



# Military Pay and Benefits: Key Questions and Answers

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## Summary

From the earliest days of the republic, America's Armed Forces have been compensated by military pay, commonly known as "basic pay." While the original pay structure was quite simple and straightforward, over time a complex system of pay, allowances, incentives, and bonuses has evolved.

With the advent of the all-volunteer force in 1973, Congress has used military pay and its associated allowances to improve recruiting, retention, and the overall quality of the force. Congress, in the National Defense Authorization Act, typically authorizes military pay adjustments for the coming fiscal year. Today's ongoing military operations in Iraq and Afghanistan, combined with concern over government spending and the debt ceiling, suggest that further changes in pay, allowances, incentives, and bonuses will continue to receive congressional scrutiny.

In the nearly 10 years since the terrorist attacks of September 11, 2001, basic pay has increased nominally by nearly 35% (figure not adjusted for inflation). This figure does not include other increases in allowances, bonuses, or incentives. The cumulative effect is that most analysts now agree that the average annual cost per servicemember exceeds \$100,000.

Many observers are currently concerned about the cost of recent manpower increases, the impact of personnel costs on the overall defense budget, and the potential decrement to equipment modernization plans caused by the increased pressure of the personnel account. To date, however, it appears that the increasing cost of personnel has not come at the expense of other elements in the defense budget.

The issue of pay comparability between military and civilian pay, commonly referred to as the "pay gap," continues to receive emphasis. Advocates for higher pay have emphasized the sacrifices being made today by the American military, the high personnel tempo and reduced dwell time, the impact on families caused by frequent deployments, and the positive impact that raises have had on recruiting and retention. Others argue that the "pay gap" is an imprecise measurement that does not fully account for other compensation increases in the form of allowances, incentives, and bonuses. Still others believe that the military is already better compensated than their civilian counterparts, especially during this period of high unemployment.

The Department of Defense (DOD), on the other hand, bases its recommendations regarding military pay on its own standard for pay comparability. The DOD standard establishes that members should be compensated at the 70<sup>th</sup> percentile of wages for civilian employees with similar levels of education, age, experience, and responsibility.

This report addresses the role of military pay in manning the Armed Forces, the types of pay increases used in the past, recent reforms in managing pay, and the role of the Employment Cost Index in determining basic pay increases. The report also reviews the compensation benefits specifically available to military personnel participating in Operation Iraqi Freedom (OIF)/Operation New Dawn (OND) and Operation Enduring Freedom (OEF).

## Contents

Introduction .....	1
Key Questions and Answers .....	1
1. Why Did the Adequacy of Active Duty Military Pay Become a Major Issue Beginning in the Late 1990s? .....	1
2. What Kinds of Increases in Military Pay and Benefits Have Been Considered or Used in the Past?.....	2
3. What is “Pay Table Reform”? .....	3
4. How Are Each Year’s Increases in Military Pay Computed? .....	4
Definitions .....	4
Annual Percentage Increases in Military Basic Pay.....	5
Annual Increases in Basic Allowances for Housing (BAH) and Subsistence (BAS) .....	6
5. 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?.....	6
6. 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”?.....	8
Measuring and Confirming a “Gap” .....	9
Estimates of a Military-Civilian Pay Gap .....	10
If There Is a Pay Gap, Does It Necessarily Matter?.....	11
7. What Benefits Are Specifically Available For Military Personnel Participating in Operation Iraqi Freedom (OIF)/Operation New Dawn (OND) and Operation Enduring Freedom (OEF)?.....	12
Hostile Fire/Imminent Danger Pay .....	12
Hardship Duty Pay .....	13
Family Separation Allowance.....	13
Per Diem.....	13
Savings Deposit Program .....	13
Combat Zone Tax Exclusion .....	14
Rest and Recreation (R&R) for Personnel In OIF/OND/OEF.....	14
8. What Cash Lump-Sum Death Benefits Are Available to the Survivors of Military Personnel Killed in Iraq or Afghanistan? .....	14

## Contacts

Author Contact Information .....	15
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## **Introduction**

All servicemembers are entitled to one primary form of compensation, which is commonly referred to as “basic pay.”<sup>1</sup> The amount of pay received is based on rank (also referred to as Pay Grade) and longevity. Promotions result in increased compensation with additional longevity pay increases occurring every two years on a range of “Under 2” to “Over 38.” In addition to base pay, there are a number of allowances, bonuses, and incentives designed to attract and retain quality personnel with the right skills.

