

Background

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Paying for America's All-Volunteer Military: "Reform" Is Not a Dirty Word

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The pay and benefits of U.S. military personnel represent a sizable portion of the annual defense budget. Almost 25 percent of the President's fiscal year (FY) 2009 core defense budget request is allocated for military personnel.¹ Since 2000, personnel costs have increased by more than 40 percent.² Keeping these costs under control is essential to maintaining today's highly professional all-volunteer force and is required to pay ever-deferred and growing military modernization bills.

Over the past 60 years, the military compensation system has remained virtually unchanged—even after the seminal transition to an all-volunteer force in 1973. Today's structure is just as it was after World War II: Compensation continues to be provided based primarily on a "one size fits all" approach where longevity of service remains the key determinant of service members' salaries.

Ensuring that the all-volunteer force remains a thriving institution will require the Department of Defense and each of the services to modernize the salary system in such a way that it continues to allow for the recruiting and retention of highly professional forces while capping the spiraling manpower costs. The biggest hurdle may be Congress, whose members must first recognize that today's system is simply unaffordable and unsustainable.

While the U.S. government can never truly pay military personnel enough for their achievements and sacrifices, internal reforms can make it possible to pay an all-volunteer force more effectively. Military compensation reform is therefore mandatory.

Talking Points

- Since 2000, military personnel costs have increased by more than 40 percent. Keeping these costs under control is essential to adapting and maintaining today's highly professional all-volunteer force and paying ever-deferred and growing modernization bills.
- Although average military compensation now exceeds the 70th percentile threshold for comparable civilians, the military's emphasis on non-cash and deferred payments continues to contribute to the misperception of a military-civilian "pay gap" that hinders readiness, recruiting, and retention.
- Military pay must become more competitive, flexible, and cash-based with less emphasis on in-kind and deferred benefits.
- Reform of military compensation should not be treated as a "third rail" of congressional deliberations and annual budget decisions. Nor should it be seen as an effort to cut benefits. Congress must act now to initiate the first steps toward constructing a viable military compensation system for the 21st century.

This paper, in its entirety, can be found at:
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Paying the All-Volunteer Force

More than 35 years ago, the congressionally mandated Gates Commission submitted its final report to President Richard Nixon, endorsing the establishment of a military consisting entirely of volunteers. At the time, the concept of no-draft armed forces was considered by many to be a radical idea that would prove insufficient in meeting national security needs.

According to the commission, the benefits of a volunteer military included inducing leaders to use manpower more efficiently, increasing retention, and providing a morale-boosting alternative to conscription. Forced service was “intolerable” when compared with a volunteer system that aligned more distinctly with “our basic national values.”³ The commission went so far as to describe conscription as a tax that deprived individuals “of their freedom to pursue their careers where and how they choose—in essence their right to liberty and the pursuit of happiness,” concluding that “it is hard to imagine a means of imposing the cost of defense, or any other Government activity for that matter, more in conflict with accepted standards of justice, equality and freedom in the United States.”⁴

Alternatively, an all-volunteer force offered a system consistent with American principles, minimizing government interference and allowing individuals to determine their own life choices in accord with their values; but for a volunteer system to work, the historically low pay for those entering the military had to be increased to a level that could compete with civilian pay. The commission determined that until this pay gap was corrected, “an all-volunteer force cannot be realized.”⁵ Increasing military compensation was therefore “a necessary price of defending [America’s] peace and security.”⁶

Consistent with the recommendations of the *First Quadrennial Review of Military Compensation* in 1967, a study led by Navy Rear Admiral Lester Hubbell, the Gates Commission endorsed the “development of a military salary system comparable to that in the civilian sector, including the substitution of cash for some benefits that are now provided in-kind.”⁷ According to the commission:

Providing compensation in cash has an inherent advantage in that context—it allows each individual to decide how he or she will use whatever he earns. He can thus get the full value of whatever costs are incurred by the government in paying him. When he is compensated in non-cash form, however, the value of what he receives is often less to him than its cost to the government.⁸

Ultimately, and regrettably, the commission’s recommendation to move toward a cash-favored salary system, which emphasized in-hand cash compensation over deferred benefits, was rejected by the Nixon Administration. The blueprint for this new system came courtesy of the *First Quadrennial Review of Military Compensation*. The proposals in the Hubbell salary system, however, were designed for a conscripted military and for the career force only, calling for a continuation of low pay for first-term personnel. Because the recommendations were inconsistent with the desire to move to an all-volunteer force, the Administration withdrew its support for the Hubbell system.

