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## **Military Pay and Benefits: Key Questions and Answers**

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Charles A. Henning  
Analyst in National Defense  
Foreign Affairs, Defense, and Trade Division

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## Summary

In the late 1990s, the military services were facing considerable recruiting and career retention problems. In responding, Congress was mindful of how inadequate pay had contributed to decreased recruit quality in the late 1970s. It authorized larger pay raises, increased special pays and bonuses, provided more recruiting resources, and repealed planned military retired pay reductions for future retirees.

In the midst of these efforts, the terrorist attacks of September 11, 2001, took place, providing a sense of national unity and military purpose. The 9/11 attacks and the programmatic changes noted above initially helped recruiting substantially in the early 2000s. However, the grueling pace of deployments to and from Iraq and Afghanistan, combined with the dangers of combat, have finally begun to cause long-anticipated recruiting problems. In 2005, the Army, Army National Guard, and Army Reserve all fell short of their recruiting goals. Career retention is difficult to measure, due to the suspended separation and retirement of many personnel since September 11, 2001, but so far retention has been more than satisfactory.

Debate continues over what kinds of pay and benefit increases are best for improving recruiting and retention. Of particular interest is the balance between across-the-board pay raises on the one hand, and ones targeted by grade, years of service, and occupational skill, on the other; and between cash compensation on the one hand and improvements in benefits such as housing, health care, and installation services on the other.

The across-the-board increases in military pay discussed each year relate to military basic pay, which is the one element of military compensation that all military personnel in the same pay grade and with the same number of years of service receive. However, numerous other elements are in the total military compensation “package.” These other elements are important in determining whether a “pay gap” exists between military and civilian pay that favors civilians, because the numerous different elements of military pay make it difficult to compare to civilian salaries and other benefits.

Since the early 1990s, numerous changes in benefits have greatly favored individual members. These include changes in the cash allowance received by personnel not living in military housing, a drastic overhaul of military health care, and repeal of military retired pay cuts first enacted in 1986.

This report replaces Issue Brief IB10089 of the same name. This report will be updated as needed.

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# Military Pay and Benefits: Key Questions and Answers

## Most Recent Developments

As the 109<sup>th</sup> Congress continues its second session, ongoing military operations in Iraq and Afghanistan, combined with recruiting challenges, will probably continue to highlight military pay and benefit issues.

In fact, the Army recently announced that it had missed its FY2005 recruiting goal of 80,000 by 6,627 soldiers. Similar difficulties were experienced by both the Army National Guard and the Army Reserve for a total Army shortfall of over 24,000. For the remainder of the active component, the Air Force, Navy, and Marine Corps all met their FY2005 recruiting targets.

## Key Questions and Answers

### 1. Why Did the Adequacy of Active Duty Military Pay Become a Major Issue Beginning in the Late 1990s?

Since the end of the draft in 1972-1973, the “adequacy” of military pay has tended to become an issue for Congress for one or both of two reasons: if it appears that

- the military services are having trouble recruiting enough new personnel, or keeping sufficient career personnel, of requisite quality; or
- the standard of living of career personnel is perceived to be less fair or equitable than that which demographically comparable civilians (in terms of age, education, skills, responsibilities, and similar criteria) can maintain.

The first issue is an economic inevitability on at least some occasions. In the absence of a draft, the services must compete in the labor market for new enlistees and — a fact often overlooked — have always had to compete in the labor market for more mature individuals to staff the career force. There are always occasions when unemployment is low, and hence recruiting is more difficult, and others when unemployment is high and military service a more attractive alternative. The second situation, while often triggered by the first, is frequently stated in moral or ethical terms. From that viewpoint, even if quantitative indexes of recruiting and retention appear to be satisfactory, it is argued that the crucial character of the military’s

mission of national defense, and its acceptance of the professional ethic that places survival below mission accomplishment, demands certain levels of compensation.

Beginning in the mid-1990s, several new factors caused recruiting and retention problems severe enough to force Congress to once again deal with this issue. Among the factors cited by analysts were (1) a public impression that the end of the Cold War, meant that military service was no longer interesting, relevant, or even available as a career option; (2) the post-Cold War drawdown in active duty military manpower by 40%, which greatly reduced real and perceived enlistment and career retention opportunities; (3) the 1990s economic expansion, which led to the explosive growth of actual and perceived civilian career options; (4) a rise in civilian consumer living standards against which military families measure their own economic success or failure; (5) concerns over increased family separation due to more operations and training away from home, whether “home” was in the United States or in foreign countries; and (6) a decreased propensity for military service among young people for other reasons, such as anti-military parents and educators; skepticism about new missions such as “operations other than war,” “peacekeeping,” or “peace enforcement”; and the availability of government educational assistance from other sources (“the GI Bill without the GI”).