Since the advent of the all-volunteer military in 1973 and particularly over the past 10 years, Congress has used military compensation to improve the recruiting, retention, and overall quality of the force. This has been particularly important for the Army, which missed its annual recruiting target of 80,000 by 6,627 soldiers in FY2005 and struggled to meet the same mission requirement in FY2006 and FY2007.

In the nearly 10 years since the terrorist attacks of September 11, 2001, basic pay has been nominally increased by nearly 35% (figure not adjusted for inflation). This figure does not include other increases in allowances, bonuses, or incentives. The cumulative effect is that most analysts now agree that the average annual cost per servicemember exceeds \$100,000.

While these pay increases have been significant, veterans’ support organizations have continued to emphasize the importance of closing the “pay gap” to ensure that servicemembers are compensated at the same level as their civilian counterparts. There is, however, no consensus among analysts on how the pay gap should be defined or measured. This results in multiple options for calculating any pay gap. By one commonly used measure, the FY2011 pay raise will close the pay gap of servicemembers lagging behind civilians to an estimated 2.4%.

One of the common concerns expressed today is that recent strength increases in the Army and Marine Corps with the resulting increase in the cost of the personnel account will begin to impact on the equipment modernization plans of the services.

Today’s ongoing military operations in Iraq and Afghanistan, combined with concern over government spending and the debt ceiling, suggest that future changes in pay, allowances, incentives, and bonuses will continue to receive congressional scrutiny.

## **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

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<sup>1</sup> Basic pay is monthly compensation that all military personnel in the same pay grade and with the same number of years of service will receive.

- 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. Proponents of this viewpoint argue that, even if quantitative indexes of recruiting and retention appear to be satisfactory, 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 move Congress once again to 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 viable 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; (6) a decreased propensity for military service among young people for other reasons, such as anti-military parents and educators; (7) skepticism about new missions such as “operations other than war,” “peacekeeping,” or “peace enforcement”; and (8) 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 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.

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 35 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 is likely 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 sound approaches to improving recruiting and retention as much as possible. In addition, many observers believe that the recent enactment of the new Post 9/11 GI Bill benefit with its generous benefits and transferability options will have an overall beneficial impact on both recruiting and retention.

Recruiting and retention problems are not necessarily solved 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 retirement benefits; 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; and success in operational deployments and especially in combat 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 perceived issues in compensation. However, few analysts believe that recruiting and retention rates can be sustained at the necessary levels without continuing to maintain the momentum of recent pay raises. 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. What is "Pay Table Reform"?**

The military pay table displays the amount of monthly basic pay which a servicemember is entitled to based on the member's pay grade<sup>2</sup> and length of service. Until 2007, the length of service component of the table ranged from "under 2" to "over 26" years of service and provided an incremental longevity pay raise every two years.<sup>3</sup> As a result, servicemembers received their

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<sup>2</sup> As defined by Section 101 of Title 10 U.S.C., the term "grade" refers to a step or degree within a military rank while "rank" means an order of precedence among members of the armed forces. Commissioned officers have been assigned pay grades O-1 through O-10, warrant officers have been assigned W-1 through W-5 and enlisted personnel have been designated as E-1 through E-9.

<sup>3</sup> Some pay grades, especially those of lower ranking personnel, are "capped" at designated points, generally because they should have been promoted to the next higher grade. For example, the last longevity increase for E-5 (Sergeant in the Army and Marine Corps, Staff Sergeant in the Air Force and Petty Officer Second Class in the Navy) occurs at "Over 12" while the final increase of O-5 (Lieutenant Colonel in the Army, Air Force and Marine Corps) occurs at (continued...)

final longevity raise at 26 years of service even though their rank may have provided for service to or beyond 30 years. This pay table changed very little since it was introduced in 1958.<sup>4</sup>

Some analysts advocated longer military careers rather than the current emphasis on youth and vigor and argued that the pay tables should be extended or “reformed” to allow for service beyond 30 years with continuing longevity increases. This was commonly referred to as the “40-year” pay table.

