



# 10<sup>th</sup> Quadrennial Review of Military Compensation: Report Volume 1

Briefing for Media



# QRMC Process

- **By law, there is a review of military compensation every four years**
- **Operated under White House charter**
- **Study is quasi-independent review**
- **Department reviews the recommendations and sends any desired legislation to Congress for supported recommendations**



# Charter

**Review principles and concepts of the compensation system with specific emphasis on:**

- **Ensuring uniformed personnel have abilities and experience required for War on Terror, homeland defense and public warning and health in emergencies**
- **Maintaining quality of life of members and families**
- **Potential to consolidate special pays and bonuses into fewer, broader and more flexible authorities, and reduction or elimination of community-specific continuation and career pays for more flexible alternatives**
- **Potential need for broader, more flexible recruitment and retention authorities**
- **Implications of changing retirement expectations by members**



# 10<sup>th</sup> QRMC Guiding Principles

- **All-Volunteer:** Compensation must support an all-volunteer workforce and must be seen as fair and equitable to members
- **Flexible and Responsive:** Services must be able to quickly and efficiently adapt to changing markets and missions
- **Best Value:** Compensation must support human capital strategies with the highest value for the least cost
- **Support Achievement of Strategic Outcomes:** Compensation must support recruiting and retention, and encourage performance



# QRMC Themes

- **Flexibility for the Services**
  - Force managers must have the flexibility to adjust resources to quickly respond to changing requirements, operational demands and market conditions, maximizing the effectiveness of each compensation dollar
  
- **Choice for the service members**
  - Whenever consistent with mission requirements, the compensation system should support service members' choices of service conditions, including assignments, enlistment/reenlistment, and occupational choices



# The Report of the 10<sup>th</sup> QRMC

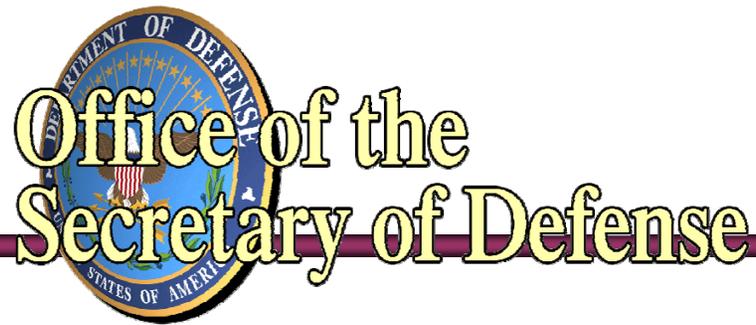
- **Report will be split into two recommendation volumes**
  - Vol I: Cash Compensation
  - Vol II: Non-cash and Deferred Compensation, due out later in 2008



# Cash Compensation Topics

---

- **Pay Comparability**
- **Special and Incentive Pays**
- **Pay for Performance**
- **Housing**