## **2. What Kinds of Increases in Military Pay and Benefits Have Been Considered or Used in the Past?**

Many military compensation analysts have strongly criticized across-the-board rather than selective pay raises. They argue that across-the-board increases fail to bring resources to bear where they are most needed. Percentage increases targeted on particular pay grades and number of years of service (often referred to as “pay table reform”) and special pays and bonuses targeted on particular occupational skills, they suggest, would maximize the recruiting and retention gains for the compensation dollars spent. Across-the-board increases also affect a variety of other costs; retired pay, for instance, is computed as a percentage of basic pay. (However, there have been proposals to include special pays and bonuses in retired pay calculations, precisely to provide an additional incentive for the recipients to stay in service.)

The services already do a great deal of such targeting, having maintained a large system of special pays and bonuses since the end of conscription over 30 years ago. Personnel managers report no indication that such targeted compensation has had the deleterious effects on morale and cohesion that some had feared. Across-the-board pay increases, however, are believed by many to have the advantages of simplicity, visibility, and equity. If everyone gets a similar percentage increase, nobody can feel, or can claim, that he or she has been left out. It also shows up immediately, in the person’s next paycheck, rather than months or years later when a particular individual is next eligible for a lump sum special pay or bonus (some special pays and bonuses are paid monthly or biweekly, as part of regular pay). It appears certain that, as in the past, overall increases in military cash compensation over the next several years will combine both across-the-board and targeted increases. Both of these increases, because of their broad appeal, may well be the most psychologically sound approach in improving recruiting and retention as much as possible. In addition, there has been

bipartisan support voiced for major increases in Montgomery GI Bill benefits, although these tend to be among the most costly benefit increases being considered.

Recruiting and retention problems are not necessarily solved only by increasing military pay. Many components of the military compensation system that are important to recruiting and retention efforts, especially the latter, do not involve cash pay. These include health care; housing; permanent change of station (PCS) moving costs and policies; exchanges, commissaries, and other retail facilities; and recreational facilities. A wide range of views about existing military personnel management practices suggests that the services' requirements for both new enlistees and career people could be significantly reduced by changing often long-standing and inter-related assignment, promotion, career development, or retirement policies. Survey research also reveals that the sense of patriotism, public service, and *esprit de corps* found in capable and combat-ready armed forces is extremely significant to both new enlistees and career members.

Furthermore, there are always limits to what increased compensation, whether cash or in-kind, can do to help any organization cope with personnel difficulties. Job and career satisfaction; public and elite views of the importance and legitimacy of the military as an institution; unit morale; success in operational deployments and especially in combat — these may well be independent of compensation variables. High “scoring” in these intangibles, especially for a unique organization and culture like the Armed Forces, can and frequently does balance more tangible problems in compensation. However, few analysts believe that recruiting and retention rates can be brought up to service target levels without continuing to maintain the momentum of recent pay raises, given the need of the services to compete for capable individuals with the civilian sector. Many long-time observers seem to feel that money alone cannot keep a person in the military for a full career if the person does not like the military culture; they assert that the lifestyle is too demanding and too arduous for most. At the same time, it is argued that people can be driven out of the military if their compensation and living standards are not at least somewhat close to those of their demographic and educational counterparts in civilian life.

### **3. How Are Each Year's Increases in Military Pay Computed?**

**Definitions.** The across-the-board increases in military pay discussed each year relate to military basic pay. Basic pay is the one element of military compensation that all military personnel in the same pay grade and with the same number of years of service receive. Basic allowance for housing, or BAH, is received by military personnel not living in military housing, either family housing or barracks. Basic allowance for subsistence, or BAS, is the cost of meals. All servicemembers receive BAS but at different rates based on officer or enlisted status. A federal income tax advantage accrues because the BAH and BAS are not subject to federal income tax.

Basic pay, BAH, BAS, and the federal income tax advantage all comprise what is known as Regular Military Compensation (RMC). RMC is that index of military pay which tends to be used most often in comparing military with civilian compensation; analyzing the standards of living of military personnel; and studying military compensation trends over time, or by service geographical area, or skill area.

