. Military Annual Compensation is a useful tool to better explain to service members the value of their compensation and, thus, informs *member choice*.

- **S&I pay consolidation** offers the Services greater *flexibility* in responding to changing mission needs. Consolidating more than 60 pays into eight pay categories, without the statutory restrictions that encumber many pays today, will allow force managers to more rapidly respond to changes in personnel supply and demand. Further, with the ability to allocate resources to those areas most in demand, as the needs arise, staffing challenges can be met in a more efficient and effective way.

Simplifying the S&I pay structure also enhances *member choice*, in a fashion similar to the adoption of Military Annual Compensation, in that members will be able to better understand the purpose of special pays and bonuses that they receive. With fewer S&I pay categories, the linkage between S&I payments and the purpose of those payments becomes

much clearer. Service members who understand the purpose of Skill Incentive/Proficiency Pay, for example, can make more informed *choices* about obtaining a credential, such as proficiency in a foreign language.

Increasing the size of the S&I pay budget also contributes to *flexibility* for the uniformed services, offering greater opportunity to use special pays and bonuses to shape the force. Even the design of the oversight committee considered flexibility at the fore—balancing the need for some degree of oversight, guidance, and coordination with the desire to allow the uniformed services to have greater autonomy in setting S&I pay levels and eligibility.

- Similarly, the concept of **constructive credit**, as a mechanism for better rewarding early promotions and facilitating lateral entrants or reentrants into the force, offers additional *force-shaping flexibility* to the Services. In a competitive labor market, the “best and the brightest” often have many opportunities for employment, with high-quality service members lured by potentially more lucrative private sector opportunities. By offering those who are promoted early a permanent increase in pay (as compared to their counterparts who are promoted in due course), the Services have an additional tool by which to link pay and performance, which in turn improves force-shaping capabilities through better retention.

Moreover, certain skills are difficult to grow and retain in the Service environment. The flexibility to bring in specialists midcareer, at an appropriate level of pay, is also important—something that applies as well to individuals who leave military service and later wish to reenter. Constructive credit allows the Services to more appropriately compensate such individuals. With more flexible tools, the Services are freer to recruit individuals in midcareer from the civilian sector to fill gaps in personnel requirements.

- Finally, **reducing the Basic Allowance for Housing rate differential** between those with and without dependents improves *member choice*. By narrowing the differential, members without dependents have a greater choice in housing—able to live in housing more like their civilian peers without the out-of-pocket expenses they now often face. Further, compensation in effect increases through a more equitable payment structure for members.

Recommended **adjustments to partial BAH** more appropriately compensate single members in certain government quarters for their reduced standard of living—a change that is not only more equitable but also serves as an increase in compensation to many junior members of the force. Compensation that meets or exceeds opportunities in the civilian sector puts the Services in a more advantageous position when members face reenlistment decisions.

The recommendations put forward by the 10th QRMC are not intended to radically change the current compensation system used by the uniformed services. Rather, they offer select innovations in policy and practice that would lead to improved responsiveness in the system, ensure fair and equitable compensation, and improve the link between pay and performance. Together these recommendations add to the suite of tools available to force managers, enabling them to more efficiently and effectively respond to changes in personnel needs—increasingly important as the Services work to respond to the demands of today’s national security environment.

Illustrative S&I Pay Consolidation Scheme

The DACMC recommended consolidating the large number of existing S&I pays into a smaller number of S&I pay categories. While DACMC did not endorse a specific S&I pay consolidation scheme, the committee did provide three examples of how such a consolidation might work. This appendix describes the first of those illustrative plans, which would consolidate existing S&I pays into seven categories. Each proposed pay category is described below.

- **Occupational Differential Pay** would target occupations—such as physicians and pilots—that traditionally command higher wages in the civilian sector than in the uniformed services.
- **Retention Pay** also would address occupational wage differences between civilian and military earnings, but would focus on short-term market fluctuations rather than longer-term earnings differentials.
- **Accession Pay** would offer incentives that encourage high-quality youth to enlist in the uniformed services, channel enlistees into certain hard-to-fill occupations and longer service terms, and even the flow of recruits entering the Services throughout the year.
- **Conversion/Separation Pays** would encourage members in occupations with unanticipated personnel surpluses to transfer to a different occupation or Service, or into the civilian sector.
- **Skill Retention/Proficiency Pay** would reward members who develop and maintain critical skills and abilities, even when that skill is not used in their current position. For example, FLPP is provided to personnel with foreign language proficiency even if they are not employed as linguists or interpreters.
- **Assignment/Duty Pay** would reward members for variations in working conditions, duty locations, and other predictable aspects of their postings, including quality of schools, probability of deployment, and operational tempo.

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- **Hardship/Hazardous Duty Pay** would compensate members for onerous or hazardous working conditions (such as deployment to a combat zone) that are unpredictable. While Assignment/Duty Pay would compensate members in anticipation of a burdensome assignment, Hardship/Hazardous Duty Pay would only be paid after the onerous circumstance occurred.

Legislative Proposal for S&I Pay Consolidation

____. **CONSOLIDATION OF SPECIAL PAY, INCENTIVE PAY, AND BONUS AUTHORITIES OF THE UNIFORMED SERVICES.**

- (a) **Consolidation.** – Chapter 5 of title 37, United States Code, is amended—
- (1) by inserting before section 301 the following subchapter heading: “SUBCHAPTER I—EXISTING SPECIAL PAY, INCENTIVE PAY, AND BONUS AUTHORITIES”; and
 - (2) by adding at the end the following new subchapters: “SUBCHAPTER II—CONSOLIDATION OF SPECIAL PAY, INCENTIVE PAY, AND BONUS AUTHORITIES”

§ 331. General bonus authority for enlisted members

- (a) **AUTHORITY TO PROVIDE BONUS.**—The Secretary concerned may pay a bonus under this section to a person, including a member of the armed forces, who—
- (1) enlists in an armed force;
 - (2) enlists in or affiliates with a reserve component of an armed force;
 - (3) reenlists, voluntarily extends an enlistment, or otherwise agrees to serve—
 - (A) for a specified period in a designated career field, skill, or unit of an armed force; or
 - (B) under other conditions of service in an armed force;
 - (4) transfers from a regular component of an armed force to a reserve component of that same armed force or from a reserve component of an armed force to the regular component of that same armed force; or
 - (5) transfers from a regular component or reserve component of an armed force to a regular component or reserve component of another armed force, subject to the approval of the Secretary with jurisdiction over the armed force to which the member is transferring.

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- (b) SERVICE ELIGIBILITY.—A bonus authorized by subsection (a) may be paid to a person or member only if the person or member agrees under subsection (d)—
 - (1) to serve for a specified period in a designated career field, skill, unit, or grade; or
 - (2) to meet some other condition of service imposed by the Secretary concerned.
- (c) MAXIMUM AMOUNT AND METHOD OF PAYMENT.—
 - (1) Maximum Amount.—The Secretary concerned shall determine the amount of a bonus to be paid under this section, except that —
 - (A) a bonus paid under paragraph (1) and (2) of subsection (a) may not exceed \$50,000 for a minimum two-year period of obligated service agreed to under subsection (d); and
 - (B) a bonus paid under subsection (3), (4), or (5) of subsection (a) may not exceed \$40,000 for a minimum one-year period of obligated service agreed to under subsection (d).
 - (2) Lump Sum or Installments.—A bonus under this section may be paid in a lump sum or in periodic installments, as determined by the Secretary concerned.
 - (3) Fixing Bonus Amount.—Upon acceptance by the Secretary concerned of the written agreement required by subsection (d), the total amount of the bonus to be paid under the agreement shall be fixed.
- (d) WRITTEN AGREEMENT.—To receive a bonus under this section, a person or member determined to be eligible for the bonus shall enter into a written agreement with the Secretary concerned that specifies—
 - (1) the amount of the bonus;
 - (2) the method of payment of the bonus under subsection (c)(2);
 - (3) the period of obligated service; and
 - (4) the type or condition of the service.
- (e) RELATIONSHIP TO OTHER PAY AND ALLOWANCES.—A bonus paid to a person or member under this section is in addition to any other pay and allowance to which a member is entitled.
- (f) RELATIONSHIP TO PROHIBITION ON BOUNTIES.—A bonus authorized under this section is not a bounty for purposes of section 514(a) of title 10.

- (g) **REPAYMENT.**—A person or member who receives a bonus under this section and who fails to complete the period of service, or meet the conditions of service, for which the bonus is paid, as specified in the written agreement under subsection (d), shall be subject to the repayment provisions of section 373 of this title.
- (h) **REGULATIONS.**—This section shall be administered under regulations prescribed by—
 - (1) the Secretary of Defense, with respect to the armed forces under the jurisdiction of the Secretary of Defense; and
 - (2) the Secretary of Homeland Security, with respect to the Coast Guard when it is not operating as a service in the Navy.

§ 332. General bonus authority for officers

- (a) **AUTHORITY TO PROVIDE BONUS.**—The Secretary concerned may pay a bonus under this section to a person, including an officer in the uniformed services, who—
 - (1) accepts a commission or appointment as an officer in a uniformed service;
 - (2) affiliates with a reserve component of a uniformed service;
 - (3) agrees to remain on active duty or to serve in an active status for a specific period as an officer in a uniformed service;
 - (4) transfers from a regular component of a uniformed service to a reserve component of that same uniformed service or from a reserve component of a uniformed service to the regular component of that same uniformed service; or
 - (5) transfers from a regular component or reserve component of a uniformed service to a regular component or reserve component of another uniformed service, subject to the approval of the Secretary with jurisdiction over the uniformed service to which the member is transferring.
- (b) **SERVICE ELIGIBILITY.**—A bonus authorized by subsection (a) may be paid to a person or officer only if the person or officer agrees under subsection (d)—
 - (1) to serve for a specified period in a designated career field, skill, unit, or grade; or
 - (2) to meet some other condition of service imposed by the Secretary concerned.