Although the government chose to implement an all-volunteer force in harmony with the findings of the Gates Commission, military compensation has remained a “pay and allowance system,” wherein non-cash and deferred benefits make up a

1. U.S. Office of Management and Budget, *Historical Tables: Budget of the United States Government, Fiscal Year 2009*, February 4, 2008, p. 90, at <http://www.whitehouse.gov/omb/budget/fy2009/pdf/hist.pdf> (June 10, 2008).
2. *Ibid.*, pp. 89–90.
3. *The Report of the President’s Commission on an All-Volunteer Armed Force*, February 1970, p. 10, at <http://www.rand.org/pubs/monographs/MG265/images/webS0243.pdf> (June 10, 2008).
4. *Ibid.*, p. 28.
5. *Ibid.*, p. 49.
6. *Ibid.*, p. 10.
7. *Ibid.*, p. 56.
8. *Ibid.*, p. 63.

significant portion of total remuneration.⁹ This system in its present form has become rigid, perceptually unfair, and incompatible with the highly mobile nature of today's American workforce.

In short, today's compensation package lacks the flexibility to meet the full range of current requirements: the ability to attract, motivate, and retain skilled military professionals.

Step 1: Admitting the Problem

Today's military compensation system consists of three components:

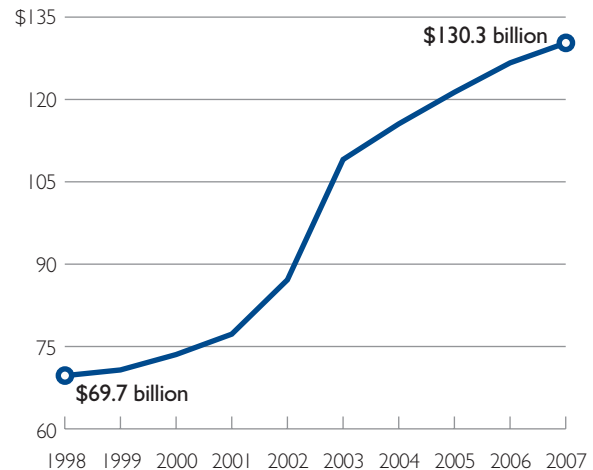
- **Cash** (approximately 48 percent of service member compensation).¹⁰ In 1974, Congress defined cash payments as regular military compensation, consisting of basic pay, allowances for housing, special and incentive pays, and tax advantages resulting from non-taxed allowances.
- **Non-cash, or in-kind, benefits** (21 percent of total compensation).¹¹ Non-cash benefits include health care services through TRICARE, education opportunities, fitness facilities, libraries, and annual leave.
- **Deferred benefits** (31 percent of compensation). These include retirement pay and health care accrual.¹² To pay for deferred benefits, the services set aside a certain amount of money to fund the future costs of military personnel annually. For FY 2005, the military retirement accrual amounted to an average of \$10,000 per active duty service member and an additional \$5,000 for the military's retiree health care fund.¹³

Over the past decade, military compensation has increased dramatically. (See Chart 1.) In 1998, the post-Cold War military downsizing was complete.

Military Personnel Expenditures

Between 1999 and 2005, Congress increased pay for enlisted personnel by 28 percent and added significant pension benefits and health care entitlements.

In Billions of Current Dollars



Source: Office of the Under Secretary for Defense, "National Defense Budget Estimates for FY 2009," March 2008, pp. 74–76, at http://www.defenselink.mil/comptroller/defbudget/fy2009/fy2009_greenbook.pdf (June 8, 2008).

Chart 1 • B 2144 heritage.org

Combined with a robust economy, personnel shortages throughout the military increased. In response, the Clinton Administration and Congress initiated military-wide pay raises to eliminate the civilian-military pay gap.¹⁴

Since President George W. Bush took office, and with Congress's authorization, military pay has also continued to increase, primarily through improvements in deferred benefits. In addition to a 28 percent salary increase for enlisted personnel between

9. *Report of the Tenth Quadrennial Review of Military Compensation*, Vol. 1, February 2008, p. 18, at http://www.defenselink.mil/prhome/docs/Tenth_QRMC_Feb2008_Vol%20I.pdf (June 10, 2008).

10. *Ibid.*

11. *Ibid.*

12. *Ibid.*, pp. 18–23.