Basic pay is between 65% and 75% of RMC, depending on individual circumstances. RMC specifically *excludes* all special pays and bonuses, reimbursements, educational assistance, deferred compensation (i.e., an economic valuation of future retired pay), or any kind of attempt to estimate the cash value of non-monetary benefits such as health care or military retail stores.<sup>1</sup>

### **Annual Percentage Increases in Military Basic Pay.**

***Military Basic Pay Raises Linked to Employment Cost Index (ECI) Percentage Increases.*** Permanent law (37 USC 1009) provides that monthly basic pay is to be increased by the annual percentage increase in the Employment Cost Index (ECI). For fiscal years 2004, 2005, and 2006, the military raise is to be the ECI increase plus an additional one half percentage point (i.e., if the ECI annual increase were to be 3.0%, the military raise would be 3.5%). The ECI, calculated by the Department of Labor's Bureau of Labor Statistics, measures annual percentage increases in wages for all private-sector employees, although it can be subdivided to measure increases in specific categories of such employees. Indexing the annual military pay raise to the annual increase in the ECI was established by Sec. 602 of the FY2004 NDAA (P.L. 108-136, November 24, 2003; 117 Stat. 1498, amending 37 USC 1009). Previously, the annual military pay raise was linked to the annual percentage increases in the General Schedule (GS) federal civil service pay scale.

***Congress Usually Passes a Military Pay Raise Anyway, Despite the Permanent Formula.*** Despite the existence of this statutory formula, which would operate each year without any further statutory intervention, Congress has legislated a particular percentage increase in military pay every year since 1980, with the exception of 1982. The percentage increase in military pay was usually identical to that granted GS civilians during the period 1982-1999 (the exceptions were in 1985 and 1994, when Congress provided larger increases in military pay). However, beginning in 2000, Congress has provided larger increases in military pay each year. Even when the percentage increase has been identical for both military and civilian pay, in most cases Congress has explicitly reiterated the increase in law rather than simply allowing the permanent statutory linkage to operate. Therefore, although Congress may legislate the pay raise percentage, until recently it was a *pro forma* matter, and the operation of the permanent formula remains important in determining what the percentage will actually be.

***Annual Increases in Basic Allowances for Housing (BAH) and Subsistence (BAS).*** Housing (37 USC 403) and subsistence (37 USC 402) allowances are paid to all personnel not living in military housing or eating in military facilities or using field rations. Monthly BAH varies by rank, by whether the person has dependents, and, most importantly, by location. BAS is paid at a uniform rate to all officers and at a uniform but slightly higher rate for all enlisted personnel. Annual increases in BAH and BAS are both based on surveys of local housing and national food costs respectively, and thus are not affected by the annual percentage

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<sup>1</sup> For a detailed discussion of the costs and value of monetary and non-monetary benefits, see *Military Compensation: Balancing Cash and Noncash Benefits, Economic and Budget Issue Brief*, Congressional Budget Office, Jan. 16, 2004.

increase in the ECI. (For many years BAH and its predecessors and BAS were subject to the annual percentage increase; this was not changed until the late 1990s.) There have been occasional proposals to survey the housing costs on which BAH is based more frequently than once a year, due to rapidly rising housing costs in many areas of the United States. Particular emphasis is placed by supporters of more frequent surveys on fast-rising electricity costs, notably for heating and cooling. In addition, there have been calls to merge BAS with basic pay and reduce the complexity of military compensation and the need for BAS computations each year.

#### **4. What Have Been the Annual Percentage Increases in Active Duty Military Basic Pay Since 1993 (FY1994)? What Were Each Year's Major Executive and Legislative Branch Proposals and Actions on the Annual Percentage Increase in Military Basic Pay?**

The following subsections itemize action on the active duty military basic pay increase going back to 1993 (the FY1994 budget). *Unless otherwise noted, all increases were proposed to be effective on January 1 of the fiscal year indicated. The same is true of discussions of future pay raises.*

**2006 (FY2007).** *Statutory formula:* 2.2%. Under current law, the FY2007 pay raise will be based solely on the ECI and will no longer be a rate 0.5% higher than the ECI. Therefore, without congressional action, the FY2007 raise will be 2.2%, effective January 1, 2007. *Administration request:* 2.2% across the board. According to DOD officials, the President's 2007 budget request included \$263 million for a 2007 midyear targeted pay raise that would be as high as 8.3 percent for some warrant officers and range from 2.5 percent for E-5s to 5.5 percent for E-9s.<sup>2</sup>

**2005 (FY2006).** *Statutory formula:* 3.1%. (0.5% higher than the annual increase in the Employment Cost Index (ECI) which was 2.6%). *Administration request:* 3.1% across-the-board. *Final version:* 3.1% across the board (Sec 601, Conference Report on H.R. 1815).