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- (c) **MAXIMUM AMOUNT AND METHOD OF PAYMENT.**—
- (1) **Maximum Amount.**—The Secretary concerned shall determine the amount of a bonus to be paid under this section, except that —
 - (A) a bonus paid under paragraph (1) or (2) may not exceed \$60,000 for a minimum three-year period of obligated service agreed to under subsection (d); and
 - (B) a bonus paid under paragraph (3), (4), or (5) of subsection (a) may not exceed \$50,000 for each year of obligated service agreed to under subsection (d).
 - (2) **Lump Sum or Installments.**—A bonus under this section may be paid in a lump sum or in periodic installments, as determined by the Secretary concerned.
 - (3) **Fixing Bonus Amount.**—Upon acceptance by the Secretary concerned of the written agreement required by subsection (d), the total amount of the bonus to be paid under the agreement shall be fixed.
- (d) **WRITTEN AGREEMENT.**—To receive a bonus under this section, a person or member determined to be eligible for the bonus shall enter into a written agreement with the Secretary concerned that specifies—
- (1) the amount of the bonus;
 - (2) the method of payment of the bonus under subsection (c)(2);
 - (3) the period of obligated service; and
 - (4) the type or conditions of the service.
- (e) **RELATIONSHIP TO OTHER PAY AND ALLOWANCES.**—The bonus paid to a person or officer under this section shall be in addition to any other pay and allowance to which an officer is entitled.
- (f) **REPAYMENT.**—A person or officer who receives a bonus under this section who fails to complete the period of service, or meet the conditions of service, for which the bonus is paid, as specified in the written agreement under subsection (d), shall be subject to the repayment provisions of section 373 of this title.
- (g) **REGULATIONS.**—This section shall be administered under regulations prescribed by—
- (1) the Secretary of Defense, with respect to the armed forces under the jurisdiction of the Secretary of Defense;
 - (2) the Secretary of Homeland Security, with respect to the Coast Guard when it is not operating as a service in the Navy;

- (3) the Secretary of Health and Human Services, with respect to the commissioned corps of the Public Health Service; and
- (4) the Secretary of Commerce, with respect to the National Oceanic and Atmospheric Administration.

§ 333. Special bonus and incentive pay authorities for nuclear officers

- (a) **NUCLEAR OFFICER BONUS.**—The Secretary of the Navy may pay a nuclear officer bonus under this section to a person, including an officer in the Navy, who—
 - (1) is selected for the officer naval nuclear power training program in connection with the supervision, operation, and maintenance of naval nuclear propulsion plants and agrees to serve, upon completion of such training, on active duty in connection with the supervision, operation, and maintenance of naval nuclear propulsion plants; or
 - (2) has the current technical qualification for duty in connection with the supervision, operation, and maintenance of naval nuclear propulsion plants and agrees to remain on active duty in connection with the supervision, operation, and maintenance of naval nuclear propulsion plants.
- (b) **NUCLEAR OFFICER INCENTIVE PAY.**—The Secretary of the Navy may pay nuclear officer incentive pay under this section to an officer in the Navy who—
 - (1) is entitled to basic pay under section 204 of this title; and
 - (2) remains on active duty for a specified period while maintaining current technical and operational qualifications, as approved by the Secretary, for duty in connection with the supervision, operation, and maintenance of naval nuclear propulsion plants.
- (c) **ADDITIONAL ELIGIBILITY CRITERIA.**—The Secretary of the Navy may impose such additional criteria for the receipt of a nuclear officer bonus or nuclear officer incentive pay as the Secretary determines to be appropriate.
- (d) **MAXIMUM AMOUNT AND METHOD OF PAYMENT.**—
 - (1) **Maximum Amount.**—The Secretary of the Navy shall determine the amounts of a nuclear officer bonus or incentive pay to be paid under this section, except that such payments may not exceed \$60,000 for each 12-month period of the agreement or 12-month period of qualifying service.
 - (2) **Lump Sum or Installments.**—A nuclear officer bonus or incentive pay under this section may be paid in a lump sum or in periodic installments.

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- (e) WRITTEN AGREEMENT FOR BONUS.—
- (1) Agreement Required.—To receive a nuclear officer bonus under this section, a person or officer determined to be eligible for the bonus shall enter into a written agreement with the Secretary of the Navy that specifies—
 - (A) the amount of the bonus;
 - (B) the method of payment of the bonus under subsection (d)(2);
 - (C) the period of obligated service; and
 - (D) the type or conditions of service.
 - (2) Replacement Agreement.—An officer who is performing obligated service under an agreement for a nuclear officer bonus may execute a new agreement to replace the existing agreement, if the amount to be paid under the new agreement will be higher than the amount to be paid under the existing agreement. The period of the new agreement shall be equal to or exceed the remaining term of the period of the officer's existing agreement. If a new agreement is executed under this paragraph, the existing agreement shall be cancelled, effective on the day before an anniversary date of that existing agreement occurring after the date on which the amount to be paid under this paragraph is increased.
- (f) RELATIONSHIP TO OTHER PAY AND ALLOWANCES.—A nuclear officer bonus or incentive pay paid to a person or officer under this section is in addition to any other pay and allowance to an officer is entitled; except that an officer may not receive a payment under this section and sections 332 or 353 of this title for the same skill and period of service.
- (g) REPAYMENT.—The person or officer who receives a nuclear officer bonus or incentive pay under this section who fails to complete the officer naval nuclear power training program, maintain required technical and operational qualifications, complete the period of service, or meet the types or conditions of service, for which the bonus is paid, as specified in the written agreement under subsection (e), shall be subject to the repayment provisions of section 373 of this title.
- (h) REGULATIONS.—This section shall be administered under regulations prescribed by the Secretary of the Navy.

§ 334. Special aviation incentive pay and bonus authorities for officers

- (a) AVIATION INCENTIVE PAY.—The Secretary concerned may pay aviation incentive pay under this section to a regular or reserve component officer of a uniformed service who—

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- (1) is entitled to basic pay under section 204 of this title or compensation under section 206 of this title;
 - (2) maintains, or is in training leading to, an aeronautical rating or designation that qualifies the officer to engage in operational flying duty or proficiency flying duty;
 - (3) engages in frequent and regular performance of operational flying duty or proficiency flying duty; and
 - (4) meets such other criteria as the Secretary concerned determines appropriate.
- (b) AVIATION BONUS.—The Secretary concerned may pay an aviation bonus under this section to a regular or reserve component officer of a uniformed service who—
- (1) is entitled to aviation incentive pay under subsection (a);
 - (2) has completed any active duty service commitment incurred for undergraduate aviator training or is within one year of completing such commitment;
 - (3) executes a written agreement to remain on active duty in a regular component or to serve in an active status in a reserve component in aviation service for at least one year; and
 - (4) meets such other criteria as the Secretary concerned determines appropriate.
- (c) MAXIMUM AMOUNT AND METHOD OF PAYMENT.—
- (1) Maximum Amount.—The Secretary concerned shall determine the amounts of an incentive pay or bonus payable under this section, except that—
 - (A) aviation incentive pay shall be paid at a monthly rate, not to exceed \$850 per month; and
 - (B) an aviation bonus may not exceed \$25,000 for each 12-month period of obligated service agreed to under subsection (d).
 - (2) Lump Sum or Installments.—A bonus under this section may be paid in lump sum or in periodic installments, as determined by the Secretary concerned.
 - (3) Fixing Bonus Amount.—Upon acceptance by the Secretary concerned of the written agreement required by subsection (d), the total amount of the bonus to be paid under the agreement shall be fixed.

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- (d) **WRITTEN AGREEMENT FOR BONUS.**—To receive an aviation officer bonus under this section, an officer determined to be eligible for the bonus shall enter into a written agreement with the Secretary concerned that specifies—
- (1) the amount of the bonus;
 - (2) the method of payment of a bonus under subsection (c)(2);
 - (3) the period of obligated service; and
 - (4) the type or conditions of the service.
- (e) **RESERVE COMPONENT OFFICERS PERFORMING INACTIVE DUTY TRAINING.**—A reserve component officer who is entitled to compensation under section 206 of this title and who is authorized aviation incentive pay under this section may be paid an amount of incentive pay that is proportionate to the compensation received under section 206 for inactive-duty training.
- (f) **RELATIONSHIP TO OTHER PAY AND ALLOWANCES.**—
- (1) **Aviation Incentive Pay.**—Aviation incentive pay paid to an officer under subsection (a) shall be in addition to any other pay and allowance to which the officer is entitled, except that an officer may not receive a payment under such subsection and section 351(a)(4) or 353 of this title for the same skill and period of service.
 - (2) **Aviation Bonus.**—An aviation bonus paid to an officer under subsection (b) shall be in addition to any other pay and allowance to which the officer is entitled, except that an officer may not receive a payment under such subsection and section 332 or 353 for the same skill and period of service.
- (g) **REPAYMENT.**—An officer who receives aviation incentive pay or an aviation bonus under this section and who fails to fulfill the eligibility requirements for the receipt of the incentive pay or bonus or complete the period of service for which the incentive pay or bonus is paid, as specified in the written agreement under subsection (d) in the case of a bonus, shall be subject to the repayment provisions of section 373 of this title.
- (h) **DEFINITIONS.**—In this section:
- (1) The term ‘aviation service’ means service performed by a regular or reserve component officer (except a flight surgeon or other medical officer) while holding an aeronautical rating or designation or while in training to receive an aeronautical rating or designation.
 - (2) The term ‘operational flying duty’ means flying performed under competent orders by rated or designated regular or reserve component officers while serving in assignments in which basic

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flying skills normally are maintained in the performance of assigned duties as determined by the Secretary concerned, and flying performed by members in training that leads to the award of an aeronautical rating or designation.