13. Steven M. Kosiak, *Military Compensation: Requirements, Trends and Options*, Center for Strategic and Budgetary Assessments, February 2005, pp. 10–12, at <http://www.csbaonline.org/4Publications/PubLibrary/R.20050218.Personnel/R.20050218.Personnel.pdf> (June 9, 2008).

14. Cindy Williams, "Transforming the Rewards for Military Service," MIT Security Studies Program, September 2005, pp. 29–30, at http://mit.edu/ssp/Publications/working_papers/OccasionalPaper9-05.pdf (June 10, 2008).

1999 and 2005, Congress added significant pension benefits and health care entitlements.¹⁵ Following the September 11 attacks, beginning in FY 2002, the Bush Administration and Congress expanded benefits to help the services meet increasingly difficult recruiting and retention challenges while maintaining large troop presences overseas in Iraq and Afghanistan.¹⁶

As a result, the cost to the military for personnel has increased by tens of billions of dollars within a decade. Compensation for active duty personnel grew by approximately \$24,000 per person—or 33 percent in real terms—between 1999 and 2005.¹⁷

According to the Government Accountability Office (GAO), in FY 2006, the per capita annual cost of active duty manpower was \$126,239, up from \$95,971 in FY 1999.¹⁸ During this short period, basic pay increased by 23 percent, the housing allowance grew by 66 percent, and health care costs rose a staggering 69 percent. Health care has been a major driver of recent cost increases in military personnel bills.¹⁹ The Congressional Budget Office (CBO) estimates that by 2020, military health care costs could more than double from current levels to \$52 billion.²⁰

In its current form, the compensation system is unsustainable. Indeed, the GAO concluded that it is unlikely that the system is “reasonable, appropriate, affordable, and sustainable over the long term.”²¹

Compensation for the Reserve Component is also unsustainable and has not been updated in light of today’s reality of a fully operational reserve. Consistent with the trends of the active duty force, Guard and Reserve compensation increased 47 percent between FY 2000 and FY 2006, rising from \$13.9 billion to \$20.5 billion.²² Deferred compensation has been the primary driver of this increase, more than tripling from \$1.7 billion to \$5.8 billion during the same time period.

Furthermore, the rise in compensation costs is not primarily the result of the increased operational tempo of Guard and Reserve personnel. According to the GAO, the cost increases “were made to basic pay and deferred compensation, such as retirement pay and health care for retirees, which will not recede after ongoing operations are ended.”²³ These cost increases are long-term expenses that are not directly related to the need to maintain sufficient force levels in current operations.

Consequences of Maintaining the Status Quo

There are considerable consequences and trade-offs that will be forced upon the military if salaries and benefits continue to expand at the rates that have been authorized and projected absent congressionally approved reform. Foremost among these consequences is the prospect that rising personnel bills

15. Congressional Budget Office, *Budget Options*, February 2005, at <http://www.cbo.gov/ftpdocs/60xx/doc6075/02-15-BudgetOptions.pdf> (June 9, 2008).

16. Williams, “Transforming the Rewards for Military Service,” p. 30.

17. Steven M. Kosiak, *Analysis of the FY 2008 Defense Budget Request*, Center for Strategic and Budgetary Assessments, 2007, p. 26, at http://www.csbaonline.org/4Publications/PubLibrary/R.20070607.Analysis_of_the_FY/R.20070607.Analysis_of_the_FY.pdf

18. U.S. Government Accountability Office, *Military Personnel: DOD Needs to Establish a Strategy and Improve Transparency over Reserve and National Guard Compensation to Manage Significant Growth in Cost*, GAO-07-828, June 2007, pp. 41, at <http://stinet.dtic.mil/cgi-bin/GetTRDoc?AD=ADA469356&Location=U2&doc=GetTRDoc.pdf> (June 10, 2008).

19. U.S. Government Accountability Office, *Military Personnel: DOD Needs to Improve the Transparency and Reassess the Reasonableness, Appropriateness, Affordability, and Sustainability of the Military Compensation System*, GAO-05-798, July 2005, pp. 4–5, at <http://www.gao.gov/highlights/d05798high.pdf> (June 10, 2008).

20. Congressional Budget Office, *Growth in Medical Spending by the Department of Defense*, September 2003, at <http://www.cbo.gov/ftpdocs/45xx/doc4520/09-09-DoDMedical.pdf> (June 10, 2008).