# Military Pay Comparability



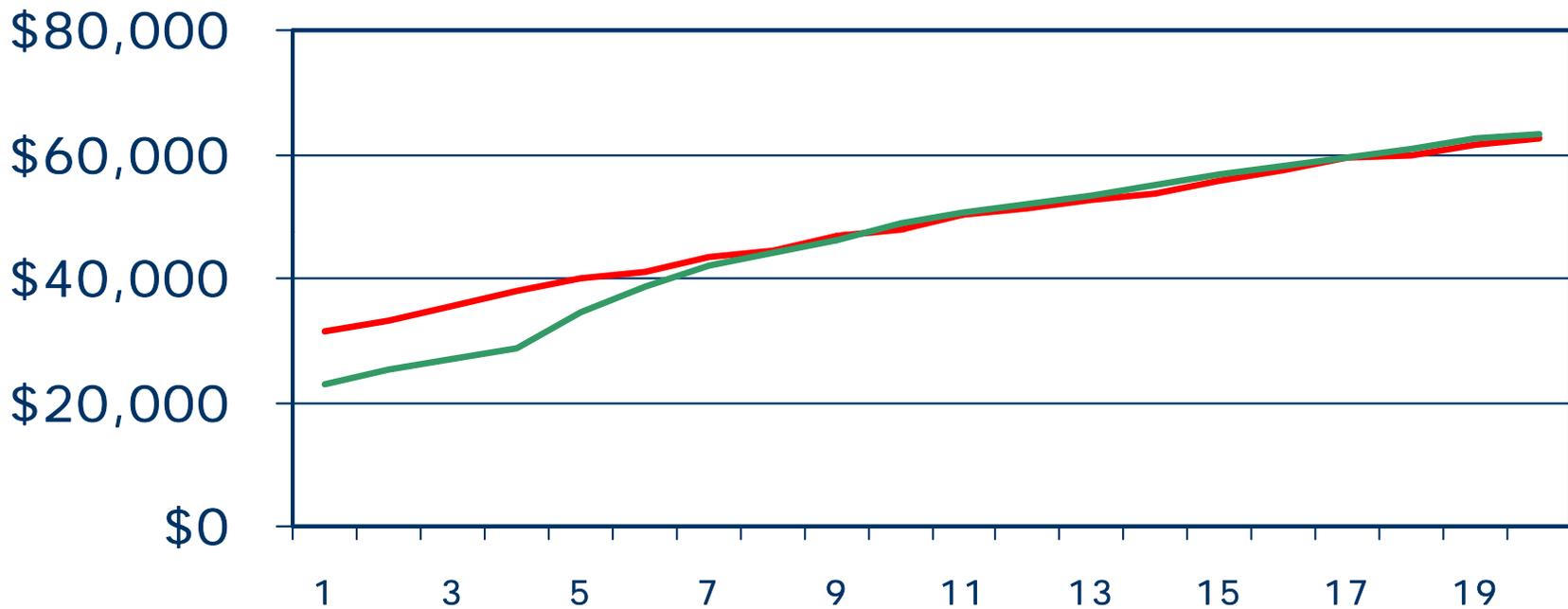
# Comparing Military Earnings to Civilian Wages

- **A basic task of each QRMC is the evaluation of the adequacy of compensation**
  - Pay must be competitive to attract and retain personnel in the right quality, numbers, and skills to man the force
  
- **First phase was to do it consistently with the 9<sup>th</sup> QRMC methodology:**
  - Compare RMC to 70<sup>th</sup> percentile of age and education peers
  
- **Then we developed a new metric and performed the same type of comparison**



# Enlisted Earnings Exceeded Civilian Wages for First 10 YOS

(2006 data)