- (3) The term ‘proficiency flying duty’ means flying performed under competent orders by rated or designated regular or reserve component officers while serving in assignments in which such skills would normally not be maintained in the performance of assigned duties.
 - (4) The term ‘officer’ includes an individual enlisted and designated as an aviation cadet under section 6911 of title 10, United States Code.
- (i) REGULATIONS.—This section shall be administered under regulations prescribed by—
- (1) the Secretary of Defense, with respect to the armed forces under the jurisdiction of the Secretary of Defense;
 - (2) the Secretary of Homeland Security, with respect to the Coast Guard when it is not operating as a service in the Navy; and
 - (3) the Secretary of Commerce, with respect to the National Oceanic and Atmospheric Administration.

§ 335. Special bonus and incentive pay authorities for officers in health professions

- (a) HEALTH PROFESSIONS BONUS.—The Secretary concerned may pay a health professions bonus under this section to a person, including an officer in the uniformed services, who is a graduate of an accredited school in a health profession, and who—
- (1) accepts a commission or appointment as a regular or reserve component officer in a uniformed service, or affiliates with a reserve component of a uniformed service, and agrees to serve on active duty in a regular component or in an active status in a reserve component in a health profession; or
 - (2) agrees to remain on active duty or continue serving in an active status in a reserve component in a health profession.
- (b) HEALTH PROFESSIONS INCENTIVE PAY.—The Secretary concerned may pay incentive pay under this section to an officer in a regular or reserve component of a uniformed service who—
- (1) is entitled to basic pay under section 204 of this title or compensation under section 206 of this title; and
 - (2) is serving on active duty or in an active status in a designated health profession specialty or skill.

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- (c) **BOARD CERTIFICATION INCENTIVE PAY.**—The Secretary concerned may pay board certification incentive pay under this section to an officer in a regular or reserve component of a uniformed service who—
 - (1) is entitled to basic pay under section 204 of this title or compensation under section 206 of this title; and
 - (2) is board certified in a designated health profession specialty or designated skill; and
 - (3) is serving on active duty or in an active status in such designated health profession specialty or skill.
- (d) **ADDITIONAL ELIGIBILITY CRITERIA.**—The Secretary concerned may impose such additional criteria for the receipt of a bonus or incentive pay under this section as the Secretary concerned determines appropriate.
- (e) **MAXIMUM AMOUNT AND METHOD OF PAYMENT.**—
 - (1) **Maximum Amount.**—The Secretary concerned shall determine the amounts of a bonus or incentive pay to be paid under this section, except that—
 - (A) a health professions bonus may not exceed \$100,000 for each 12-month period of obligated service agreed to under subsection (f);
 - (B) health professions incentive pay may not exceed \$100,000 in any 12-month period, and it may be paid monthly; and
 - (C) board certification incentive pay may not exceed \$25,000 per 12-month period an officer remains certified in the designated health profession specialty or skill.
 - (2) **LUMP SUM OR INSTALLMENTS.**—A bonus under subsection (a) may be paid in a lump sum or in periodic installments, as determined by the Secretary concerned. Board certification incentive pay may be paid monthly, in a lump sum at the beginning of the certification period, or in periodic installments during the certification period, as determined by the Secretary concerned.
 - (3) **FIXING BONUS AMOUNT.**—Upon acceptance by the Secretary concerned of the written agreement required by subsection (f), the total amount of the bonus to be paid under the agreement shall be fixed.
- (f) **WRITTEN AGREEMENT FOR BONUS.**—To receive a bonus under this section, an officer determined to be eligible for the bonus shall enter into an agreement with the Secretary concerned that specifies—

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- (1) the amount of the bonus;
 - (2) the method of payment of the bonus under subsection (e)(2);
 - (3) the period of obligated service;
 - (4) whether the service will be performed on active duty or in an active status in a reserve component; and
 - (5) the type and conditions of the service.
- (g) **RESERVE COMPONENT OFFICERS.**—An officer in a reserve component authorized incentive pay under subsection (b) or (c) who is not serving on continuous active duty and is entitled to compensation under sections 204 of this title or compensation under section 206 of this title may be paid a monthly amount of incentive pay that is proportionate to the basic pay or compensation receive under this title.
- (h) **RELATIONSHIP TO OTHER PAY AND ALLOWANCES.**—
- (1) **Health Professions Bonus.**—A bonus paid to a person or officer under subsection (a) shall be in addition to any other pay and allowance to which the officer is entitled, except that an officer may not receive a payment under such subsection and section 332 for the same period of obligated service.
 - (2) **Health Professions Incentive Pay.**—Incentive pay paid to an officer under subsection (b) shall be in addition to any other pay and allowance to which the officer is entitled, except that an officer may not receive a payment under such subsection and section 353 of this title for the same skill and period of service.
 - (3) **Board Certification Incentive Pay.**—Incentive pay paid to an officer under subsection (c) shall be in addition to any other pay and allowance to which an officer is entitled, except that an officer may not receive a payment under such subsection and section 353(b) of this title for the same skill and period of service covered by the certification.
- (i) **REPAYMENT.**—An officer who receives a bonus or incentive pay under this section and who fails to fulfill the eligibility requirements for the receipt of the bonus or incentive pay or complete the period of service for which the bonus or incentive pay is paid, as specified in the written agreement under subsection (f) in the case of a bonus, shall be subject to the repayment provisions of section 373 of this title.
- (j) **HEALTH PROFESSION DEFINITION.**—In this section, the term ‘health profession’ means:
- (1) Any health profession performed by officers in the Medical Corps of a uniformed service or by officers designated as a medical officer.

- (2) Any health profession performed by officers in the Dental Corps of a uniformed service or by officers designated as a dental officer.
 - (3) Any health profession performed by officers in the Medical Service Corps of a uniformed service or by officers designated as a medical service officer or biomedical sciences officer.
 - (4) Any health profession performed by officers in the Medical Specialist Corps of a uniformed service or by officers designated as a medical specialist.
 - (5) Any health profession performed by officers of the Nurse Corps of a uniformed service or by officers designated as a nurse.
 - (6) Any health profession performed by officers in the Veterinary Corps of a uniformed service or by officers designated as a veterinary officer.
 - (7) Any health profession performed by officers designated as a physician assistant.
 - (8) Any health profession performed by officers in the regular or reserve corps of the Public Health Service.
- (k) REGULATIONS.—This section shall be administered under regulations prescribed by—
- (1) the Secretary of Defense, with respect to the armed forces under the jurisdiction of the Secretary of Defense;
 - (2) the Secretary of Homeland Security, with respect to the Coast Guard when it is not operating as a service in the Navy; and
 - (3) the Secretary of Health and Human Services, with respect to the commissioned corps of the Public Health Service.

§ 351. Hazardous duty pay

- (a) HAZARDOUS DUTY PAY.—The Secretary concerned may pay hazardous duty pay under this section to a member of a regular or reserve component of the uniformed services entitled to basic pay under section 204 of this title or compensation under section 206 of this title who—
- (1) performs duty in a hostile fire area designated by the Secretary concerned;
 - (2) is exposed to a hostile fire event, explosion of a hostile explosive device, or any other hostile action;
 - (3) is on duty in an area in which an event described in paragraph (2) occurred which placed the member in grave danger of physical injury;

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- (4) performs duty the Secretary concerned has designated as hazardous duty based upon the inherent dangers of that duty and risks of physical injury; or
 - (5) performs duty in a foreign area designated by the Secretary concerned as an area in which the member is subject to imminent danger of physical injury due to threat conditions.
- (b) **MAXIMUM AMOUNT.**—The amount of hazardous duty pay paid to a member under subsection (a) shall be based on the type of duty and the area in which the duty is performed, as follows:
- (1) In the case of a member who performs duty in a designated hostile fire area, as described in paragraph (1) of such subsection, hazardous duty pay may not exceed \$450 per month.
 - (2) In the case of a member who is exposed to a hostile fire event or is on duty in an area in which such an event occurred which placed the member in grave danger of physical injury, as described in paragraph (2) or (3) of such subsection, hazardous duty pay may not exceed \$450 per month.
 - (3) In the case of a member who performs a designated hazardous duty, as described in paragraph (4) of such subsection, hazardous duty pay may not exceed \$250 per month.
 - (4) In the case of a member who performs duty in a foreign area designated as an imminent danger area, as described in paragraph (5) of such subsection, hazardous duty pay may not exceed \$250 per month.
- (c) **METHOD OF PAYMENT.**—Hazardous duty pay shall be paid on a monthly basis. A member who is eligible for hazardous duty pay by reason of paragraph (1), (2), or (3) of subsection (a) shall receive the full monthly rate of hazardous duty pay authorized by the Secretary concerned under such paragraph, notwithstanding subsection (d).
- (d) **RESERVE COMPONENT MEMBERS PERFORMING INACTIVE DUTY TRAINING.**—A member of a reserve component member entitled to compensation under section 206 of this title who is authorized hazardous duty pay under this section may be paid an amount of hazardous duty pay that is proportionate to the compensation received by the member under section 206 of this title for inactive-duty training.
- (e) **ADMINISTRATION AND RETROACTIVE PAYMENTS.**—The effective date for a hostile fire area designation, as described in paragraph (1) of subsection (a), and for the designation of a foreign area as an imminent danger area, as described in paragraph (5) of subsection (a), may be a date that occurs before, on, or after the actual date of the designation by the Secretary concerned.

- (f) **DETERMINATION OF FACT.**—Any determination of fact that is made in administering paragraph (2) or (3) of subsection (a) is conclusive. The determination may not be reviewed by any other officer or agency of the United States unless there has been fraud or gross negligence. However, the Secretary concerned may change the determination on the basis of new evidence or for other good cause.
- (g) **RELATIONSHIP TO OTHER PAY AND ALLOWANCES.**—A member may be paid hazardous duty pay under this section in addition to any other pay and allowances to which the member is entitled. The regulations prescribed under subsection (j) shall address dual compensation under this section for multiple circumstances involving performance of a designated hazardous duty, as described in paragraph (4) of subsection (a), or for duty in certain designated areas, as described in paragraph (1) or (5) of such subsection, that is performed by a member during a single month of service.
- (h) **PROHIBITION ON VARIABLE RATES.**— The regulations prescribed under subsection (j) may not include varied criteria or rates for payment of hazardous duty for officers and enlisted members.
- (i) **REPAYMENT.**— A member who receives the hazardous duty pay authorized under this section and who fails to meet the eligibility requirements under subsection (a) shall be subject to the repayment provisions of section 373 of this title.
- (j) **REGULATIONS.**—This section shall be administered under regulations prescribed by—
- (1) the Secretary of Defense, with respect to the armed forces under the jurisdiction of the Secretary of Defense;
 - (2) the Secretary of Homeland Security, with respect to the Coast Guard when it is not operating as a service in the Navy;
 - (3) the Secretary of Health and Human Services, with respect to the commissioned corps of the Public Health Service; and
 - (4) the Secretary of Commerce, with respect to the National Oceanic and Atmospheric Administration.