**2004 (FY2005).** *Statutory formula:* 3.5%. *Administration request:* 3.5% across-the-board. *Final version:* FY2005 NDAA (Section 601, P.L. 108-375, October 28, 2004; 118 Stat. 1811), 3.5% across-the-board. [Unlike the years 1999-2003 (FY2000-FY2004), the Administration did not request and the Congress did not enact, a "targeted" increase based on which particular pay grades and years-of-service cohorts need more pay to improve career retention.]

**2003 (FY2004).** *Statutory formula:* 3.7%. *Administration request:* Average 4.1%; minimum 2.0%; maximum of 6.5%. *Final version.* FY2004 NDAA (Section 601, P.L. 108-136, November 24, 2003; 117 Stat. 1392). Average 4.15%: floor 3.7%; maximum 6.25% for some senior NCOs. Also included language requiring that after FY2006, the annual military pay raise would be equal to the annual

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<sup>2</sup> Maze, Rick, "DoD seeks targeted raises of up to 8.3 percent", *Army Times*, March 20, 2005.



percentage rise in the Employment Cost Index (see above, #3, for a description of the ECI), thus repealing previous law that had the effect of mandating a pay raise equal to the ECI *minus* 0.5%. Existing temporary law, enacted in 1999 in the FY2000 NDAA, which required an increase equal to the ECI plus 0.5% during FY2001-FY2006, was not changed. (See below under “Suspension of Statutory Formula during FY2001-FY2006.”)

**2002 (FY2003).** *Statutory formula:* 4.1%. *Administration request:* Minimum 4.1%; average 4.8%; for some mid-level and senior noncommissioned officers, warrant officers, and mid-level commissioned officers, between 5.0% and 6.5%. *Final increase:* identical to the Administration request, embodied, as usual, in the FY2003 National Defense Authorization Act (P.L. 107-314, December 2, 2002; 116 Stat. 2458). The House and Senate had also approved the Administration request.

**2001 (FY2002).** *Statutory formula:* 4.6%. *Administration request:* numerous figures for the “Administration request” were mentioned in the pay raise debate, depending on when and which agency produced the figures. In general, however, they all proposed increases of at least 5% and no more than 15% (the latter applying only to a very few individuals), depending on pay grade and years of service; the average increase for FY2002 was 6.9%. *Final increase:* Eventually, the FY2002 National Defense Authorization Act (Section 601, P.L. 107-107, December 28, 2001) endorsed an “Administration request” of between 5 and 10%, depending on pay grade and years of service. These increases remain the largest across-the-board percentage raises since that of FY1982, which took effect on October 1, 1981. The latter was a 14.3% across-the-board raise, which followed an 11.7% raise the previous year, FY1981, resulting in a two-year raise of almost 28%. This was principally in response to the high inflation of the late 1970s.

**2000 (FY2001).** *Statutory formula:* 3.7% (based on the 1999/FY2000 legislation; the original statutory formula would have led to a proposed raise of 2.7%). *Administration request:* 3.7%. *Final increase:* The FY2001 National Defense Authorization Act (Section 601, P.L. 106-398, October 30, 2000; 114 Stat. 1654A-1 at A-143) approved the 3.7% figure. In addition, as was the case in the previous year, additional increases averaging 0.4% (based on the size of the across-the-board raise the amount of money used would have funded; the range of additional percentage raises was between 1.0 and 5.5%) were provided to middle-grade officer and enlisted personnel, to be effective July 1, 2001.

**1999 (FY2000).** *Statutory formula:* 4.8%. *Administration request:* 4.4% on January 1, 2000, but in addition, on July 1, 2000, a wide range of targeted increases averaging an additional 1.4% (again, based on the size of across-the-board raise the cost of the targeted increases would finance) in mid-level officer and enlisted grades’ pay levels. *Final increase:* The FY2000 National Defense Authorization Act (Section 601, P.L. 106-65; October 5, 1999) raised the January 1, 2000 increase to 4.8%, and accepted the July 1, 2000 targeted increases.

**1998 (FY1999).** *Statutory formula:* 3.1%. *Administration request:* 3.6%. The House approved 3.6%, or whatever percentage increase was approved for federal GS civilians, whichever was higher. The Senate approved 3.6%. *Final increase:* The FY1999 Strom Thurmond National Defense Authorization Act (Section 601, P.L.

105-261; October 17, 1998; 112 Stat. 1920 at 2036) approved the House alternative, which resulted in a 3.6% military increase, as GS civilians also received 3.6%.

**1997 (FY1998).** *Statutory formula:* 2.8%. *Administration request:* 2.8%. *Final increase:* FY1998 National Defense Authorization Act (Section 601, P.L. 105-85, November 18, 1997; 111 Stat. 1629 at 1771): 2.8%.