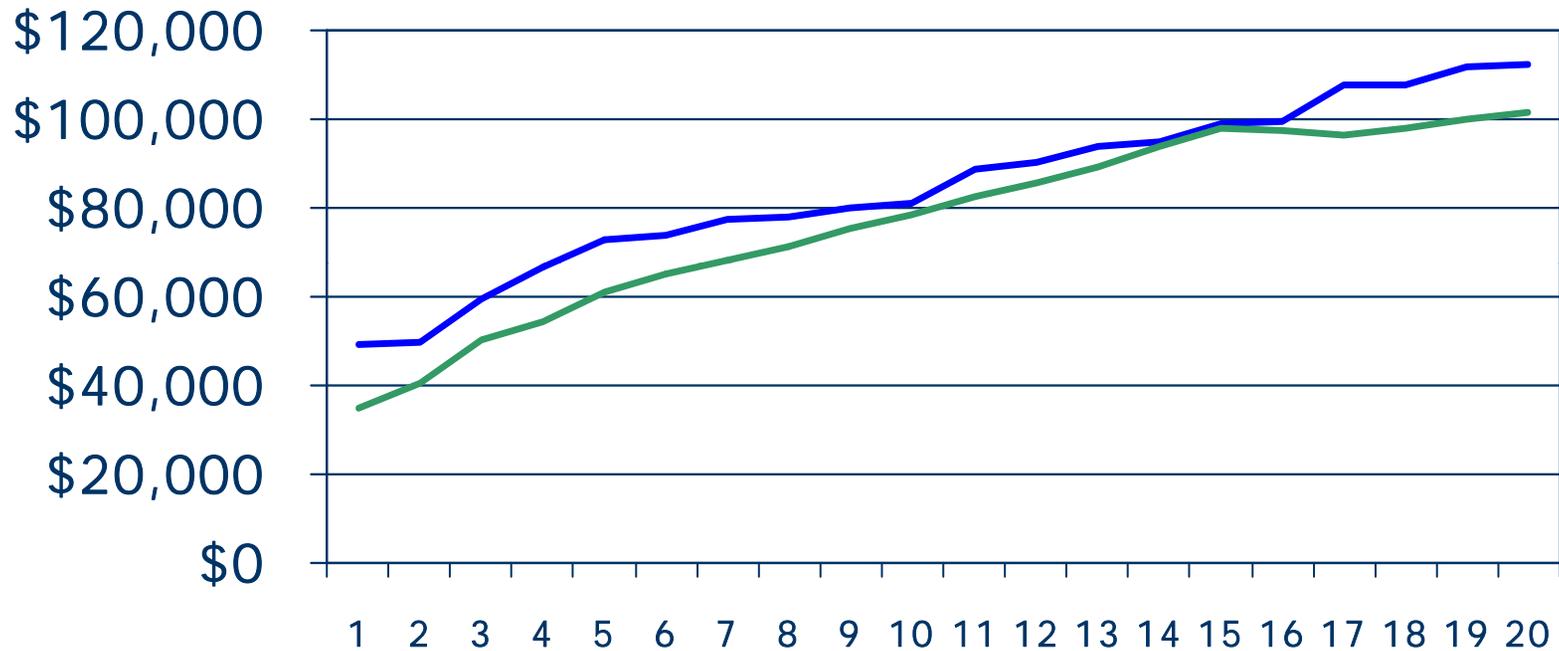


— Enlisted RMC  
— 70th percentile enlisted-equivalent civilians

Note: After targeted raises in 2007, pay comparability to the 70<sup>th</sup> percentile was achieved for all grades/years of service.