§ 352. Assignment pay or special duty Pay

- (a) **ASSIGNMENT OR SPECIAL DUTY PAY AUTHORIZED.**—The Secretary concerned may pay assignment or special duty pay under this section to a member of a regular or reserve component of a uniformed services who—
- (1) is entitled to basic pay under section 204 of this title or compensation under section 206 of this title; and

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- (2) performs duties in an assignment, location, or unit designated by, and under the conditions of service specified by, the Secretary concerned.
- (b) **MAXIMUM AMOUNT AND METHOD OF PAYMENT.—**
- (1) **Lump Sum or Installments.—**Assignment or special duty pay under subsection (a) may be paid monthly, in a lump sum, or in periodic installments other than monthly, as determined by the Secretary concerned.
 - (2) **Maximum Monthly Amount.—**The maximum monthly amount of assignment and special duty pay may not exceed \$5,000.
 - (3) **Maximum Lump Sum Amount.—**The amount of a lump sum payment of assignment or special duty pay payable to a member may not exceed the amount equal to the product of—
 - (A) the maximum monthly rate authorized under paragraph (2) at the time the member enters into a written agreement under subsection (c); and
 - (B) the number of continuous months in the period for which assignment or special duty pay will be paid pursuant to the agreement.
 - (4) **Maximum Installment Amount.—**The amount of each installment payment of assignment or special duty pay payable to a member on an installment basis shall be the amount equal to—
 - (A) the product of—
 - (i) a monthly rate specified in the written agreement entered into under subsection (c), which monthly rate may not exceed the maximum monthly rate authorized under paragraph (2) at the time the member enters into the agreement; and
 - (ii) the number of continuous months in the period for which the assignment or special duty pay will be paid;
 - (B) divided by, the number of installments over such period.
 - (5) **Effect of Extension.—**If a member extends an assignment or performance of duty specified in an agreement with the Secretary concerned under subsection (c), assignment or special duty pay for the period of the extension may be paid on a monthly basis, in a lump sum, or in installments, consistent with this subsection.

- (c) WRITTEN AGREEMENT.—
- (1) Discretionary for Monthly Payments.—The Secretary concerned may require a member to enter into a written agreement with the Secretary in order to qualify for the payment of assignment or special duty pay on a monthly basis. The written agreement shall specify the period for which the assignment or special duty pay will be paid to the member and the monthly rate of the assignment or special duty pay.
 - (2) Required for Lump Sum or Installment Payments.—The Secretary concerned shall require a member to enter into a written agreement with the Secretary in order to qualify for payment of assignment or special duty pay on a lump sum or installment basis. The written agreement shall specify the period for which the assignment or special duty pay will be paid to the member and the amount of the lump sum or each periodic installment.
- (d) RESERVE COMPONENT MEMBERS PERFORMING INACTIVE DUTY TRAINING.—A member of a reserve component member entitled to compensation under section 206 of this title who is authorized assignment or special duty pay under this section may be paid an amount of assignment or special duty pay that is proportionate to the compensation received by the member under section 206 of this title for inactive-duty training.
- (e) RELATIONSHIP TO OTHER PAY AND ALLOWANCES.—Assignment or special duty pay paid to a member under this section is in addition to any other pay and allowances to which a member is entitled.
- (f) REPAYMENT.—A member who receives assignment or special duty pay under this section and who fails to fulfill the eligibility requirements under subsection (a) shall be subject to the repayment provisions of section 373 of this title.
- (g) REGULATIONS.— This section shall be administered under regulations prescribed by—
- (1) the Secretary of Defense, with respect to the armed forces under the jurisdiction of the Secretary of Defense;
 - (2) the Secretary of Homeland Security, with respect to the Coast Guard when it is not operating as a service in the Navy;
 - (3) the Secretary of Health and Human Services, with respect to the Commissioned corps of the Public Health Service; and
 - (4) the Secretary of Commerce, with respect to the National Oceanic and Atmospheric Administration.

§ 353. Skill incentive pay or proficiency bonus

- (a) **SKILL INCENTIVE PAY.**—The Secretary concerned may pay a monthly skill incentive pay to a member of a regular or reserve component of the uniformed services who—
 - (1) is entitled to basic pay under section 204 of this title or compensation under section 206 of this title; and
 - (2) serves in a career field or skill designated as critical by the Secretary concerned.
- (b) **SKILL PROFICIENCY BONUS.**—The Secretary concerned may pay a proficiency bonus to a member of a regular or reserve component of the uniformed services who—
 - (1) is entitled to basic pay under section 204 of this title or compensation under section 206 of this title; and
 - (2) is determined to have, and maintains, certified proficiency under subsection (d) in a skill designated as critical by the Secretary concerned.
- (c) **MAXIMUM AMOUNTS AND METHODS OF PAYMENT.**—
 - (1) **Skill Incentive Pay.**—Skill incentive pay shall be in paid monthly in an amount not to exceed \$1,000 per month.
 - (2) **Proficiency Bonus.**—A proficiency bonus may be paid in a lump sum at the beginning of the proficiency certification period or in periodic installments during the proficiency certification period. The amount of the bonus may not exceed \$12,000 per 12-month period of certification. The Secretary concerned may not vary the criteria or rates for the proficiency bonus paid for officers and enlisted members.
- (d) **CERTIFIED PROFICIENCY FOR PROFICIENCY BONUS.**—
 - (1) **Certification required.**—Proficiency in a designated critical skill shall be subject to annual certification by the Secretary concerned.
 - (2) **Duration of Certification.**—A certification period shall expire at the end of the one-year period beginning on the first day of the first month beginning on or after the certification date.
 - (3) **Waiver.**—Notwithstanding paragraphs (1) and (2), the regulations prescribed under subsection (i) shall address the circumstances under which the Secretary concerned may waive the certification requirement under paragraph (1) or extend the certification period under paragraph (2).

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- (e) WRITTEN AGREEMENT.—
- (1) Discretionary for Skill Incentive Pay.—The Secretary concerned may require a member to enter into a written agreement with the Secretary in order to qualify for the payment of skill incentive pay. The written agreement shall specify the period for which the skill incentive pay will be paid to the member and the monthly rate of the pay.
 - (2) Required for Proficiency Bonus.—The Secretary concerned shall require a member to enter into a written agreement with the Secretary in order to qualify for payment of a proficiency bonus. The written agreement shall specify the amount of the proficiency bonus, the period for which the bonus will be paid, and the initial certification or recertification necessary for payment of the proficiency bonus.
- (f) RESERVE COMPONENT MEMBERS PERFORMING INACTIVE DUTY TRAINING.
- (1) Proration of Skill Incentive Pay.—A member of a reserve component entitled to compensation under section 206 of this title who is authorized skill incentive pay under subsection (a) may be paid an amount of skill incentive pay that is proportionate to the compensation received by the member under section 206 of this title for inactive-duty training.
 - (2) Proration of Skill Proficiency Bonus.—A member of a reserve component entitled to compensation under section 206 of this title who is authorized a skill proficiency bonus under subsection (b) may be paid an amount that is proportionate to the bonus received by the member under section 206 of this title for inactive-duty training; however, no reduction in the amount of the skill proficiency bonus may be made for members of the reserve components who are authorized a proficiency bonus for proficiency in a foreign language.
- (g) Repayment.—A member who receives skill incentive pay or a proficiency bonus under this section and who fails to fulfill the eligibility requirement for receipt of the pay or bonus shall be subject to the repayment provisions of section 373 of this title.
- (h) RELATIONSHIP TO OTHER PAYS AND ALLOWANCES.—A member may not be paid more than one pay under this section in any month for the same period of service and skill. A member may be paid skill incentive pay or the proficiency bonus authorized under this section in addition to any other pay and allowances to which the member is entitled, except that the member may not be paid skill incentive pay or a proficiency bonus

authorized under this section and hazardous duty pay under section 351(a)(4) of this title for the same period of service in the same career field or skill.

- (i) REGULATIONS.—This section shall be administered under regulations prescribed by—
 - (1) the Secretary of Defense, with respect to the armed forces under the jurisdiction of the Secretary of Defense;
 - (2) the Secretary of Homeland Security, with respect to the Coast Guard when it is not operating as a service in the Navy;
 - (3) the Secretary of Health and Human Services, with respect to the commissioned corps of the Public Health Service; and
 - (4) the Secretary of Commerce, with respect to the National Oceanic and Atmospheric Administration.

SUBCHAPTER III—GENERAL PROVISIONS

§ 371. Relationship to other incentives and pays

- (a) TREATMENT.—A bonus or incentive pay paid to a member of the uniformed services under subchapter II is in addition to any other pay and allowance to which a member is entitled, unless otherwise provided under this chapter.
- (b) EXCEPTION.—A member may not receive a bonus or incentive pay under both subchapter I and subchapter II for the same activity, skill, or period of service.
- (c) RELATIONSHIP TO OTHER COMPUTATIONS.—The amount of a bonus or incentive pay to which a member is entitled under subchapter II may not be included in computing the amount of—
 - (1) any increase in pay authorized by any other provision of this title; or
 - (2) any retired pay, retainer pay, separation pay, or disability severance pay.