**1996 (FY1997).** *Statutory formula:* 2.3%. *Administration request:* 3.0%. *Final increase:* The House and Senate both approved the higher Administration request of 3.0%, and it was therefore included in the FY1997 National Defense Authorization Act (Section 601, P.L. 104-201, September 23, 1996; 110 Stat. 2422 at 2539).

**1995 (FY1996).** *Statutory formula:* 2.4%. *Administration request:* 2.4%. *Final increase:* Congress also approved 2.4% in the FY1996 National Defense Authorization Act (Section 601, P.L. 104-106, February 10, 1996; 110 Stat. 186 at 356).

**1994 (FY1995).** *Statutory formula:* 2.6%. *Administration request:* 1.6%; one percent less than the statutory formula. *Final increase:* The FY1995 National Defense Authorization Act (Section 601, P.L. 103-337, October 5, 1994; 108 Stat. 2663 at 2779) authorized the statutory formula figure of 2.6%.

**1993 (FY1994).** *Statutory formula:* 2.2%. *Administration request:* No increase; military (and civil service) pay would have been frozen in FY1994. The Administration also proposed limiting future civil service — and hence active duty military — pay raises to one percentage point less than that provided by the existing statutory formula. None of these proposals was adopted. *Final increase:* The FY1994 National Defense Authorization Act (Section 601, P.L. 103-160, November 30, 1993, 107 Stat. 1547 at 1677) authorized 2.2%.

## **5. Is There a “Pay Gap” Between Military and Civilian Pay, So That Generally Military Pay Is Less than That of Comparable Civilians? If So, What Is the Extent of the “Gap”?**

The allegations of a military-civilian “pay gap” beg several questions:

- How can the existence of a gap be determined and the gap be measured?
- Is there a gap, with civilians or the military being paid more? If so, how much of a gap?
- If there is a gap, does that in itself require action?
- What are the effects of such a gap?

A wide range of studies over the past several decades has compared military and civilian (both federal civil service and private sector) compensation. In general, the markedly different ways in which civilian public and private sector compensation and benefit systems are structured, compared to that of the armed forces, make it difficult to validate any across-the-board generalizations about whether there is a “gap” between military and civilian pay. Some advocates for federal civil servants argue

that federal civilian pay lags behind private sector pay, which in turn leads some people, given the linkage between civil service and military pay percentage increases, to infer that military pay lags behind private sector pay. However, because the current statistic used to measure private sector pay, the ECI, measures annual percentage increases and not dollar amounts, no such inference is really possible.

As noted above, the debate, in recent years, over “pay parity” between the military and federal civil service pay increases, involves the percentage amount of the civilian pay raise. It has not, so far, involved the military pay raise proposal at all. The issue has been whether the civil service should get a percentage raise identical to that of the military, or whether the military should get a higher raise because of (1) the much greater degree of danger and hardship military service entails, compared to most civilian employment, especially in time of war, and (2) the need to cope with actual or forestall potential military recruiting and retention problems.

**Measuring and Confirming a “Gap”.** It is extremely difficult to find a common index or indicator to compare the dollar values of military and civilian compensation. First, military compensation includes numerous separate components, whose receiving population and taxability varies widely. Which of these, if any, should be included in a military-civilian pay comparison? Furthermore, total military compensation includes a wide range of non-monetary benefits: health care, retail stores, and recreational facilities. Few civilians work in organizations where analogous benefits are provided. Attempts to facilitate a comparison by assigning a cash value to non-cash benefits almost always founder on the large number of often arbitrary assumptions that must be made to generate such an estimate.

Second, it is also extremely difficult to establish a solid comparison between military ranks and pay grades on the one hand, and civilian jobs on the other. The range of knowledge, supervision, and professional judgment required of military personnel and civilians performing similar duties in a standard peacetime industrial or office milieu may well be similar. When the same military member’s likely job in the field, possibly in combat, is concerned, comparisons become difficult.

Third, generally speaking, with some exceptions, the conditions of military service are frequently much more arduous than those of civilian employment, even in peacetime, for families as well as military personnel themselves. This aspect of military service is sometimes cited as a rationale for military compensation being at a higher level than it otherwise might be. On the other hand, the military services all mention travel and adventure in exotic places as a positive reason for enlistment and/or a military career, so it may be misleading to automatically assume it is only a liability.

Fourth, comparisons between different sets of compensation statistics, and the use of these comparisons to determine what military pay should be, can yield very different results. Comparing *dollar amounts* may lead to different conclusions than comparing the *annual increases* in pay for each position. The percentage increase in pay over different time periods is more often than not very different. Different indexes with different components can be used to determine compensation changes.