21. U.S. Government Accountability Office, *Military Personnel: DOD Needs to Improve the Transparency and Reassess the Reasonableness, Appropriateness, Affordability, and Sustainability of the Military Compensation System*.

22. U.S. Government Accountability Office, *Military Personnel: DOD Needs to Establish a Strategy and Improve Transparency over Reserve and National Guard Compensation to Manage Significant Growth in Cost*.

23. *Ibid.*, p. 2.

will be paid at the expense of weapons procurement and modernization.

With a defense budget topline that is already expected to decline in the coming years, Congress and the military will be faced with the dilemma of continuing to meet a multitude of responsibilities with resources that are spread even thinner, in large part because of rising personnel costs. Steven Kosiak of the Center for Strategic and Budgetary Assessments has concluded that without compensation reforms, “weapons modernization, and weapons procurement in particular, are probably the most likely areas to be scaled back.”²⁴

This would come as no surprise, given historical trends and patterns of robbing the procurement account when the defense topline is reduced. The decision to cut the modernization budget instead of trimming other areas or reforming systems when funding is limited is entirely consistent with the dismal modernization record of the 1990s.

When the Cold War ended and a strong economy began to strain recruiting and retention by enticing those who might otherwise have enlisted away from the military ranks and into the private sector, the Clinton Administration and Congress chose to take a “procurement holiday” while deferring acquisition decisions and skipping an entire generation of weapons systems modernization. As Kosiak explains, it normally takes two to five years for the effects of procurement cuts to be noticeable, and this makes the impact of such cuts generally less immediate.²⁵ The widespread ramifications of the acquisition delays of the 1990s are still harming the services today as their leaders attempt to meet the technological requirements of an increased operational tempo with equipment that is wearing out at five and six times peacetime rates.

Another negative and avoidable effect of not reforming military compensation is the difficulty incurred when commanders have to manage personnel while being shackled by the inability to act quickly to fill positions with skills that are in high demand. Force management is more difficult under a time-in-service system that rewards rank and longevity over ability. Different military occupations have different training and educational requirements, yet all types of skills are generally compensated the same over the length of a 20-year career.

Furthermore, increased personnel costs make it difficult at present and likely impossible in the future to expand end strength—the total number of members of the military—should it become necessary. It is estimated that expanding the Army by 40,000 troops will add an additional cost of \$4 billion per year to the service’s budget.²⁶ Under the direction of President Bush, the military is expanding the U.S. Army and Marine Corps by 92,000 over the next several years. However, to meet future missions, some analysts have recommended that ground forces be expanded from their current level of 750,000 to 900,000 or 1 million—roughly 1990 end strength.²⁷ Absent significant reform, such an expansion is not economically feasible—particularly with a declining defense budget.

Often lost in the discussion is the underlying impact of compensation on military readiness, recruiting, and retention. Currently, non-cash and deferred benefits make up about 52 percent of individual compensation, with non-cash benefits constituting 21 percent and deferred benefits making up the remaining 31 percent.²⁸ This pay scheme differs from that of the private sector where 82 percent of salary is distributed through salary and wages.²⁹ (See Chart 2.)

24. Kosiak, *Military Compensation: Requirements, Trends and Options*, p. 75.

25. *Ibid.*, p. 76.

26. Williams, “Transforming the Rewards for Military Service,” p. 31.

27. Thomas Donnelly and Frederick Kagan, *Ground Truth: The Future of U.S. Land Power* (Washington, D.C.: American Enterprise Institute, 2008), at http://www.aei.org/books/bookID.934/book_detail.asp.

28. *Report of the Tenth Quadrennial Review of Military Compensation*, p. 18.

29. U.S. Government Accountability Office, *Military Personnel: DOD Needs to Improve the Transparency and Reassess the Reasonableness, Appropriateness, Affordability, and Sustainability of the Military Compensation System*, p. 23.

There is an observable negative consequence on recruiting and retention, in large part because of the prevailing perception by service members that those serving in the military are underpaid. This became evident in recent reports that suggest that service members, especially the younger ones, do not value deferred benefits as highly as cash compensation.³⁰ The GAO has also concluded that the current mix of compensation “is highly inefficient for meeting near-term recruiting and retention needs.”³¹

An emphasis on non-cash and deferred payments continues to contribute to the misperception of a military–civilian “pay gap,” even though, remarkably, none exists. The *Tenth Quadrennial Review of Military Compensation* report refuted this myth, concluding that “military pay for both enlisted personnel and officers is about the same or higher than the earnings of comparable civilians.”³² Average military compensation now exceeds the 70th percentile threshold for comparable civilians. Indeed, the average enlisted member earned \$5,400 more, and the average officer \$6,000 more, than comparable civilians.