§ 372. Continuation of pays during hospitalization for wounds, injury, or illness incurred while on duty in a hostile fire area or exposed to an event of hostile fire or other hostile action

- (a) CONTINUATION OF PAYS.—Notwithstanding any other provision of law, the Secretary concerned may continue to pay all pay and allowances to a member of a regular or reserve component of a uniformed service, including any bonus, incentive pay, or similar benefit, if the member—

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- (1) incurs a wound, injury, or illness in the line of duty while serving in a combat operation, a combat zone, or while serving in a hostile fire area or exposed to a hostile fire event, as described under section 351 of this title; and
 - (2) is hospitalized for the treatment of such wound, injury, or illness.
- (b) **DURATION.**—The continuation of pay and allowances under subsection (a) shall expire at the end of the first month during which the member is no longer hospitalized for treatment. The continuation of pay and allowances under subsection (a) shall be subject to the regulations prescribed under section 374 of this title.
- (c) **DEFINITION.**—The term “hospitalized for treatment” as used in paragraph (2) of subsection (a), means the member is admitted as an inpatient in a military treatment facility or is, for the purposes of receiving extensive outpatient rehabilitation or other medical care, residing in quarters or in a facility affiliated with the military health care system.

§ 373. Repayment of unearned portion of bonus, incentive pay, or similar benefit when conditions of payment not met

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- (a) **REPAYMENT.**—Except as provided in subsection (b), a member of a uniformed services who is paid a bonus, incentive pay, or similar benefit, the receipt of which is contingent upon the member’s satisfaction of certain service or eligibility requirements, shall repay to the United States any unearned portion of such bonus, incentive pay, or similar benefit if the member fails to satisfy any service or eligibility requirement.
- (b) **EXCEPTIONS.**— The regulations prescribed to administer this section may specify procedures for determining the circumstances under which an exception to the required repayment may be granted.
- (c) **EFFECT OF BANKRUPTCY.**—An obligation to repay the United States under this subsection is, for all purposes, a debt owed the United States. A discharge in bankruptcy under title 11 does not discharge a person from such debt if the discharge order is entered less than five years after—
- (1) the date of the termination of the agreement or contract on which the debt is based; or
 - (2) in the absence of such an agreement or contract, the date of the termination of the service on which the debt is based.
- (d) **DEFINITIONS.**—In this section—
- (1) The term “bonus, incentive pay, or similar benefit” means a bonus, incentive pay, special pay, or similar payment, or an educational

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benefit or stipend, paid to a member of the uniformed services under a provision of law that refers to the repayment requirements of this section.

- (2) The term “service”, as used in paragraph (2) of subsection (c), refers to an obligation willingly undertaken by a member of the uniformed services, in exchange for a bonus or similar benefit offered by the Secretary of Defense or the Secretary concerned—
 - (A) to a regular or reserve component member who remains on active duty or in an active status;
 - (B) to perform duty in a specified skill, with or without a specified qualification or credential;
 - (C) to perform duty in a specified assignment, location or unit; or
 - (D) to perform duty for a specified period of time.

§ 374. Regulations.—This subchapter shall be administered under regulations prescribed by—

- (1) the Secretary of Defense, with respect to the armed forces under the jurisdiction of the Secretary of Defense;
 - (2) the Secretary of Homeland Security, with respect to the Coast Guard when it is not operating as a service in the Navy;
 - (3) the Secretary of Health and Human Services, with respect to the commissioned corps of the Public Health Service; and
 - (4) the Secretary of Commerce, with respect to the National Oceanic and Atmospheric Administration.
- (b) TRANSFER OF 15-YEAR CAREER STATUS BONUS TO SUBCHAPTER II.—
- (1) Transfer.—Section 322 of title 37, United States Code, is transferred to appear after section 353 of subchapter II of chapter 5 of such title, as added by subsection (a), and is redesignated as section 354.
 - (2) Conforming Amendment.—Subsection (f) of such section, as so transferred and redesignated, is amended by striking “section 303a(e)” and inserting “section 373.”
 - (3) Cross References.—Sections 1401a, 1409(b)(2), and 1410 of title 10, United States Code, are amended by striking “section 322” each place it appears and inserting “section 322 or 354”.

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- (c) CLERICAL AMENDMENT.—The table of sections at the beginning of chapter 5 is amended to read as follows:

SUBCHAPTER I — EXISTING SPECIAL PAY, INCENTIVE PAY, AND BONUS AUTHORITIES

Sec

301. Incentive pay: hazardous duty
- 301a. Incentive pay: aviation career
- 301b. Special pay: aviation career officers extending period of active duty.
- 301c. Incentive pay: submarine duty.
- 301d. Multiyear retention bonus: medical officers of the armed forces.
- 301e. Multiyear retention bonus: dental officers of the armed forces.
302. Special pay: medical officers of the armed forces.
- 302a. Special pay: optometrists.
- 302b. Special pay: dental officers of the armed forces.
- 302c. Special pay: psychologists and nonphysician health care providers.
- 302d. Special pay: accession bonus for registered nurses.
- 302e. Special pay: nurse anesthetists.
- 302f. Special pay: reserve, recalled, or retained health care officers.
- 302g. Special pay: Selected Reserve health care professionals in critically short wartime specialties.
- 302h. Special pay: accession bonus for dental officers.
- 302i. Special pay: pharmacy officers.
- 302j. Special pay: accession bonus for pharmacy officers.
- 302k. Special pay: accession bonus for medical officers in critically short wartime specialties.
- 302l. Special pay: accession bonus for dental specialist officers in critically short wartime specialties.
303. Special pay: veterinarians.
- 303a. Special pay: general provisions.
- 303b. Waiver of board certification requirements.
304. Special pay: diving duty.
305. Special pay: hardship duty pay.
- 305a. Special pay: career sea pay.
- 305b. Special pay: service as member of Weapons of Mass Destruction Civil Support Team.
306. Special pay: officers holding positions of unusual responsibility and of critical nature.
- 306a. Special pay: members assigned to international military headquarters.
307. Special pay: special duty assignment pay for enlisted members.
- 307a. Special pay: assignment incentive pay.
308. Special pay: reenlistment bonus.
- 308b. Special pay: reenlistment bonus for members of the Selected Reserve.
- 308c. Special pay: bonus for affiliation or enlistment in the Selected Reserve.

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- 308d. Special pay: members of the Selected Reserve assigned to certain high priority units.
- 308g. Special pay: bonus for enlistment in elements of the Ready Reserve other than the Selected Reserve.
- 308h. Special pay: bonus for reenlistment, enlistment, or voluntary extension of enlistment in elements of the Ready Reserve other than the Selected Reserve.
- 308i. Special pay: prior service enlistment bonus.
- 308j. Special pay: affiliation bonus for officers in the Selected Reserve.
- 309. Special pay: enlistment bonus.
- 310. Special pay: duty subject to hostile fire or imminent danger.
- 312. Special pay: nuclear-qualified officers extending period of active duty.
- 312b. Special pay: nuclear career accession bonus.
- 312c. Special pay: nuclear career annual incentive bonus.
- 314. Special pay or bonus: qualified members extending duty at designated locations overseas.
- 315. Special pay: engineering and scientific career continuation pay.
- 316. Special pay: bonus for members with foreign language proficiency.
- 317. Special pay: officers in critical acquisition positions extending period of active duty.
- 318. Special pay: special warfare officers extending period of active duty.
- 319. Special pay: surface warfare officer continuation pay.
- 320. Incentive pay: career enlisted flyers.
- 321. Special pay: judge advocate continuation pay.
- 323. Special pay: retention incentives for members qualified in critical military skills or assigned to high priority units.
- 324. Special pay: accession bonus for new officers in critical skills.
- 325. Incentive bonus: savings plan for education expenses and other contingencies.
- 326. Incentive bonus: conversion to military occupational specialty to ease personnel shortage.
- 327. Incentive bonus: transfer between armed forces.
- 328. Combat-related injury rehabilitation pay.
- 329. Incentive bonus: retired members and reserve component members volunteering for high-demand, low-density assignments.
- 330. Special pay: accession bonus for officer candidates.

SUBCHAPTER II — CONSOLIDATION OF SPECIAL PAY, INCENTIVE PAY, AND BONUS AUTHORITIES

- 331. General bonus authority for enlisted members.
- 332. General bonus authority for officers.
- 333. Special bonus and incentive pay authorities for nuclear officers.
- 334. Special aviation incentive pay and bonus authorities for officers.
- 335. Special bonus and incentive pay authorities for officers in health professions.
- 351. Hazardous duty pay.

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- 352. Assignment pay or special duty pay.
- 353. Skill incentive pay or proficiency bonus.
- 354. Special pay: 15-year career status bonus for members entering service on or after August 1, 1986.

SUBCHAPTER III – GENERAL PROVISIONS

- 371. Relationship to other incentives and pays.
- 372. Continuation of pays during hospitalization for wounds, injury, or illness incurred while on duty in a hostile fire area or exposed to an event of hostile fire or other hostile action.
- 373. Repayment of unearned portion of bonus, incentive pay, or similar benefit when conditions of payment not met.
- 374. Regulations.
 - (d) **TRANSITION.**—The Secretary of Defense shall, in coordination with the Secretary of Homeland Security, the Secretary of Commerce, and the Secretary of Health and Human Services, develop a plan to implement subchapters II and III of chapter 5 of title 37, United States Code, as added by section ____ (a), and to correspondingly transition all of the special and incentive pay programs for members of the uniformed services solely to provisions of such subchapters during a transition period of not more than ten years beginning on the date of the enactment. During the transition period, the Secretary concerned may continue to use the authorities in provisions in subchapter I of chapter 5 of title 37, United States Code (as designated herein), but subject to the terms of such provisions and such modifications as the Secretary considers necessary, to provide bonuses and special and incentive pays for members of the uniformed services.
 - (e) **CONFORMING AMENDMENTS.**—*REQUEST THIS SECTION BE DRAFTED BY LEGISLATIVE COUNSEL UPON DOCUMENT FINALIZATION. [It is noted that the following needing conforming amendments have been identified: (1) 37 USC 907 (Saved Pay); (2) title 10, sections 510, 2005, 2007, 2105, 2123, 2130a, 2173, 2200a, 4348, 6959, 9348, 16135, 16203, 16303, & 16401, and title 14, section 182 (These provisions were changed by FY06 NDAA section 687 to insert references to the current 37 USC §303a(e) repayment authority); (3) because attached will redesignate 37 USC §322, 10 USC 1409(b)(2) and 10 USC 1410 will need conforming amendments; (4) 20 USC 1087ee(a)(2)(D) (codified Higher Education Act of 1965) (allows relief of up to 12 ½% of certain student loans per year served in an area entitled to special pay under 37 USC §310); the conforming amendment would be needed to tie that to the future “hostile fire pay” provision [3X6(b)(1) and “imminent danger pay” provision [3X6(b)(4)]; (5) Qualified Hazardous Duty Areas laws (instead of these being tied to*

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Imminent Danger Pay designation under current 37 USC 310, in the future they should be tied to “hostile fire pay” area designation provision [3X6(b)(1)] and “imminent danger pay” designation provision [3X6(b)(4)];(6) we’ll need a conforming amendment to 26 USC section 112c5(B) (Direct Support) where it references 37 USC 310 [this should also be tied to the future HFP or IDP designated areas as well]. (7) There may be provisions in titles 38 and 32 that will need conforming amendments, (8) (and likely many others).]