Finally, the level of specificity used in a pay comparison can lead to sharply differing results, especially when the comparison is between private sector and federal pay as a whole, both civil service and military. For instance, all Army colonels may, according to some indexes, be paid roughly as much as federal civil service GS-15s, or as much as private sector managers with certain responsibilities. Thus, those occupational specialties that are highly paid in the private sector — health care, information technology, some other scientific and engineering skills, are examples — are frequently paid considerably less in the military or in the civil service. Other common subcategories for comparison, in addition to occupational skill, include age, gender, years in the labor force, and educational levels.

**Estimates of a Military-Civilian Pay Gap.** Numerous comparisons of military and civilian compensation in recent years have been cited to illustrate a gap that favors civilian pay levels or refutes the existence of such a gap. Many of these reports lack precision in identifying what aspects of military pay were compared with civilian pay; what indexes were used to make the comparison, or the length of time covered by the comparison. Although it is difficult to generalize, it would appear that most of those estimates which assert that there is a pay gap in favor of higher civilian pay quote a percentage difference of between 7% and 15% in recent years.

Estimates have been made that question the existence of a gap favoring civilians. These tend to compare specific populations of military personnel with equally specific subcategories of civilians. Analyses of this nature appear to be less common than the across-the-board comparisons, almost certainly because they are much more difficult to do.<sup>3</sup>

In 2002, General Accounting Office (GAO) analysts itemized the components of the military benefit package — such as military retirement, health care, Servicemembers' Group Life Insurance; base recreational facilities, and the like — and compared them with the private sector. It found that the range of benefits available to military personnel was generally comparable to, and in some cases superior to, benefits available in the private sector. The GAO study did not appear to have made dollar-figure comparisons or compared in military non-cash benefits — such as health care, commissaries or exchanges, or annual leave — with similar benefits in the private sector, either by figuring out their dollar worth or by itemizing their exact provisions in great detail.<sup>4</sup>

Finally, it should be noted that the substantial increases in military pay and benefits since the late 1990s, whatever the existing relative relationship of military

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<sup>3</sup> See, for example, Office of the Under Secretary of Defense for Personnel and Readiness. *Report of the Ninth Quadrennial Review of Military Compensation*. vol. I. Washington, Mar. 2002: passim, but especially 29-74, 137-82, 188-89; and Asch, Beth J., and James R. Hosek. "Military Compensation: Trends and Policy Options," Documented Briefing. Santa Monica, CA, RAND Corporation, 1999.

<sup>4</sup> U.S. General Accounting Office [now Government Accountability Office], *Military Personnel: Active Duty Benefits Reflect Changing Demographics, but Opportunities Exist to Improve*, GAO-02-935, Sept. 18, 2002.

to civilian compensation as of that time, have probably had the effect of favoring the military.

**If There Is a Pay Gap, Does It Necessarily Matter?** Some have suggested that the emphasis on a pay gap, whether real or imagined, or if real, how much, is unwarranted and not a good guide to arriving at sound policy. They argue that the key issue is, or should be, not *comparability* of military and civilian compensation, but the *competitiveness* of the former. Absent a draft, the armed forces must compete in the labor market for new enlisted and officer personnel. The career force by definition has always been a “volunteer force,” and thus has always had to compete with civilian opportunities, real or perceived. Given these facts, it is asked what difference it makes whether military pay is much lower, the same, or higher than that of civilians? If the services are having recruiting difficulties, then pay increases may be appropriate, even if the existing “gap” favors the military. Conversely, if military compensation is lower than equivalent civilian pay, and if the services are doing well in recruiting and retaining sufficient numbers of qualified personnel, then there may be no reason to raise military pay.

However, some believe that explicitly basing military compensation on “purely economic” competitiveness with civilian pay could have undesirable consequences: for instance, in a time of economic difficulty, the military might be receiving lower pay than most civilians but still recruiting satisfactorily due to high unemployment.

For further discussion of the “pay gap” issue, see Congressional Budget Office, *What Does the Military “Pay Gap” Mean?* June 1999; and Association of the U.S. Army, *Closing the Pay Gap*, Arlington, VA, October 2000.