Taken together, the emphasis on non-cash and deferred benefits and the enduring misperception regarding comparability of military–civilian pay pose a considerable challenge for recruiting and retention in light of America’s shrinking labor pool, highly mobile workforce, and rapidly shifting demographics.

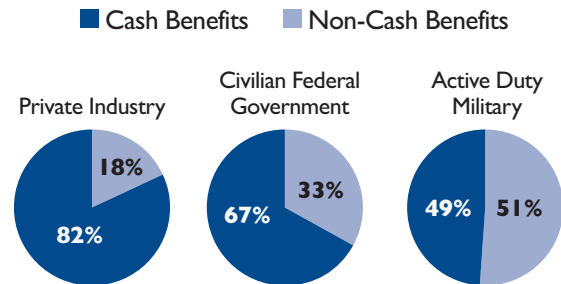
Laying the Groundwork for Reform

To maintain a highly professional all-volunteer force, military compensation must be reformed in order to overcome the current unsustainable trajectory of personnel costs without sacrificing quality. To achieve this, the system will have to become more competitive, more flexible, and more heavily based on cash compensation and less on non-cash and deferred benefits.

This does not mean, as many worry, that benefits will be reduced or even cut to achieve large-scale

Cash vs. Non-Cash Benefits

Active duty military personnel receive more than half of their compensation in the form of non-cash benefits, such as health care and retirement funds—far more than civilian government or private industry employees do.



Note: Proportions are in 2004 dollars.

Source: U.S. Government Accountability Office, “Military Personnel: DoD Needs to Improve the Transparency and Reassess the Reasonableness, Appropriateness, Affordability, and Sustainability of the Military Compensation System,” July 2005, at <http://www.gao.gov/highlights/d05798high.pdf>, pp. 22–24 (June 8, 2008).

Chart 2 • B 2144 heritage.org

cost savings. No one disputes that the men and women who make up America’s armed forces deserve pay and benefits equal to their national service. What effective reform means is the adoption of a new approach to compensation that can fuse the most innovative ideas put forth—both old and new—with the requirements of both the military and America’s 21st century workforce.

In 2000, the Defense Science Board Task Force on Human Resources Strategy—a board of 32 members that reports to the Secretary of Defense—proposed five principles to guide the design of a reformed military compensation system:

- The system must be competitive with the external economy;
- Performance must be rewarded;
- Military personnel must perceive it as fair;

30. John T. Warner and Saul Pleeter, “The Personal Discount Rate: Evidence from Military Downsizing Programs,” *The American Economic Review*, March 2001, at <http://www.jstor.org/stable/pdfplus/2677897.pdf> (June 10, 2008).

31. U.S. Government Accountability Office, *Military Personnel: DOD Needs to Improve the Transparency and Reassess the Reasonableness, Appropriateness, Affordability, and Sustainability of the Military Compensation System*, p. 24.

32. *Report of the Tenth Quadrennial Review of Military Compensation*, p. 24.

- Flexibility is needed to accommodate requirements in different skills and career lengths; and
- The design must be simple and easily understood by recipients and beneficiaries.³³

Catching Up With Cash First

The current compensation system is too heavily skewed toward non-cash and deferred benefits. Up-front cash benefits are undoubtedly more effective for recruiting and retention. This is true not only because the value of non-cash benefits is not easily recognized by personnel, but also because a system that favors cash benefits would enhance the freedom of each service member to decide how best to use his benefits, thus increasing the value of those benefits.

Moving toward majority cash compensation will also help to attract recruits who want to serve without making the military a career and are less influenced by the alleged lure of in-kind benefits. Given that younger service members generally value retirement benefits less than it costs the government to provide these benefits, up-front compensation is more cost-effective for the government as well as the soldier, sailor, airman, and Marine.