# Officer Earnings Exceeded the 70<sup>th</sup> Percentile of Civilian Wages (2006 Data)



— Officer RMC  
— 70th percentile officer-equivalent civilians

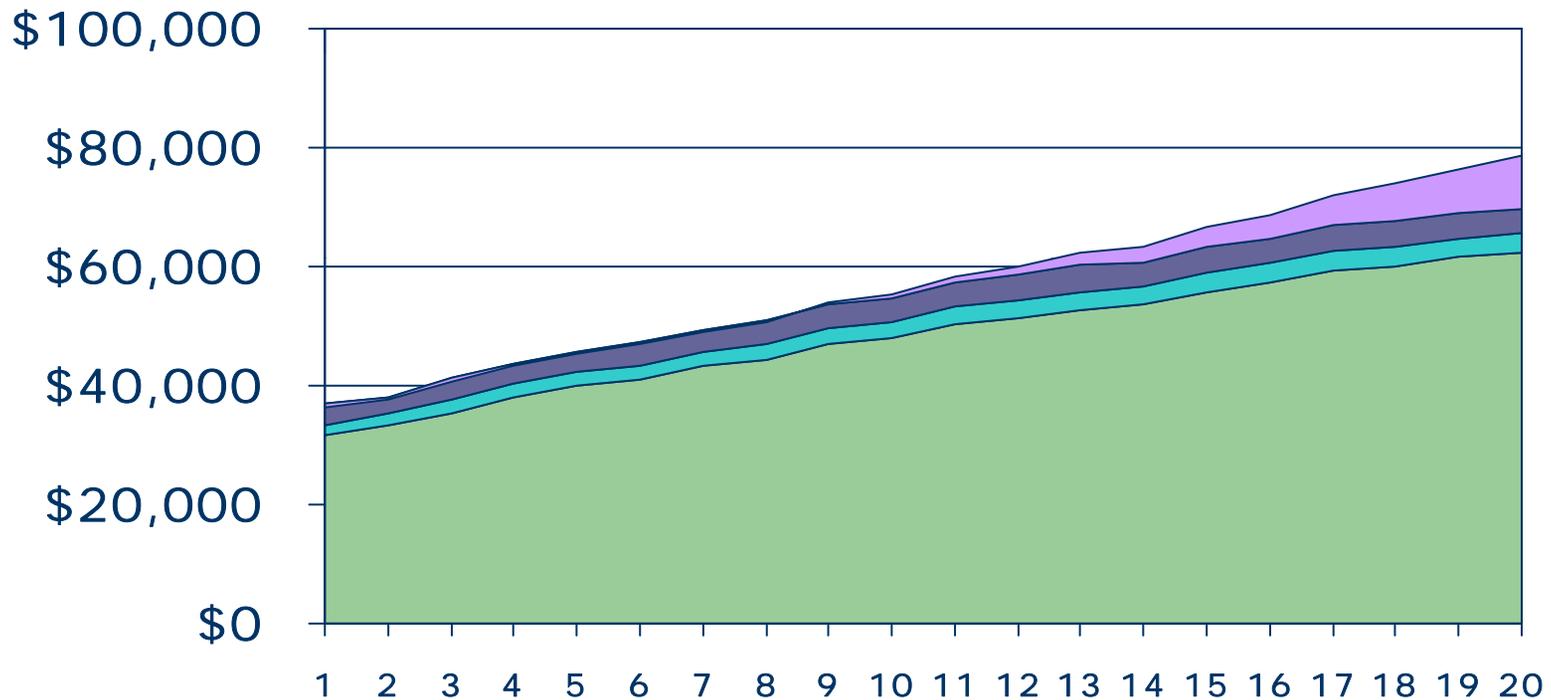


# A New Metric: Military Annual Compensation

- **Objective was to create a more comprehensive measure than RMC to compare to civilian wages**
- **RMC contains basic pay, housing and subsistence allowances, and the federal income tax advantage, but omits other tax advantages and all benefits**
- **New measure starts with RMC, but adds state and FICA tax advantages, the value of avoided out-of-pocket health costs and a measure of the differences in the value of military and civilian retirement**
- **We then compare RMC plus benefits-value differentials to civilian cash**



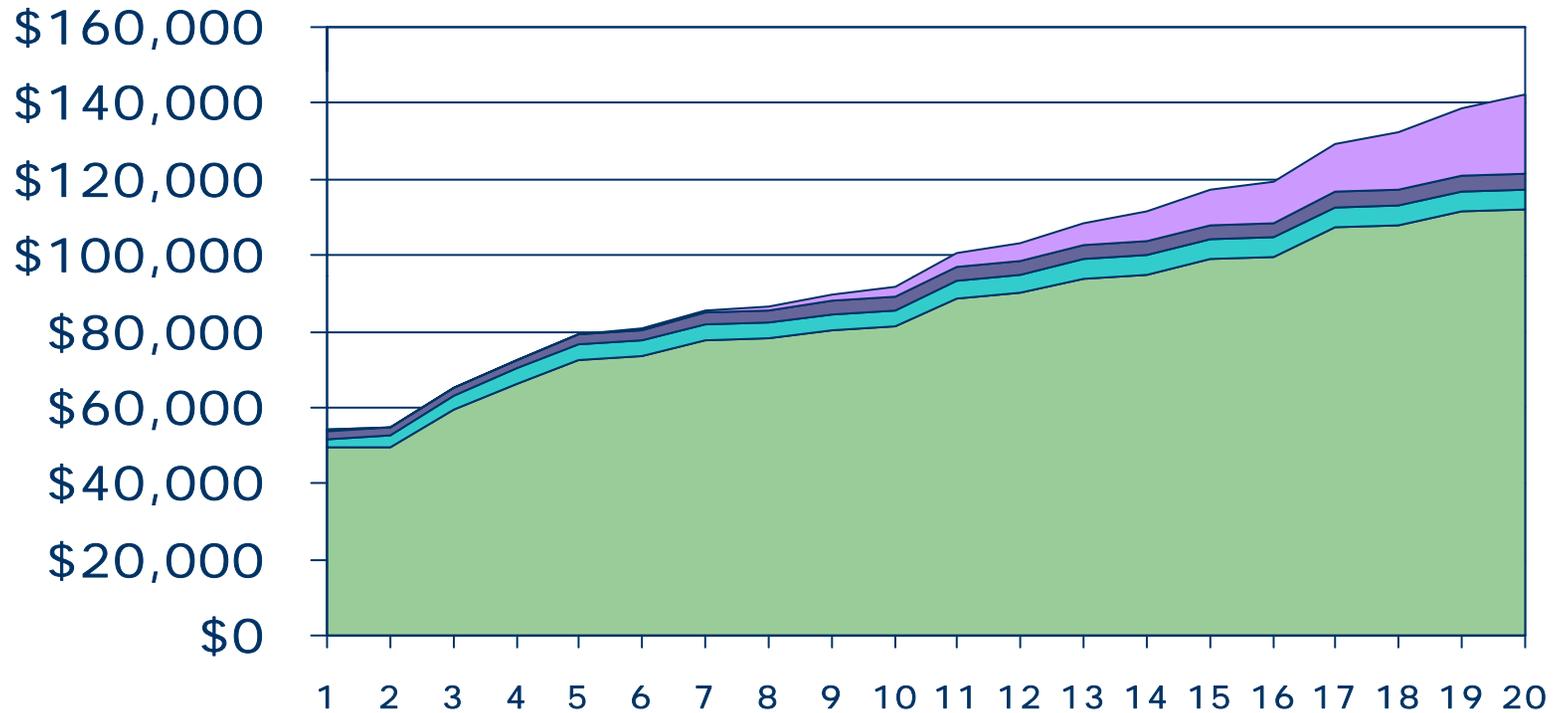
# Enlisted Benefits Add \$4,300 to \$16,100 to RMC