The FY2007 John Warner National Defense Authorization Act (NDAA) included several significant changes to the pay table. First, effective April 1, 2007, the pay table was extended from “over 26” to “over 40” years of service.<sup>5</sup> Second, and also effective April 1, 2007, the NDAA provided additional longevity increases at 30, 34, and 38 years of service for the most senior enlisted, warrant officer, and officer pay grades.<sup>6</sup> For example, the final longevity raise for E-8, W-4, O-6, and O-7 will occur at “over 30” years; at “over 34” for pay grades E-8, W-5, and O-8; and at “over 38” for pay grades O-9 and O-10. Third, effective January 1, 2007, the NDAA provides additional retirement credit for service beyond 30 years, continuing to accrue at the rate of 2.5% per year.<sup>7</sup> As a result, a servicemember who retires with 40 years of service will now qualify for 100% of basic pay in their retirement.

The cumulative effect of these changes seems to suggest congressional support for longer military careers. However, the NDAA did not address other cited constraints to facilitating longer careers. Specifically, there were no changes to mandatory retirement based on years of service or age and no increase in the percentage of E-8, E-9, and W-5 who may be on active duty at a given time. As a result, the beneficiaries of this change are the most senior enlisted, warrant, and officer personnel who will continue to receive longevity pay raises and retirement credit beyond the traditional 30-year point.

## **4. 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 allowances are not subject to federal income tax.

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(...continued)

“Over 22.”

<sup>4</sup> *Military Compensation Background Papers: Compensation Elements and Related Manpower Cost Items, Their Purposes and Legislative Backgrounds*, Sixth Edition, April 2005.

<sup>5</sup> Section 601, P.L. 109-364.

<sup>6</sup> Section 601, P.L. 109-364.

<sup>7</sup> Section 642, P.L. 109-364.

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 estimate of the cash value of non-monetary benefits such as health care or military retail stores.<sup>8</sup>

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

### ***Military Basic Pay Raises Linked to Employment Cost Index (ECI) Percentage Increases***

Permanent law (37 U.S.C. 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 law required the military raise to be equal to 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, salaries, and employer costs for employee benefits on 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 U.S.C. 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 Sets the Amount of the Military Pay Raise***

Despite the statutory formula, which could operate each year without any further action, Congress has legislated a particular percentage increase in military pay every year since 1980, with the exception of 1982 and 2011. During the period 1982-1999, the percentage increase in military pay was usually identical to that granted to GS civilians. The only exceptions during this period were 1985 and 1994, when Congress provided larger increases in military pay.

Even with the 2004 introduction of the Employment Cost Index as the single index for military pay, Congress has, in most cases, explicitly reiterated the increase in law rather than deferring to the permanent statutory formula. Therefore, while Congress may legislate the military pay raise percentage, the operation of the permanent formula remains important in determining what the percentage will actually be.

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<sup>8</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, January 16, 2004.



## Annual Increases in Basic Allowances for Housing (BAH) and Subsistence (BAS)

Housing (37 U.S.C. 403) and subsistence (37 U.S.C. 402) allowances are paid to all personnel not living in military housing or eating in military dining facilities or using field rations. Monthly BAH varies by rank, by whether the person has dependents, and, most importantly, by location. BAS, on the other hand, 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 food costs respectively, and thus are not affected by the annual percentage 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 to reduce the complexity of military compensation and the need for BAS computations each year.

## 5. 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.*

**2010 (FY2011).** *Statutory formula:* 1.4%. *Administration request:* 1.4%. The House version of the FY2011 NDAA supported a 1.9% across-the-board pay raise; a raise 0.5% above the ECI. Both the Senate-reported bill and H.R. 6523 (the House and Senate-passed version of the NDAA) were silent on the pay raise issue. As a result, 37 U.S.C. 1009 became operative with an automatic January 1, 2011, across-the-board raise of 1.4%; equal to the ECI. At 1.4%, this was the smallest military pay raise since 1962, when no raise was enacted. *Final version:* 1.4% across-the-board.

**2009 (FY2010).** *Statutory formula:* 2.9%. *Administration request:* 2.9%. *Final version:* 3.4% across-the-board (0.5% higher than the ECI) effective January 1, 2010.

**2008 (FY2009).** *Statutory formula:* 3.4%. *Administration request:* 3.4%. *Final version:* 3.9% across-the-board increase (0.5% higher than the annual ECI increase).

**2007 (FY2008).** *Statutory formula:* 3.0%. *Administration request:* 3.0% across-the-board. *Final version:* 3.5% across-the-board. The presidential veto of the initial FY2008 NDAA resulted in a 3.0% pay raise taking effect on January 1, 2008 (statutory formula), with the remaining 0.5% being made retroactive to January 1, 2008, upon enactment of the final version of the FY2008 NDAA (H.R. 4986; P.L. 110-181).

