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A “Rucksack” for U.S. Military Personnel: Modernizing Military Compensation

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Career options for military service personnel are not keeping pace with skyrocketing defense manpower costs, expanding use of Reserve forces, and the rapid changes in the American workplace. The Pentagon needs a new paradigm for compensating its military personnel that allows them to move seamlessly through active duty, the Reserves, the National Guard, and civilian employment without concern for how their career decisions will affect their health care and retirement benefits. A “rucksack” of benefits that they select themselves and can carry with them would be a critical tool in recruiting and retaining a trained and ready volunteer military. At the same time, Congress needs to address spiraling military manpower costs. In short, the rucksack for America’s armed forces needs to be both transportable and affordable.

Changing Times. An effective military workforce strategy must address three critical contemporary challenges.

Military Manpower. Manpower costs consume the largest part of the Pentagon’s budget. Indeed, future increases in the per capita cost of military compensation could crowd out needed spending on military modernization in the core defense budget because Congress and the Administration plan to permanently increase the Army and Marines over

the near term by about 100,000 active duty personnel. Evidence suggests that the current compensation system is too heavily weighted in favor of in-kind and deferred compensation over direct cash compensation.

Active Reserve. Unlike during the Cold War, today’s National Guard and the Army, Navy, Air Force, Marine, and Coast Guard Reserves are operational forces that conduct missions at home and around the world during wartime and peacetime. For example, from September 11, 2001, to the end of 2003, over 319,000 citizen soldiers—27 percent of the Reserve Components—performed active duty. The reserves have proven themselves an effective means of rapidly expanding military capacity to meet changing national security requirements, but this requires reserves that have the flexibility to deploy when the nation needs them.

A “rucksack” of transportable and affordable retirement and health care benefits that military personnel can carry with them through their military and civilian careers would be a critical tool in recruiting and retaining a trained and ready volunteer military.

This paper, in its entirety, can be found at:
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A Changing Nation. Demographic shifts will further alter the character of the military. Although the rate of U.S. population growth will continue to slow, the total population will continue to grow and age, which means that a smaller proportion of the population will be suitable for military service. The cost of military manpower will also increase as the armed forces find themselves competing with the private sector for talented young people. The total size of the military relative to the nation as a whole will likely continue to decrease in the years to come.

At the same time, the American workplace is changing. Workers change jobs, careers, and geographic location with increasing frequency. They leave and reenter the workforce and the schoolroom throughout their lives.

Thinking Differently About Active and Reserve Forces. The key to recruiting and retaining a quality, all-volunteer force is to adopt career models that are consistent with both the changes in the American workforce and the nation's national security needs. The chief characteristic of this system must be flexibility that allows individuals to decide when and how to volunteer their time and talents. The Pentagon calls this concept "continuum of service," providing more opportunities to move back and forth between active and reserve service and civilian employment, to shift career fields within the military, and to choose options for voluntary deployments.

Among other things, establishing an effective continuum of service will require a package of incentives that best serve the nation and the individual. The right mix will require a combination of immediate targeted compensation (e.g., cash bonuses, career options, and educational opportunities) and the confidence to accept voluntary deployments knowing that the decision will not adversely affect health care and retirement. The Pentagon needs to be able to offer each soldier a "rucksack" that could accompany that individual whether or not the soldier chooses to serve on active duty or in the ready or inactive reserve. In short, health care and retirement should be portable and follow the soldier.

What Congress Should Do. Congress can speed this process by using the military to pioneer entitlement reform. Congress should:

- **Create a more flexible military retirement system.** For example, the military would be an ideal population to pioneer the use of voluntary retirement accounts, which allow individuals to set aside a portion of their Social Security taxes. In addition, the Pentagon might create a variety of retirement contribution options. Right now, personnel that are separated from active service before 20 years receive no retirement benefits. The Department of Defense needs to offer a greater variety of options that are completely portable, following the soldier from active duty to reserve duty and civilian life.
- **Move the military health care system toward a defined contribution plan** and away from a defined benefit plan (for medical services other than those related to operational missions and deployments). Such programs are both more economical and more flexible. Military and civilian health care systems share a common problem: In many cases, they preclude individuals from assuming at least some of the responsibility for making decisions about their care. As a result, they encourage beneficiaries to treat health care as a free good or service. Structuring the military health care system as a defined contribution plan would allow participants greater freedom of choice and more control. Greater individual control would likely impose more discipline on the system regarding the use of its resources and allow individuals to build personal health care programs that could accompany them from active duty to reserve duty to civilian employment.

A 21st Century System for a 21st Century Military. Creating a rucksack for health care and retirement would help the Pentagon get the military that it needs when it needs it while helping to rein in spiraling manpower costs. The rucksack not only would serve the military well, but also could become a model for the civilian workforce of the future.

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