- Value of Military Retirement
- Health Care Cost Avoidance
- State & FICA TA
- Enlisted RMC

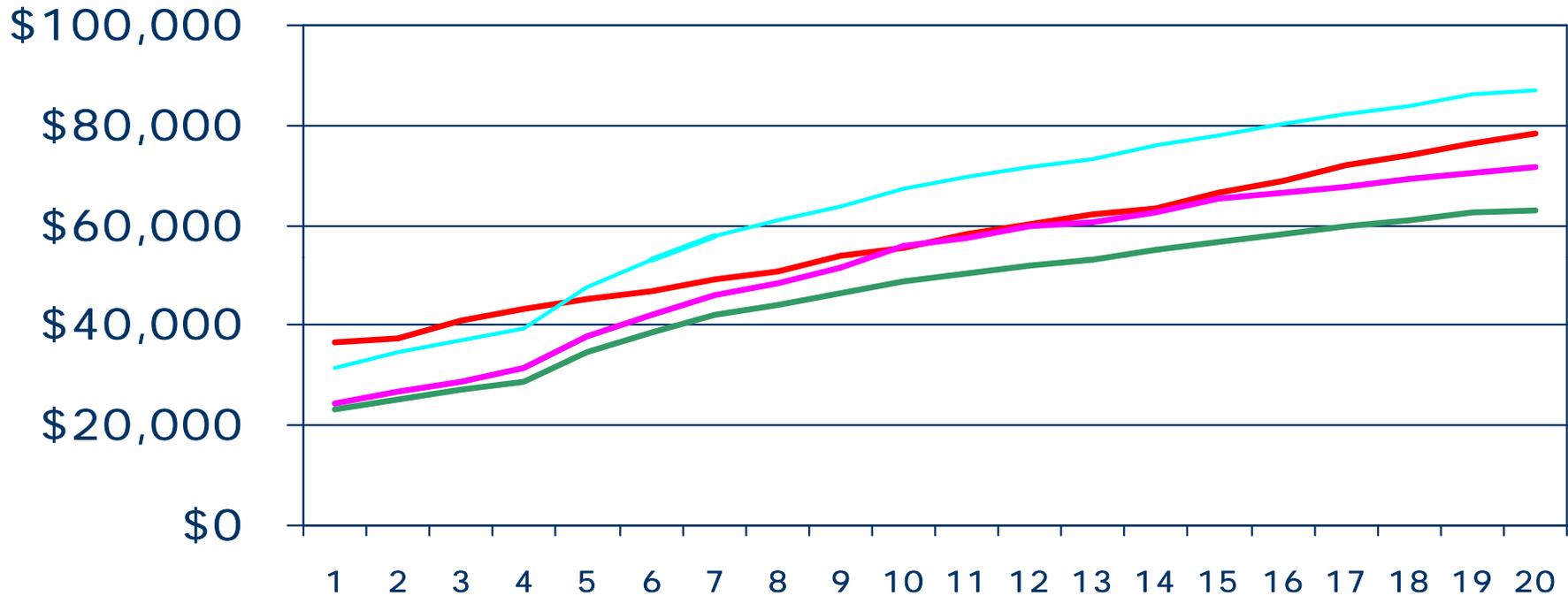


# Officer Benefits Add \$4,100 to \$30,000 to RMC





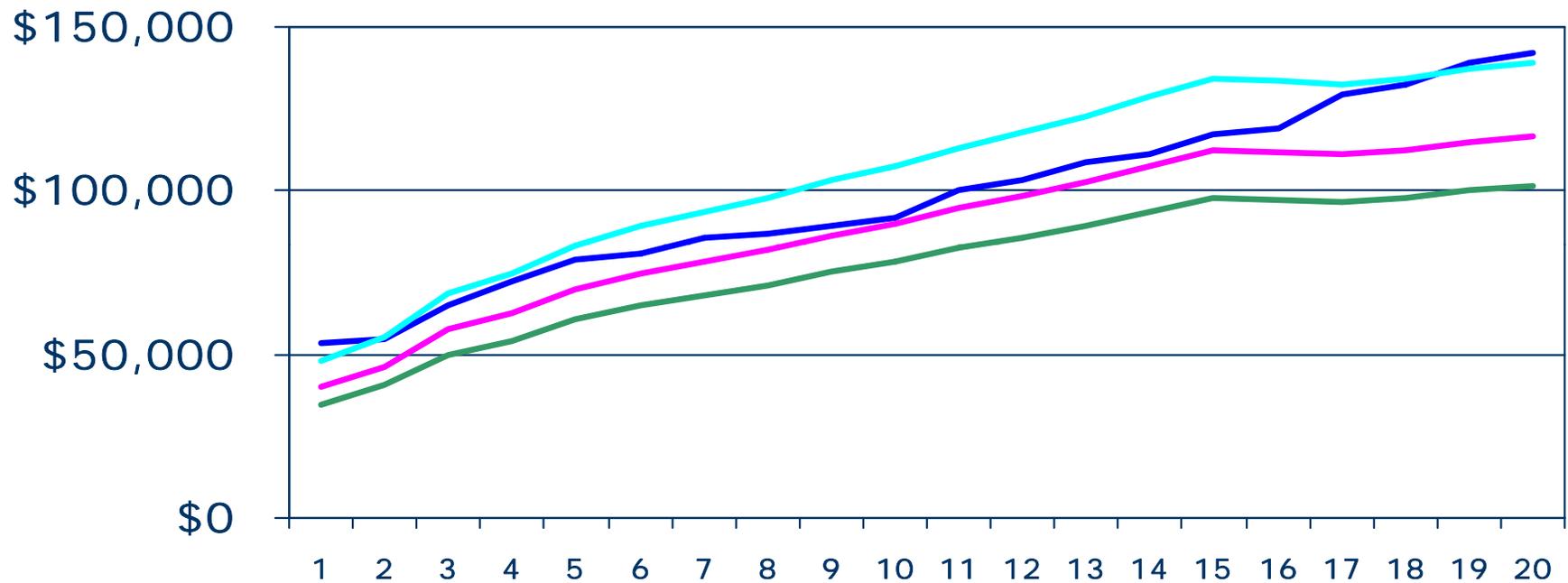
# Enlisted MAC Was Near or Above the 80<sup>th</sup> Percentile in 2006



- Enlisted MAC
- 70th Percentile Civilian Enlisted Equivalent
- 80th Percentile Civilian Enlisted Equivalent
- 90th Percentile Civilian Enlisted Equivalent



# Officer MAC Exceeded the 80<sup>th</sup> Percentile in 2006

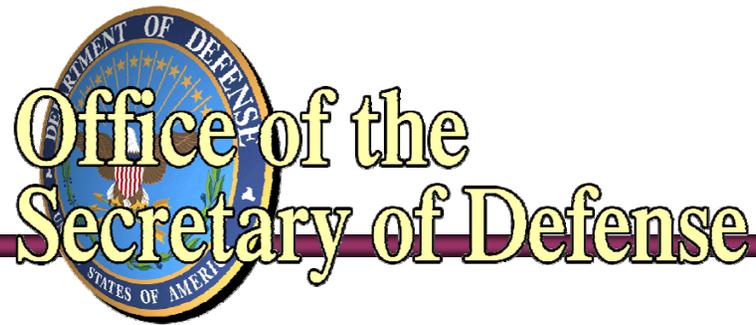


- Officer MAC