A cash-favorable system would also put military salaries in a better light because service members often compare their pay levels with those of their civilian counterparts, easily forming the false impression that they are underpaid when simply comparing pay stub amounts. The Department of Defense does a poor job of formally and regularly telling service members and their families about their total compensation. Military personnel are informed of the total value of their benefits through an annual "Personal Statement of Military Compensation." Service members often find the statement hard to understand and confusing. A recent GAO focus group found that nine out of 10 service members underestimate the true value of their compensation, and 80 percent believe they would earn more in a civilian job.³⁴

Redesigning and Streamlining Annual Compensation Education Efforts

It is relatively common practice for private-sector employers to offer a salary and benefits review to employees on an annual basis. This type of education raises awareness by showing employees the total value of their compensation far beyond the pay stub amount.

This comprehensive package is useful for many employees and helps them to value their total compensation more highly as they are educated about the hidden or silent costs that many employers bear on their behalf, such as health care premium offsets and retirement or 401(k) matching contributions. Often, this heightened awareness by employees increases job satisfaction and reaps benefits for companies as employee morale and loyalty are increased.

A clear and concise awareness program is needed to inform all service members of their complete range of pay and benefits and the competitiveness of their compensation compared to that of their civilian counterparts. Informing service members and their spouses at least once per year of their total compensation will set reasonable expectations for those who are considering leaving the service, assist with retention, and increase morale.

Congress should mandate a revised, more detailed, and modern annual compensation review for each member of the U.S. military that is common across the services. This report would clearly outline each member's benefit programs and include the annual cost to the U.S. government for many in-kind benefits that are included in total compensation costs. Atypical benefits should also be discussed, such as direct deposit capability, vacation and holiday leave, compensatory time in lieu of overtime, transportation offsets or benefits, college savings plans, subsidized parking, and more. The summary should also include the estimated tax savings by the service member on any additional pre-tax benefits.

33. Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics, *The Defense Science Board Task Force on Human Resources Strategy*, February 2000, p. 69, at <http://www.acq.osd.mil/dsb/reports/humanresources.pdf> (June 10, 2008).

34. U.S. Government Accountability Office, *Military Personnel: DOD Needs to Improve the Transparency and Reassess the Reasonableness, Appropriateness, Affordability, and Sustainability of the Military Compensation System*, p. 6.

A Flexible, Portable “Continuum of Service”

To be flexible, any new military compensation system must be adaptable to the well-trained and mobile American workforce. In today’s environment, individual service members expect to make personal decisions regarding when and how they will invest their time and skills. What is needed is a compensation model that is tailored to the needs of the modern workforce and built to attract the most qualified candidates to military service.

The best model to accomplish this would be what the Pentagon calls a “continuum of service.”³⁵ Endorsed by both the 2006 *Quadrennial Defense Review* and the Commission on the National Guard and Reserves, this system would eventually eliminate artificial barriers to the transition of service members between active and reserve status, allowing them more flexibility to move throughout the military services and civilian sector. In addition to increasing the attractiveness of a military career, the Defense Department would also gain more direct access to people with critical skills who normally stay in the civilian workforce.³⁶

Consistent with the flexibility of the “continuum” model, the Pentagon needs to be able to offer each service member a package of benefits that are fully portable as they move between active, Guard, and Reserve status.³⁷ This should begin with overhauls of both the military health care and military retirement systems.

- **Reform the military health care system by shifting it from a defined-benefit plan to a defined-contribution plan.**

Under a defined-contribution plan, uniformed personnel can remain under the same health care system when they move from job to job, with each employer—government and private-sector alike—contributing to their plan. This approach increases flexibility by providing increased opportunity for service members to make informed decisions regarding their own care. This system would also prove more economical by placing some responsibility for decision-making in the hands of the individual and making clear the true cost of care, thus removing the perception that health care is a free service. Imposing more discipline on the system would make it possible to control costs more effectively.³⁸

Congress also should authorize the movement of health care coverage for military dependents to the Federal Employees Health Benefits Program. This would then allow the military health care system to focus more on the unique requirements of military medicine.³⁹

- **Reform military retirement by adopting a new structure in which the military contributes to a service member’s retirement account.**

Under the current structure, personnel that leave active duty before completing 20 years do not receive any retirement pay. This is antithetical to the recruiting and retention demands of a modern military. Troops should have lifetime retirement plans that are portable and can absorb contributions from the military, private sector, and portions of their Social Security taxes.⁴⁰ Any new plan should also allow service members to bequeath accumulated retirement assets to their heirs upon their death without

35. U.S. Department of Defense, *Quadrennial Defense Review*, February 2006, pp. 75–81; Commission on the National Guard and Reserves, *Transforming the National Guard and Reserves into a 21st-Century Operational Force*, January 31, 2008, at http://www.congr.gov/Final%20Report/CNCR_final%20report%20with%20cover.pdf (June 10, 2008).