Section-by-Section Analysis

The Department of Defense (DOD) has struggled in recent years to quickly match special pay authorities to unfolding events. While the large number of current special and incentive (S&I) pays authorities under chapter 5 of title 37, United States Code are diverse, these authorities may also be described as limited in flexibility and scope. As a result, these numerous provisions of law constrain the management of compensation, and render the military pay system unwieldy and difficult to administer. DOD and the military departments must track over 60 different statutory authorities, and apply at least that many different sets of implementing policies, procedures, rules and budgets. This has resulted in the following challenges—

- Substantial and complex bureaucracy to administer a relatively small portion of the total compensation budget.
- Constrained management resources, making the system less agile and responsive than it must be in today's operating environment.
- Varied degrees of flexibility among the current different pays authorities to address short- or long-term personnel issues across a range of occupations or assignments.
- Narrowly focused S&I pays, with strict statutory limits on disbursement; the military departments cannot reallocate officer retention pays earmarked for one occupation to another that may be experiencing retention problems.

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Under the proposed consolidation legislation, eight pay authorities designed to cover a broad range of personnel needs would replace the more than 60 pay authorities that are each relatively narrow in scope. With respect to each proposed new pay authority, the military departments would be provided the necessary flexibility to allocate resources to areas with the greatest needs. Five of the new authorities will be used to attract and retain personnel in hard-to-fill occupations or communities and to encourage the transition of personnel from occupations with surplus manning to occupations with manning shortages. These pays will include incentives that address both short- and long-term market imbalances. The remaining three S&I pay categories would cover assignment duty, hazardous duty, and skill incentive and proficiency pays.

Three of the first five authorities are occupation specific to target officers in the nuclear, aviation, and health professions. These pay categories reflect the significance of these occupations to the Department and the likely long-term need to provide wage differentials in these fields to compensate members who forego the higher earnings offered in the private sector.

Each pay authority contains a maximum amount payable. The new caps proposed are based on the amounts provided under current law, as adjusted to allow for modest growth during the multi-year transition to these new pay authorities. The Department proposes a 10-year transition period for the new S&I pay system.

Two of the additional authorities proposed would allow for: (1) the continuation of the current authority under section 322 of title 37 United States Code (15-year Career Status Bonus for Members Entering Service on or after August 1, 1986); and (2) the inclusion of General Provisions, covering the following current title 37 authorities.

- Section 303a(c) — General Provisions. Precludes addition of S&I pays in computed retired pay, separation pay, severance pay, or readjustment pay.
- Section 328 — Combat-related Injury Rehabilitation Pay. While the current section 328 of title 37, United States Code, contains a monthly rate of \$430 for this pay during the member's hospitalization or receipt of Traumatic SGLI, the replacement provision will provide authority for continuation of "all" pay and allowances the member might be paid at the time the member incurs a wound, injury, or illness in a combat operation, combat zone, hostile fire area or while exposed to a hostile fire event.
- Section 303(a)(e) — General Provisions. Provides for repayment of unearned portions of bonuses, incentive pay, and other benefits when conditions of payment are not met.

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It should be noted that the General Provisions proposal is not intended to allow for continuation of pay and allowances during unspecified terms of hospitalization. It is anticipated that this would be addressed in regulations.

The eight consolidated pay categories are described below; the current statutory authorities subsumed by the proposed new pay authorities are listed in Table B-1.

1. **[§ 331] General bonus authority for enlisted members.** This bonus authority is proposed to encourage civilians to join or enlisted members to remain in service under conditions specified by the Secretary concerned—
 - Paid for a specified period of service, or to enlist/reenlist in a specified skill.
 - Includes short-term retention pays and pays to retain chronically short specialties.
 - Could be used to address short-term personnel surpluses in specific areas by paying member to transfer to another occupation or service.
 - The statutory caps proposed would be \$50,000 for a minimum 2-year enlistment or affiliation, and \$40,000 for a minimum one-year of obligated service beyond that period.

2. **[§ 332] General bonus authority for officers.** This bonus authority is proposed to encourage civilians to join or officers to remain in a particular career field, skill, unit, or pay grade, or agree to meet some other condition of service specified by the Secretary concerned—
 - Includes short-term retention pays and pays to retain chronically short specialties.
 - Could be used to address short-term personnel surpluses in particular areas by paying officers to transfer to a different occupation or service.
 - The statutory caps proposed would be \$60,000 for a minimum 3-year accession or affiliation bonus, and \$50,000 for a minimum one-year of obligated service beyond that period

3. **[§ 333] Special bonus and incentive pay authorities for nuclear officers Bonus and Incentive Pay.** The proposed nuclear officer bonus and incentive pay authority would provide monetary incentive for civilians to join, or officers to remain in the naval nuclear propulsion community.
 - Includes short-term retention pays, such as Nuclear Officer Continuation Pay.
 - Could be used to provide a long-term occupational differential.
 - Precludes dual payment of a bonus under this provision and proposed 37 USC §332 for the same period of service.
 - The statutory cap proposed is \$60,000 a bonus and for incentive pay for a 12-month period of entitlement.

4. **[§ 334] Special aviation incentive pay and bonus authorities for officers.** This proposed aviation incentive pay and bonus authority would offer incentives to officers who remain in aviation occupational fields, including pilots, navigators, and naval flight officers.
 - Could be used to finance short-term retention pays like the current Aviator Continuation Pay, as well as long-term differential pays such as the current Aviation Career Incentive Pay.
 - Precludes dual payment of a bonus under this provision and proposed 37 USC §332 for the same period of service
 - The statutory caps proposed would be \$850 monthly for aviation service, and \$25,000 for a minimum one-year of obligated service in an aviation bonus payable to officers who have completed any active duty service commitment incurred for undergraduate aviator training or is within a year of completing such commitment.

5. **[§ 335] Special bonus and incentive pay authorities for officers in health professions.** The proposed bonus and incentive pay authority for Health Professions Officers would provide incentives to officers in the medical and dental fields, including physicians, dentists, nurses, veterinarians, optometrists, psychologists, and pharmacists, to join or remain in a uniformed service—
 - Includes short-term retention pays, such as the current Medical Officers Multi-Year Retention Bonus, as well as long-term occupational differential pays such as Medical Officers Incentive Special Pay.
 - Precludes dual payment of a bonus under this provision and proposed 37 USC §332 for the same period of service.
 - The statutory caps proposed would be \$100,000 in a health professions bonus for a minimum 1-year of obligated service; \$100,000 in health professions incentive pay for any 12-month period; and no more than \$25,000 in any 12-month period in board certification incentive pay.

6. **[§ 351] Hazardous duty pay.** Hazardous Duty Pay authority would authorize pay for members serving under dangerous conditions such as deployment to areas where combatant activities are ongoing, where the member is in imminent danger due to threat conditions in the duty area, and where the inherent nature of the duty subjects the member to an increased risk of personal injury (such as duty aboard an aircraft carrier flight deck)—
 - A financial recognition of duty with inherent, heightened risks.
 - The statutory caps proposed would be \$450 for any month the member serves in a designated hostile fire area or is exposed to a hostile fire event, and \$250 monthly for any month the member performs a designated hazardous duty, and \$250 monthly for any month in which the member performs duty in a foreign area designated as an imminent danger area.

7. **[§ 352] Assignment pay or special duty pay.** The assignment pay or special duty pay authority would compensate members who accept difficult-to-fill, undesirable or burdensome assignments, including “hardship” assignments
 - Facilitates mitigation of long-term retention problems within the volunteer force.
 - Offsets negative aspects of assignments and helps to reduce attrition.
 - The statutory cap proposed is \$5,000 per month.

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8. **[\$ 353] Skill incentive pay or proficiency bonus.** This authority would provide incentives for members to acquire, maintain, or improve their skill level or proficiency in a designated skill.
 - A member need not use the skill in their current job or occupation in order to receive this pay—for example, maintaining proficiency in a foreign language.
 - Could include special pay, such as career enlisted flyer pay.
 - The statutory caps proposed are \$1,000 per month for skill incentive pay; and \$12,000 per 12-month period for a proficiency bonus.

Cost Implications

This is a cost-neutral proposal. It is neither intended to reduce the overall expenditure on bonus and incentive pays (such as taking current pays away from military members), nor is it intended to increase the overall outlays. This proposal will simply provide flexibilities and streamline the statutory authorities governing bonus and incentive pays, thus allowing the Department to make our military compensation program more responsive to the needs of the military departments. Specifically, this proposal would allow the military departments to more closely target bonus and incentive pays for purposes of addressing specific personnel challenges.