- 70th Percentile Civilian Officer Equivalent
- 80th Percentile Civilian Officer Equivalent
- 90th Percentile Civilian Officer Equivalent



# QRMC Recommendations

- **Use MAC as a more comprehensive measure of pay comparability**
- **Set 80<sup>th</sup> percentile as the standard for MAC**
- **Educate the force as to the true value of their compensation package**
  - Members can make more informed choices about their service if they understand their pay



# Special and Incentive Pays



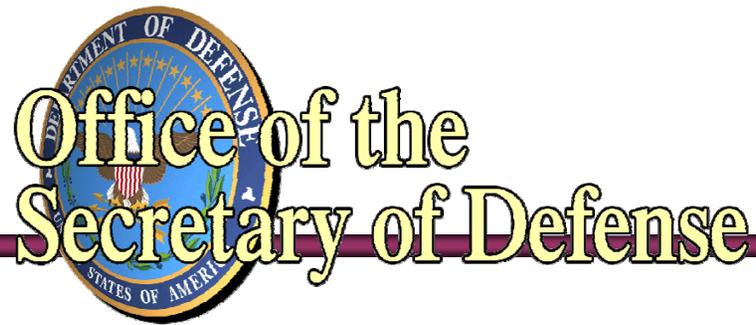
## Recommended Categories for S&I Pays (Adopted in 08 NDAA)