36. Christine E. Wormuth, *The Future of the National Guard and Reserves: The Beyond Goldwater–Nichols Phase III Report*, Center for Strategic and International Studies, July 12, 2006, p. 95, at http://www.csis.org/component/option,com_csis_pubs/task,view/id,3338 (June 10, 2008).

37. James Jay Carafano, “A ‘Rucksack’ for U.S. Military Personnel: Modernizing Military Compensation,” Heritage Foundation *Executive Memorandum* No. 1020, February 14, 2007, at http://www.heritage.org/research/nationalsecurity/upload/em_1020.pdf.

38. *Ibid.*

39. James Jay Carafano, Baker Spring, and Mackenzie M. Eaglen, “Providing for the Common Defense: What 10 Years of Progress Would Look Like,” Heritage Foundation *Background* No. 2108, February 19, 2008, p. 4, at http://www.heritage.org/Research/NationalSecurity/upload/bg_2108.pdf.

paying estate taxes.⁴¹ This system could be initially offered as a choice to service members and phased in over a period of five to 10 years.

Promoting Performance-Based Compensation Policies

The military compensation system should allow each service to shape the composition of its force—including the Guard and Reserves—more effectively and to achieve the optimal mix of skills, experience, and seniority needed to meet strategic objectives. Not only must compensation attract high-quality recruits, but it should provide additional performance incentives beyond promotion to the next rank, such as bonuses for top achievers, increased choice of assignments and deployments, additional time off, or opportunities for higher education.

Congress should implement a pilot program that provides the military the flexibility to credit top performers (and therefore fast promotees) with “extra years of service—or constructive credit—for purposes of calculating their basic pay.”⁴² Since basic pay is determined by pay grade and time in service, this enduring financial credit would allow the service member to move up a pay grade permanently earlier than his peers.⁴³ This is only a short-term solution that would reform one part of the current system.

Personnel with certain training and skills may be compensated more adequately through credential pay, a type of annual bonus that rewards service members for skills in high demand by military commanders, regardless of rank or assignment.⁴⁴ Credential pay would reward those who have specialized training, are difficult to recruit and retain given their high demand, and meet shifting needs for skill based on current operations. Eligible credentials would be different for each service and constantly changing as operations tempo dictates.⁴⁵

Cash bonuses are another compelling and popular incentive to help commanders motivate their troops and keep some personnel longer than they might otherwise serve. Congress should direct the Office of the Under Secretary of Defense for Personnel and Readiness to study and report on the effectiveness of a bonus program that would allow senior commanders to distribute allowances from a bonus pool, at their discretion, to outstanding units or individuals under their command.⁴⁶

The funds for this bonus program would be allocated similarly to how the Commanders Emergency Response Program distributes funds to civilian relief and reconstruction projects in Iraq and Afghanistan. The goal is to have an immediate impact with cash incentives while addressing unit-specific requirements. These funds would have to meet predetermined criteria, and the rationale for distribution would have to be well documented and fully auditable with quarterly reporting mandates to Congress.

Conclusion

The compensation system of the U.S. armed forces is a dinosaur left over from previous generations. If Congress simply continues to add benefits without taking steps to reinvigorate and reform military compensation, the system will continue to grow until its unaffordable path jeopardizes not just its own operability, but the future modernization of the force.

As a global power, the United States will continue to lead and remain involved in a volatile geostrategic environment. To meet the multitude of requirements demanded of the U.S. military in a post-9/11 world, future defense budgets must strike a judicious balance between personnel costs and modernization.

40. Carafano *et al.*, “A ‘Rucksack’ for U.S. Military Personnel.”

41. “Providing for the Common Defense,” p. 4.

42. *Report of the Tenth Quadrennial Review of Military Compensation*, p. 71.

43. *Ibid.*

44. *Ibid.*, p. 73.

45. *Ibid.*

46. *Ibid.*, p. 74.

Accordingly, military compensation reform should not be treated as a “third rail” of military discussions and annual budget submissions. Nor should the debate over reform be seen as an effort to cut benefits. A serious discussion should precede a genuine and necessary exercise that is vital to the future health of this country’s all-volunteer force. Congress must act now to initiate the first steps

toward constructing a viable military compensation system for the 21st century.

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