Table B-1. Proposed Consolidation of Current S&I Pays

Proposed Future 37 USC Section:	Subsumes Current Special or Incentive Pay:	Current 37 USC Section:	Current Statutory Rate or Maximum:	Proposed Future Statutory Cap:
§[331] – General bonus authority for enlisted members				
§[331(a)(1) and (2)]	Enlistment Bonus	309	Not to Exceed (NTE) \$40,000	NTE \$50,000
	Affiliation or enlistment in the Selected Reserves	308c	NTE \$20,000	
	Prior Service Enlistment Bonus	308i	\$15,000 for 6 years; \$7,500 for 3 years and no prior bonus; \$6,000 for 3 years and prior bonus	
	Non-Prior Service Enlistment Bonus for IRR	308g	NTE \$3,000	
§[331(a)(3), (4) and (5)]	Selective Reenlistment Bonus	308	NTE \$90,000	NTE \$40,000 for 1-year agreement
	Critical Skills Retention Bonus (CSRB) or Bonus for Assignment to High Priority Unit	323	Active Component (AC) – NTE \$200,000 over career; Reserve Component (RC) – NTE \$100,000 over career; health professionals – no cap	
	Reenlistment Bonus for Selected Reserves	308b	\$15,000 for 6 year; \$7,500 for 3 years and no prior bonus; \$6,000 for 3 years and prior bonus	
	IRR Enlistment, Reenlistment or Extension Bonus	308h	NTE \$3,000	
	Incentive Bonus for Conversion to Military Occupational Specialty to Ease Personnel Shortage	326	NTE \$4,000 for AC; NTE \$2,000 for RC	
	Bonus to Transfer Between Armed Forces	327	NTE \$10,000	
§[332] – General bonus authority for officers				
§[332(a)(1) and (2)]	Accession Bonus for New Officers in Critical Skills	324	NTE \$60,000	NTE \$60,000
	Accession Bonus for Officer Candidates	330	NTE \$8,000	
	Accession or Affiliation Bonus for New Reserve Component Officers	308j	NTE \$10,000	
§[332(a)(3), (4), and (5)]	Critical Skills Retention Bonus (CSRB) or Bonus for Assignment to High Priority Unit	323	AC - NTE \$200,000 over career; RC - NTE \$100,000 over career; health professionals – no cap	NTE \$50,000 for 1-year agreement
	Special Warfare Officer Continuation Pay	318	NTE \$15,000 per year	
	Surface Warfare Officer Continuation Pay	319	NTE \$50,000 total	
	Judge Advocate Continuation Pay	321	NTE \$60,000 total	
	Bonus to Transfer Between Armed Forces	327	NTE \$10,000	
§[333] – Special bonus and incentive pay authorities for nuclear officers				
§[333(a)(1)]	Nuclear Officer Accession Bonus	312b	NTE \$30,000	NTE \$60,000 per year
§[333(a)(2)]	Nuclear Officer Continuation Pay	312	NTE \$30,000 per year	NTE \$60,000 per year
§[333(b)]	Nuclear Officer Annual Incentive Bonus	312c	Unrestricted Line Officers - NTE \$22,500; NTE \$14,000 for Limited Duty Officers	NTE \$60,000 per year

Table B-1. Proposed Consolidation of Current S&I Pays (continued)

Proposed Future 37 USC Section:	Subsumes Current Special or Incentive Pay:	Current 37 USC Section:	Current Statutory Rate or Maximum:	Proposed Future Statutory Cap:
§334] – Special aviation incentive pay and bonus authorities for officers				
§334(a)]	Aviation Career Incentive Pay (ACIP)	301a	\$125–\$840 per month based on years aviation service	NTE \$850 per month
§334(b)]	Aviator Continuation Pay (ACP)	301b	NTE \$25,000 per year	NTE \$25,000 per year
§335] – Special bonus and incentive pay authorities for officers in the health professions				
§335(a)(1)]	Dental Officer Accession Bonus	302h	NTE \$200,000	NTE \$100,000 per year
	Pharmacy Officer Accession Bonus	302j	NTE \$30,000	
	Accession Bonus for Medical Officers in Critically Short Wartime Specialties	302k	NTE \$400,000	
	Accession Bonus for Dental Officers in Critically Short Wartime Specialties	302 l	NTE \$400,000	
	Registered Nurse Accession Bonus	302d	NTE \$30,000	
§335(a)(2)]	Medical Officer Multi-year Retention Bonus (MSP)	301d	NTE \$50,000 per year for 4-year contract	NTE \$100,000 per year
	Dental Officer Multi-year Retention Bonus	301e	NTE \$50,000 per year for 4-year contract	
	Optometrist Retention Special Pay	302a(b)	NTE \$15,000 per year	
	Pharmacy Officer Retention Special Pay	302i	NTE \$15,000 for 12-months	
§335(b)]	Medical Officer Variable Special Pay (VSP)	302(a)(2) & (3)	\$1,200–\$12,000 per year, based on years creditable service	NTE \$100,000 per year
	Reserve Medical Officers Special Pay	302(h)	\$450 per month	
	Dental Officer Variable Special Pay (VSP)	302b(a)(2) & (3)	\$3,000–\$12,000 per year, based on years creditable service	
	Reserve, Recalled, or Retained Health Care Officers	302f	same as 302, 302a, 302b, 302c, 302e, 303	
	Optometrist (Regular) Special Pay	302a(2)	\$100 per month	
	Veterinary Corps Officer Special Pay	303(a)	\$100 per month	
	Medical Officer Additional Special Pay (ASP)	302(a)(4)	\$15,000 per year	
	Medical Officer Incentive Special Pay (ISP)	302(b)	NTE \$50,000 per year	
	Dental Officer Additional Special Pay (ASP)	302b(a)(4)	\$4,000–\$15,000 per year based on creditable service	
	Dental Officer Oral or Maxillofacial Surgeon Incentive Special Pay (ISP)	302b(a)(b)	NTE \$50,000 per year	
	Reserve Dental Officers (called to Active Duty) Special Pay	302b(f)	\$350 per month	
	Certified Registered Nurse Anesthetists Incentive Special Pay (ISP)	302e	NTE \$50,000 per year	
	Critically Short Wartime Health Specialists in Selected Reserves	302g(a)	NTE \$25,000 per year	

Table B-1. Proposed Consolidation of Current S&I Pays (continued)

Proposed Future 37 USC Section:	Subsumes Current Special or Incentive Pay:	Current 37 USC Section:	Current Statutory Rate or Maximum:	Proposed Future Statutory Cap:
§(335(c))	Medical Officers Board Certification Pay (BCP)	302(a)(1) & (5)	\$2,500–\$6,000 per year based on creditable service	NTE \$25,000 for 12 months
	Dental Officers BCP	302b(a)(5)	\$2,500–\$6,000 per year based on creditable service	
	Psychologists / Nonphysician Health Care Providers BCP (Veterinary Corps Officer entitled to this BCP)	302c; 303(b)	\$2,500–\$5,000 per year based on creditable service	
§(351) – Hazardous duty pay				
§(351(a)(1), (2) and (3) & (b)(1) and (2))	Hostile Fire Pay	310(a)(2) (A), (B), (C)	\$225 per month	NTE \$450 per month
§(351(a)(4) & (b)(3))	Crew Member Flying Duty Pay	301(a)(1)	\$150–\$250 per month based on grade	NTE \$250 per month per hazardous duty
	Non-Crew Member Flying Duty Pay	301(a)(2)	\$150 per month	
	Parachute Duty Pay	301(a)(3)	\$150 per month	
	Free Fall/High-Altitude Low Opening (HALO)	301(a)(3)	\$225 per month	
	Demolition Duty Pay	301(a)(4)	\$150 per month	
	Experimental Stress Duty Pays: Pressure Chamber; Acceleration/Deceleration.; Thermal Stress	301(a)(5), (6), (7)	\$150 per month	
	Flight Deck Duty Pay (FDDP)	301(a)(8)	\$150 per month	
	Toxic Pesticides/Dangerous Organisms (Virus/Bacteria) Duty Pay	301(a)(9)	\$150 per month	
	Toxic Fuel/Propellants, Chemical Munitions Duty Pay	301(a)(10)	\$150 per month	
	Maritime Visit, Board, Search and Seizure (VBSS) Teams	301(a)(11)	\$150 per month	
	Duty involving Ski-equipped Aircraft on Antarctica or Arctic icepack	301(a)(11)	\$150 per month	
	Firefighting Crew Member Duty Pay	301(e)	NTE \$150 per month	
	Weapons of Mass Destruction (WMD) Civil Support Team	305b	\$150 per month	
§(351(a)(5) & (b)(4))	Imminent Danger Pay	310(a)(2)(D)	\$225 per month	NTE \$250 per month
§ (352) – Assignment pay or special duty pay				
§(352(a))	Assignment Incentive Pay	307a	NTE \$3,000 per month	NTE \$5,000 per month
	Hardship Duty Pay	305	NTE \$750 per month	
	Special Duty Assignment Pay for Enlisted Members	307	NTE \$600 per month	
	Officers in Positions of Unusual Responsibility	306	\$50–\$150 per month, based on grade	
	Special Assignment Pay for Enlisted Members in Selected Reserve	308d	NTE \$50 per regular period of instruction or period of appropriate duty	
	Critical Skills Retention Bonus (CSR) or Bonus for Assignment to High Priority Unit	323	NTE \$200k over career for AC; NTE \$100,000 over career for RC; no cap for health care professionals	

Table B-1. Proposed Consolidation of Current S&I Pays (continued)