- Enlisted Force Management
- Officer Force Management
- Assignment/Duty
- Hazardous Duty
- Proficiency
- Nuclear Officer Force Management
- Aviation Officer Force Management
- Health Professions Officer Force Management



# S&I Budget

- **DACMC recommended growing this budget relative to Basic Pay**
  
- **QRMC agrees and recommends that the S&I budget grow over time until Services have enough dollars to properly manage their forces**
  - Targeted dollars are the most efficient compensation
  - With Grow the Force initiatives, more S&I dollars will be needed to achieve objectives
  - At less than 5% of total pay, Services have little flexibility to shape their forces, meet emerging needs, or encourage variable career lengths



# Pay for Performance



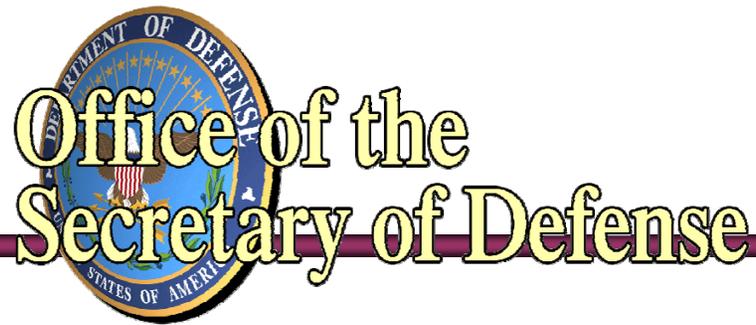
# Changing the Pay Table

- **DACMC recommended replacing the Time in Service (TIS) pay table with a Time in Grade (TIG) table**
  
- **QRMC evaluated this recommendation, but did not agree for several reasons; primarily, a TIG pay table would**
  - Exacerbate the differences between fast- and slow-promoting skills and Services
  - Cause a major systemic change to a well-understood and trusted pay system to address a minority of the population



# Constructive Credit

- **DACMC had two primary concerns, and QRMC agrees with these**
  - Rewards for those promoted ahead of peers are short-lived
  - Lateral entrants and returning members are disadvantaged
  
- **QRMC is recommending that the Services be given authority to give constructive credit to members when appropriate**
  - Early selects could be given credit for the amount of time they were promoted early, yielding a permanent pay advantage
  - Lateral entrants could be assigned to more appropriate grades to reflect private sector experience, while maintaining competitive levels of compensation
  - Returning personnel could be given longevity credit, reflecting experience gained while away from the military, supporting the Continuum of Service construct



# Housing



# BAH Rate Differentials

- **DACMC recommended the elimination of the difference in With and Without Dependent BAH rates**
  - In some locations, the Without rate is as little as 52% the With rate
  
- **QRMC was tasked in congressional language to assess the rate setting process and revalidating the standards was part of that**
  
- **Under the law, BAH standards must be set by estimating housing expenditures of civilians with similar incomes to military personnel**
  - A detailed, rigorous process established anchor points for specific types of housing for those with families
  - Single standards were not set using the same methodology, so QRMC replicated the earlier study using most current civilian data for both singles and families



# QRMC BAH Recommendations

- **QRMC recommends reducing the gap between with and without dependent BAH rates to achieve parity in out-of-pocket expenses derived from housing expenditures by comparably situated civilians**
  
- **Begin with a 75% floor, gradually increasing as the budget would allow**
  - DoD has adopted this starting with the Jan 08 housing rate adjustment
  - Future adjustments will necessarily be affected by budget considerations



# Rental Rates for Government Housing

- **DACMC recommended charging fair-market rental rates for government housing**
- **QRMC rejected this for family housing**
  - Concept makes sense in that junior personnel may occupy better quarters than more senior personnel, but would place undue burden on young enlisted families
  - Would also affect housing privatization contracts
- **QRMC supports this concept for single housing**



# A New Partial BAH

- **Current Partial BAH is an artifact of a long-ago reallocation of a pay raise into housing**
  - Has never been recomputed, so value has eroded
  