**2006 (FY2007).** *Statutory formula:* 2.2%. Under current law, the FY2007 pay was based solely on the ECI and not a rate 0.5% higher than the ECI. *Administration request:* 2.2% across the

board. *Final Version*: 2.2% across the board but with an additional April 1, 2007, targeted pay raise that would be as high as 8.3% for some warrant officers and range from 2.5% for E-5s to 5.5% for E-9s.<sup>9</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.

**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 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 Bob Stump 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 Floyd D. Spence 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

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<sup>9</sup> Maze, Rick, “DoD seeks targeted raises of up to 8.3 percent,” *Army Times*, March 20, 2005.

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%.

## **6. 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 issue of a military-civilian “pay gap” raises 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 any such gaps?

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 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 past 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 vary 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: a retirement annuity after “vesting” at 20 years of service, 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 debatable assumptions that must be made to generate such an estimate.

Second, it is also extremely difficult to establish a 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 this is always 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.

As noted by the Congressional Budget Office:<sup>10</sup>

Comparing compensation in the military and civilian sectors can be problematic. One obvious limitation is that such comparisons cannot easily account for different job characteristics. Many military jobs are more hazardous, require frequent moves, and are less flexible than civilian jobs in the same field. Members of the armed forces are subject to military discipline, are considered to be on duty at all times, and are unable to resign, change jobs at will or negotiate pay. Military personnel also receive extensive training, paid for by the government. Family support programs are generally more available in the military compared with civilian employers. Intangible rewards, such as a shared sense of purpose, may be higher among military personnel as well. Quantifying those elements among military and civilian personnel is extremely difficult.

### **Estimates of a Military-Civilian Pay Gap**

Numerous comparisons of military and civilian compensation in recent years have been cited either to illustrate a gap that favors civilian pay levels or to refute the existence of such a gap. Many of these reports lack precision in identifying what aspects of military pay were compared with civilian pay, which 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 find a percentage difference of between 2% and 13% in recent years with parity being achieved most recently in 1982. Other analysts, using a slightly different measurement which includes the housing allowance in the calculation, contend that the pay gap vanished in 2002 and that there is currently an 11% military pay surplus.<sup>11</sup>

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<sup>10</sup> “Evaluating Military Compensation”, Congressional Budget Office, June, 2007, p.2.

<sup>11</sup> “Pay Raise: 1.4% Assured; 1,9% Unlikely”, Tom Philpott, December 9, 2010.

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>12</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 military non-cash benefits—such as health care, commissaries or exchanges, or annual leave—with benefits in the private sector, either by figuring out their dollar worth or by itemizing their exact provisions in great detail.<sup>13</sup>

This GAO report was followed in 2008 by the 10<sup>th</sup> Quadrennial Review of Military Compensation (QRMC)<sup>14</sup> which also addressed the pay gap issue and recommended that a new comparative model could be better suited to measuring the difference between military pay and comparable civilian occupations. The commission recommended replacing Regular Military Compensation (RMC) with a new measure called Military Annual Compensation (MAC). While RMC includes base pay, BAH, BAS and the federal tax advantage from the two allowances, MAC would also factor in the health care benefit, the value of the military retirement annuity, and state and Social Security tax advantages. Based on the QRMC analysis and using MAC as the comparative tool, enlisted and officer personnel fare better than their civilian counterparts in cash compensation according to the economic modeling done by the QRMC. This represents the first time that a QRMC has recommended inclusion of benefits when comparing military and civilian compensation levels.

While estimating the pay gap continues to be a challenge, it appears that the substantial increases in military pay and benefits since the late 1990s, whatever the existing relative relationship of military 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 not, 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

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<sup>12</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, March 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>13</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, September 18, 2002.

<sup>14</sup> The Quadrennial Review of Military Compensation or QRMC is required every four years by 37 U.S.C. 1008(b). The 10<sup>th</sup> QRMC was convened in August 2005 and submitted the final portion of its report in July 2008. Volume 1, which included the recommendations concerning the pay gap, can be viewed at [http://www.defenselink/mil/prhome/docs/Tenth\\_QRMC\\_feb2008\\_Vol%20I.pdf](http://www.defenselink/mil/prhome/docs/Tenth_QRMC_feb2008_Vol%20I.pdf).

has always had to compete with civilian opportunities, real or perceived. Given these facts, some ask 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 might 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 might 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, [A non-profit group that works to advance the interests of military members.] *Closing the Pay Gap*, Arlington, VA, October 2000.