Proposed Future 37 USC Section:	Subsumes Current Special or Incentive Pay:	Current 37 USC Section:	Current Statutory Rate or Maximum:	Proposed Future Statutory Cap:
	Officers in Positions of Unusual Responsibility	306	\$50-\$150 per month, based on grade	
	Members Extending Duty at Designated Overseas Locations	314	\$80 per month, or NTE \$2,000 per year	
	Career Sea Pay	305a	NTE \$750 per month	
	Career Sea Pay Premium	305a(c)	NTE \$350 per month	
	Submarine Duty Pay	301c	NTE \$1,000 per month	
	*Diving Duty Pay	304	Enlisted: NTE \$340 monthly; Officers: NTE \$240 monthly	
§[353] — Skill incentive pay or proficiency bonus				
§[353(a)]	Career Enlisted Flyer Incentive Pay (CEFIP)	320	NTE \$150-\$400 monthly based on aviation service	NTE \$1,000 per month
	*Diving Duty Pay	304	Enlisted: NTE \$340 monthly; Officers: NTE \$240 monthly	
§[353(b)]	Bonus for Members with Foreign Language Proficiency	316	NTE \$12,000 bonus for 12-month certification period	NTE \$12,000 per year
§[354] — 15-year career status bonus for members entering service on or after August 1, 1986				
§[354]	15-Year Career Status Bonus for Members Entering Service on or after August 1, 1986	322	\$30,000	\$30,000
SUBCHAPTER III — General provisions				
§[371(c)(2)]	Provision precluding inclusion of health professions special and incentive pays in retirement calculation	303a(c)	Not applicable	Not applicable
§[372]	Combat-Related Injury Rehabilitation Pay	328	\$430 per month	All applicable pays could be continued
§[373]	Repayment of Unearned Portions of Bonuses and Other Benefits When Payment Conditions Not Met	303a(e)	Not applicable	Not applicable
Current provisions in chapter 5, title 37, U.S.C., Not subsumed in future sections				
Reason:				
Not used; Air Force converted members drawing this pay to CEFIP and ACIP	Flight Pay (Air Weapons Directors)	301(a)(13)	\$150-\$350 per month, based on years as air weapons controller	
Not used since late 1980s	Engineering & Scientific Career Continuation Pay	315	NTE \$3,000 times number years of obligated service	
Never implemented	Acquisition Corps Continuation Bonus	317	15 percent of basic pay per year	
Never implemented	Bonus for retired and RC members volunteering for high-demand, low-density assignments	329	NTE \$50,000	
Never implemented	Savings plan for education expenses and other contingencies	325		
Never used; misclassified in 37 USC (doesn't apply to military)	Assigned to International Military Headquarters	306a	Separate scale	

*Note: denotes pay that is listed under more than one pay category

Legislative Proposal for Constructive Credit

SEC. 205(a). CLARIFICATION OF SERVICE CREDITABLE.

Section 205(a) of title 37, United States Code, is amended—

- (1) by striking “and” at the end of paragraph (6);
- (2) by striking the period at the end of paragraph (7) and inserting “; and”; and
- (3) by adding at the end the following new paragraph:
- (8) such other periods as the Secretary concerned may determine appropriate, subject to regulations prescribed by the Secretary of Defense, with respect to the Army, Navy, and Air Force, and by the Secretary of Homeland Security, with respect to the Coast Guard when it is not operating as a service in the Navy.”

Section-by-Section Analysis

This section would modify section 205 of title 37, United States Code, to provide the Secretaries of the military departments with broad discretion in considering creditable years of service for purposes of computing basic pay.

This proposed legislation originated with the Tenth Quadrennial Review of Military Compensation (10th QRMC) following an issue that was developed by the Defense Advisory Committee on Military Compensation (DACMC). Their concern was a response to possible shortages of technical personnel resulting from the Department of Defense becoming more technologically proficient and the possible need for private sector experience to fill these shortages.

The former Secretary of Defense, the Defense Science Board, the DACMC, and the 10th QRMC have mentioned lateral entry as a solution to shortages in such critical occupations as linguists, medical specialists, and scientists. Currently, when skilled individuals with private sector labor market experience join the military, they are forced into the “under 2 years of service” cell in the military pay table. The current time-in-service pay table does not allow sufficient flexibility with respect to placing lateral entrants in any other years of service category. To provide a competitive salary, the prospective recruit, because of their experience and skills, may be given a higher grade than others with zero military experience. This complicates matters in terms of the chain of command because the entrants with higher grades lack leadership experience. Allowing the military departments to select a time-in-service

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pay cell that is commensurate with the experience the individual has attained in the private sector would allow the military departments to compete more effectively with the private sector. For example, this section would allow the Secretaries of the military departments to establish constructive “years of service” to make the military more attractive to potential entrants with valued technological training, language skills, and capabilities. It also should be noted that this added flexibility need not generate additional cost. For example, in some cases the military departments may be awarding a lateral entrant an E-4 with 4 years of service rather than an E-6 with under 2 years of service.

Cost Implications

This section would give each Secretary of a military department the discretionary authority to award constructive credit to selected members. The Department of Defense estimated that this section would cost \$3.35 million each year from fiscal year (FY) 2009 through FY 2013, for a total of \$16,754,225, to be funded from the military personnel account. The Secretary of Defense’s implementing guidance will not be made available in this budget year. In subsequent years, if the military departments wish to use constructive credit, they will budget for that possibility.

Table C-1. Number of Personnel Affected

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Army	378	378	378	378	378
Navy	23	23	23	23	23
Marine Corps	0	0	0	0	0
Air Force	208	208	208	208	208
Total	609	609	609	609	609

Table C-2. Resource Requirements

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Army	\$2,338,241	\$2,338,241	\$ 2,338,241	\$2,338,241	\$2,338,241
Navy	152,979	152,979	152,979	152,979	152,979
Marine Corps	0	0	0	0	0
Air Force	859,625	859,625	859,625	859,625	859,625
Total	\$3,350,845	\$3,350,845	\$3,350,845	\$3,350,845	\$3,350,845

Cost Methodology

The Department calculated its estimate by multiplying the average number of “early promotions” for each Service by the average amount of additional dollars someone who is promoted early will receive over the rest of their military career.

Legislative Proposal for Partial BAH

SEC. 403(n). INCREASE IN PARTIAL ALLOWANCE FOR MEMBERS WITHOUT DEPENDENTS.

Section 403(n) of title 37, United States Code, is amended to read as follows:

- (n) Partial Allowance for Members without Dependents.—The Secretary of Defense may prescribe a partial basic allowance for housing for a member of a uniformed service without dependents—
 - (1) who is entitled to receive a basic allowance for housing because of assignment to quarters of the United States; or
 - (2) who occupies quarters provided under chapter 169 of title 10.

Section-by-Section Analysis

This section would provide the Secretary of Defense with the authority to increase, as appropriate, the partial Basic Allowance for Housing for members of a uniformed service without dependents.

The primary purpose of military compensation is to provide a force structure that can support defense manpower requirements and policies. It is important for productivity and morale that members without dependents be treated in an equitable manner. The partial Basic Allowance for Housing (BAH) for members without dependents was initiated in 1977, but has not been changed since then (see below table). Since that time, there have been substantial increases to the BAH that members without dependents in junior grades have not been able to take advantage of. This section would amend section 403(n) of title 37, United States Code, to eliminate the existing restriction on the amount of the partial BAH. Instead, this section would provide the Secretary of Defense with the authority to establish partial BAH rates that are appropriate for members without dependents.

Cost Implications

The Department of Defense estimates that the change proposed by this section would cost \$70 million annually, and \$350 million from FY 2009-2013, to be funded from the Military Personnel accounts for the Army, Navy and Air Force. The 10th Quadrennial Review of Military Compensation (QRMC) has proposed providing single enlisted members living on base additional compensation if their housing is less than the Service standard of

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1+1. The QRMC proposal would provide between 5 percent and 25 percent of the BAH without by grade to members living in those units.

Cost Methodology

Costing Methodology (Navy). The estimated cost is based upon the Navy housing 35,000 junior enlisted members in quarters other than 1+1.

Costing Methodology (Army). The estimated cost is based upon the Army housing 20,000 junior enlisted members in quarters other than 1+1.

Costing Methodology (Air Force). The estimated cost is based upon the Air Force housing 10,000 junior enlisted members in quarters other than 1+1 through 2010. Thereafter, all Air Force junior enlisted will be housed in 1+1.

Table D-1. Partial BAH Rates, Fiscal Year 2006

Grade	Partial BAH
O-10	\$50.70
O-9	50.70
O-8	50.70
O-7	50.70
O-6	39.60
O-5	33.00
O-4	26.70
O-3	22.20
O-2	17.70
O-1	13.20
O-3E	22.20
O-2E	17.70
O-1E	13.20
W-5	25.20
W-4	25.20
W-3	20.70
W-2	15.90
W-1	13.80
E-9	18.60
E-8	15.30
E-7	12.00
E-6	9.90
E-5	8.70
E-4	8.10
E-3	7.80
E-2	7.20
E-1 >4	6.90
E-1 <4	6.90

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Table D-2. Resource Requirements (millions of dollars)

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Army	\$20	\$20	\$20	\$20	\$20
Navy	50	50	50	50	50
Air Force	10	10	0	0	0
Total	\$80	\$80	\$70	\$70	\$70

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Glossary

10th QRMC	Tenth Quadrennial Review of Military Compensation
AIP	Assignment Incentive Pay
BAH	Basic Allowance for Housing
BAQ	Basic Allowance for Quarters
BAS	Basic Allowance for Subsistence
BCP	Board Certification Pay
CSRB	Critical Skills Retention Bonus
DACMC	Defense Advisory Committee on Military Compensation
DOD	U.S. Department of Defense
ECI	Employment Cost Index
FICA	Federal Insurance Contributions Act
FLPP	Foreign Language Proficiency Pay
FSA	flexible spending account
GAO	U.S. Government Accountability Office
HALO	High-Altitude Low-Opening
IRR	Individual Ready Reserve
ISP	Incentive Special Pay
MAC	Military Annual Compensation
MOS	military occupational specialty
NOAA	National Oceanic and Atmospheric Administration
PHS	U.S. Public Health Service
QRMC	Quadrennial Review of Military Compensation
RMC	Regular Military Compensation
ROTC	Reserve Officer Training Corps
S&I	Special and Incentive
SRB	Selective Reenlistment Bonus
TSP	Thrift Savings Plan
VHA	Variable Housing Allowance



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