## **6. What Benefits Are Specifically Available For Military Personnel Participating in Operation Iraqi Freedom (OIF) and Operation Enduring Freedom (OEF — Service in Afghanistan)?<sup>5</sup>**

**Hostile Fire/Imminent Danger Pay.** Many military personnel participating in OEF and OIF may be eligible for Hostile Fire or Imminent Danger Pay (HF/IDP). HF/IDP is authorized by 37 USC 310, which provides a special pay for “duty subject to hostile fire or imminent danger.” While DOD regulations distinguish between Hostile Fire Pay and Imminent Danger Pay, both are derived from the same statute. An individual can only collect Hostile Fire Pay or Imminent Danger Pay, not both simultaneously. The purpose of this pay is to compensate servicemembers for physical danger. Iraq, Afghanistan, Kuwait, Saudi Arabia, and many other nearby countries have been declared imminent danger zones. Military personnel serving in such designated areas are eligible for HF/IDP. To be eligible for this pay in a given month, a servicemember must have served some time in one of the designated zones, even if only a day or less. The authorizing statute for HF/IDP sets the rate at \$150

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<sup>5</sup> Much of this material is taken from CRS Report RL31334, *Operations Noble Eagle, Enduring Freedom, and Iraqi Freedom: Questions and Answers about U.S. Military Personnel, Compensation, and Force Structure*, by Lawrence Kapp.

per month. However, the FY2004 National Defense Authorization Act (NDAA) (P.L. 108-136, section 619) temporarily increased this rate to \$225, through December 31, 2004. The FY2005 NDAA made this increase permanent. (For some detailed background on HF/IDP, see CRS Report RS21632, *Military Pay: Controversy Over Hostile Fire/Imminent Danger Pay and Family Separation Allowance Rates*, by Lawrence Knapp.)

**Hardship Duty Pay.** Military personnel serving in Iraq, Afghanistan, parts of the Persian Gulf region, and certain nearby areas are also eligible for Hardship Duty Pay (HDP), authorized by 37 USC 305. It is compensation for the exceptional demands of certain duty, including unusually demanding mission assignments or service in areas with extreme climates or austere facilities. The maximum amount of HDP previously permitted by the statute was \$300 per month; this maximum was increased to \$750 per month by the FY2006 NDAA. However, the current rate for both Iraq and Afghanistan is \$100 per month.

**Family Separation Allowance.** Military personnel participating in OEF and OIF may also be eligible for Family Separation Allowance (FSA). FSA is authorized by 37 U.S.C. 427, which provides a special pay for those servicemembers *with dependents* who are separated from their families for more than 30 days. The purpose of this pay is to “partially reimburse, on average, members of the uniformed services involuntarily separated from their dependents for the reasonable amount of extra expenses that result from such separation....” To be eligible for this allowance, U.S. military personnel must be separated from their dependents for 30 continuous days or more; but once the 30-day threshold has been reached, the allowance is applied retroactively to the first day of separation. The authorizing statute for FSA sets the rate at \$250 per month.

**Per Diem.** Military personnel serving in OIF/OEF are also entitled to per diem payments of \$105 per month; the rate is the same for all personnel.

**Savings Deposit Program.** Another benefit available to those deployed to Afghanistan, Iraq, and other designated areas nearby is eligibility for the Savings Deposit Program. This program allows service members to earn a guaranteed rate of 10% interest on deposits of up to \$10,000, which must have been earned in the designated areas. The deposit is normally returned to the servicemember, with interest, within 90 days after he or she leaves the eligible region, although earlier withdrawals can sometimes be made for emergency reasons.

**Combat Zone Tax Exclusion.** One of the more generous benefits for many of those serving overseas in OEF or OIF is the “combat zone tax exclusion.” Afghanistan and the airspace above it have been designated a “combat zone” since September 19, 2001. Military personnel serving in direct support of the operations in this combat zone are also eligible for the combat zone tax exclusion. Additionally, certain areas in the Persian Gulf region — including Iraq — have been designated combat zones since the 1990-1991 Persian Gulf War. Military personnel serving in direct support of operations in this combat zone are also eligible for the combat zone tax exclusion. For enlisted personnel and warrant officers, this means that all compensation for active military service in a combat zone is free of federal income tax. For commissioned officers, their compensation is free of federal income tax up

to the maximum amount of enlisted basic pay plus any imminent danger pay received. While this benefit applies only to federal income tax, almost all states have provisions extending the benefit to their state income tax as well.

In addition, military personnel who receive a reenlistment bonus while stationed in a combat zone do not have to pay federal income tax on any of the bonus. The amounts involved can be substantial. For example, the Army recently increased reenlistment bonuses for Special Forces NCOs to a lump sum of \$150,000 for a six-year reenlistment; \$75,000 for five years; \$50,000 for four years; and \$30,000, \$18,000 and \$8,000 for three, two, and one year respectively. Other reenlistment bonuses for a wider range of military occupational specialties have been increased to up to \$50,000 for a five-year commitment.<sup>6</sup> The 2006 NDAA boosted the maximum reenlistment bonus to \$90,000.