## **7. What Benefits Are Specifically Available For Military Personnel Participating in Operation Iraqi Freedom (OIF)/Operation New Dawn (OND)<sup>15</sup> and Operation Enduring Freedom (OEF)?<sup>16</sup>**

### **Hostile Fire/Imminent Danger Pay**

Many military personnel participating in OEF and OIF/OND may be eligible for Hostile Fire or Imminent Danger Pay (HF/IDP). HF/IDP is authorized by 37 U.S.C. 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 by the Secretary of Defense. 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 previously set the rate at \$150 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 Kapp.) Most recently, the House-passed version of the FY2011 NDAA<sup>17</sup> provided for a \$35 per month increase in Hostile Fire/Imminent Danger Pay. This increase was not supported by the Senate and was not included in the enacted version of the NDAA.

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<sup>15</sup> Operation Iraqi Freedom became Operation New Dawn (OND) on September 1, 2010.

<sup>16</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 and Charles A. Henning.

<sup>17</sup> Section 618, H.Rept. 111-491, May 21, 2010.

## **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 U.S.C. 305. It is compensation for the exceptional demands of certain duty, including unusually demanding mission assignments (HDP-Mission), locations with extreme climates or austere facilities (HDP-Location), or for an involuntary extension of duty (HDP-Involuntary Extension).<sup>18</sup> 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 and then raised to \$1,500 per month by the FY2008 NDAA. While these increases have been significant, the actual DOD-approved rate for HDP for both Iraq and Afghanistan is, and has been, \$100 per month.

## **Family Separation Allowance**

Military personnel participating in OEF and OIF/OND 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. The House-passed version of the FY2011 NDAA<sup>19</sup> also recommended increasing FSA by \$35 a month to \$285. Again, this legislation was not supported by the Senate and was not included in the enacted version of the NDAA.<sup>20</sup>

## **Per Diem**

Military personnel serving in OIF/OND/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.

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<sup>18</sup> To support the surge in Iraq, a number of units were involuntarily extended from the original 12-month deployment to a revised 15-month deployment. Soldiers assigned to these units were authorized an additional \$200/month HDP during this 3-month extension.

<sup>19</sup> Section 604, H.Rept. 111-491, May 21, 2010.



## **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.” Certain areas in the Persian Gulf region—including Iraq and the airspace above it—have been designated combat zones since the 1990-1991 Persian Gulf War. Afghanistan and the airspace above it have been designated a “combat zone” since September 19, 2001. Military personnel serving in direct support of operations in these combat zones 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 years, two years, and one year respectively. The 2006 NDAA boosted the maximum reenlistment bonus for career soldiers other than Special Forces to \$90,000.<sup>21</sup>

## **Rest and Recreation (R&R) for Personnel In OIF/OND/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 several major “gateway” airports in the United States 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.)

## **8. What Cash Lump-Sum Death Benefits Are Available to the Survivors of Military Personnel Killed in Iraq or Afghanistan?**

Currently, the survivors (usually spouses or parents) of military personnel who die while serving in Operations Iraqi Freedom, New Dawn, or Enduring Freedom (OIF, OND 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)<sup>22</sup> of \$400,000.<sup>23</sup> There are also

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<sup>21</sup> Section 629, National Defense Authorization Act for Fiscal Year 2006, December 18, 2005.

<sup>22</sup> 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 coverage, but less than 1% do so.

<sup>23</sup> The death gratuity and the SGLI maximum amount were raised substantially by the FY2005 Supplemental (continued...)

a wide range of recurring-payment survivor benefits from both DOD and the VA, as well as non-monetary benefits.<sup>24</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 Kapp and Charles A. Henning; and CRS Report RL32783, *FY2005 Supplemental Appropriations for Iraq and Afghanistan, Tsunami Relief, and Other Activities*, by Amy Belasco and Larry Nowels.

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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 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 received retroactive payments of \$150,000. This latter payment closed an SGLI loophole. The FY2007 John Warner National Defense Authorization Act increased the amount of “free” SGLI coverage from \$150,000 to \$400,000 for all servicemembers serving in OIF and OEF.

<sup>24</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*. Sixth Edition. April 2005. 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.