**Rest and Recreation (R&R) for Personnel In OIF/OEF.** As has been widely reported, military personnel serving 12-month tours of duty in Iraq and Afghanistan are entitled to one 15-day period of “R&R” or home leave in the United States during their tour. Initially the program was designed to fund the travel of personnel from either theater of operations to whichever airport in the United States they landed in, and any further travel within the United States had to be funded by the individual. However, Congress has since authorized funding of internal travel within the United States. Reimbursement will be for the military member’s travel; there is no funding for dependent travel to meet military personnel on R&R. (There has been some funding of such dependent travel by private charitable organizations.)

## **7. What Cash Lump-Sum Death Benefits Are Available to the Survivors of Military Personnel Killed in Iraq or Afghanistan, and What Increases in Such Benefits Have Been Proposed?**

Currently, the survivors (usually spouses or parents) of military personnel who die while serving in Operations Iraqi Freedom or Enduring Freedom (OIF or OEF) are entitled to several lump-sum monetary benefits. These include a \$100,000 death gratuity, payable within a few days of the death to assist families in dealing with immediate expenses; a \$255 Social Security lump sum; coverage of burial expenses up to \$6,900 [a Department of Veterans Affairs (VA) benefit]; and Servicemembers’ Group Life Insurance (SGLI) of \$400,000 (all servicemembers are automatically enrolled in this benefit, which is paid for by an approximate \$16 monthly deduction from pay; members may opt out or reduce the coverage, but less than 1% do so).<sup>7</sup>

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<sup>6</sup> Tice, Jim. “Critical-skills bonus program is expanding,” *Army Times*, Mar. 7, 2005, p. 28.

<sup>7</sup> The death gratuity and the SGLI maximum amount were raised substantially by the FY2005 Supplemental Appropriations Act for Defense, the Global War on Terror, and Tsunami Relief (the “FY2005 Supplemental”) (P.L. 109-13, May 11, 2005; 119 Stat. 231). The death gratuity was raised from \$12,420 to \$100,000; and the maximum SGLI coverage was raised from \$250,000 to \$400,000 with the first \$150,000 provided free for personnel in a combat zone. Because these increases are in an FY2005 appropriation law, they were scheduled to expire at the end of FY2005. However, the 2006 NDAA applied the \$100,000 death gratuity to all active-duty deaths (not just those that were combat-related) and made

(continued...)

There are also a wide range of recurring-payment survivor benefits from both DOD and the VA, as well as non-monetary benefits.<sup>8</sup>

For more information on military death benefits, see CRS Report RL31334, *Operations Noble Eagle, Enduring Freedom, and Iraqi Freedom: Questions and Answers about U.S. Military Personnel, Compensation, and Force Structure*, by Lawrence Knapp; and CRS Report RL32783, *FY2005 Supplemental Appropriations for Iraq and Afghanistan, Tsunami Relief, and Other Activities*, by Amy Belasco and Larry Nowels.

## For Additional Reading

*Army Times*, *Navy Times*, *Marine Corps Times*, and *Air Force Times*, weekly issues, dated Monday of each week.

*Uniformed Services Almanac; National Guard Almanac, Reserve Forces Almanac, Retired Military Almanac. 2005 Editions.* Falls Church, VA, Uniformed Services Almanac, Inc., 2005.

CRS Issue Brief IB93103, *Military Medical Care Services: Questions and Answers*, by Richard Best, Jr.

CRS Issue Brief IB85159, *Military Retirement: Major Legislative Issues*, by Charles A. Henning.

CRS Report RL31334, *Operations Enduring Freedom and Noble Eagle: Questions and Answers about U.S. Military Personnel, Compensation, and Force Structure*, by Lawrence Knapp.

CRS Report RL30802, *Reserve Component Personnel Issues: Questions and Answers*, Lawrence Knapp.

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<sup>7</sup> (...continued)

the payments retroactive to October 7, 2001. In addition, survivors of service members who died of non-combat causes on active duty between October 7, 2001 and the date of enactment of the 2006 NDAA will receive retroactive payments of \$150,000. This latter payment closed an SGLI loophole. SGLI is in the jurisdiction of the Veterans Affairs Committees, so any action to make the SGLI increases permanent would likely take place in those committees.

<sup>8</sup> For the earlier legislative history of some of these benefits, monetary and non-monetary, see Office of the Secretary of Defense. *Military Compensation Background Papers*. Fifth Edition. September 1996: 615-36; 683-97; and 853-55. A more detailed summary of all such benefits and a comparison of them with federal civilian and state and local government survivor benefits is at U.S. Government Accountability Office, *Military Personnel: Survivor Benefits for Servicemembers and Federal, State, and City Government Employees*, GAO-04-814, July 2004.