- **QRMC recommends that members receive a Partial BAH based on the quality of their government housing**
  - Recommending it be achieved through a new 'variable Partial BAH' set by the SecDef in the same way as BAH rates are set
  - Recommendation envisions rates ranging from none for DoD single housing standard (1+1 dorm) up to 25% of the CONUS average BAH for hot bunk arrangements
  - Would not apply to trainees, patients, and prisoners



## Next Phase of QRMC

---

- **Quality of life**
- **Health Care**
- **Retirement**



# Back Up Material



# Military Pay Growth Since 1981

	Military Pay Raise	Average Total Increase	Average Housing Allowance Increase**	Average Subsistence Allowance Increase	CPI Increase Sept to Sept	ECI Increase 3rd Q to 3rd Q	Military Pay Increase Relative to		Total Increase Relative to	
							ECI	CPI	ECI	CPI
Oct 1 1981	14.30	14.37	14.70	14.30	11.00	9.3				
Oct 1 1982	4.00	4.53	7.00	4.00	4.90	8.1	-3.94%	-0.87%	-3.42%	-0.35%
Jan 1 1984	4.00	4.00	4.00	4.00	2.80	5.6	-5.54%	0.30%	-5.01%	0.80%
Jan 1 1985	4.00	4.41	6.30	4.00	4.30	5.1	-6.66%	0.01%	-5.70%	0.90%
Oct 1 1985	3.00	3.71	7.00	3.00	3.20	4.4	-8.11%	-0.18%	-6.41%	1.39%
Jan 1 1987	3.00	3.30	4.70	3.00	1.80	4.2	-9.37%	0.98%	-7.34%	2.82%
Jan 1 1988	2.00	2.18	3.00	2.00	4.30	3.5	-10.98%	-1.25%	-8.73%	0.80%
Jan 1 1989	4.10	4.15	4.40	4.10	4.20	3.5	-10.34%	-1.35%	-8.05%	0.76%
Jan 1 1990	3.60	4.01	5.90	3.60	4.40	4.4	-11.19%	-2.13%	-8.46%	0.38%
Jan 1 1991	4.10	4.61	7.00	4.10	6.20	4.4	-11.51%	-4.19%	-8.24%	-1.13%
Jan 1 1992	4.20	4.34	5.00	4.20	3.40	4.2	-11.51%	-3.39%	-8.09%	-0.22%
Jan 1 1993	3.70	3.75	4.00	3.70	3.00	3.7	-11.51%	-2.69%	-8.03%	0.51%
Jan 1 1994	2.20	2.52	4.00	2.20	2.80	2.7	-12.05%	-3.29%	-8.23%	0.23%
Jan 1 1995	2.60	2.67	3.00	2.60	3.00	3.1	-12.60%	-3.70%	-8.68%	-0.09%
Jan 1 1996	2.40	2.68	4.00	2.40	2.50	2.9	-13.15%	-3.80%	-8.91%	0.09%
Jan 1, 1997	3.00	3.70	7.00	2.90	3.00	2.8	-12.93%	-3.80%	-7.97%	0.76%
Jan 1, 1998	2.80	2.20	1.00	0.50	2.20	3.30	-13.48%	-3.19%	-9.13%	0.76%
Jan 1, 1999	3.60	3.40	3.40	1.40	1.40	3.6	-13.48%	-1.00%	-9.34%	2.68%
Jan 1, 2000	4.80	4.10	4.80	1.10	2.70	4.30	-11.45%	2.33%	-8.52%	4.90%
Jul 1, 2000	1.40	0.99	0.00	0.00	0.00	0	-11.45%	2.33%	-8.52%	4.90%
Jan 1, 2001	3.70	6.40	16.20	1.10	3.50	3.20	-10.49%	2.89%	-4.98%	7.73%
Jul 1, 2001	0.40	0.28	0.00	0.00	0.00	0	-10.49%	2.89%	-4.98%	7.73%
Jan 1, 2002	6.90	7.50	9.90	5.10	2.60	4.10	-7.59%	6.80%	-1.66%	11.94%
Jan 1 2003	4.70	7.60	16.40	0.50	1.50	3.6	-6.46%	9.65%	2.12%	16.93%
Jan 1 2004	4.15	3.40	1.00	4.70	2.30	3.20	-5.49%	11.25%	2.31%	17.81%
Jan 1 2005	3.50	5.85	11.00	4.90	2.50	3	-4.98%	12.11%	4.94%	20.41%
Jan 1 2006	3.10	3.82	6.00	1.90	4.70	2.60	-4.47%	10.74%	6.06%	19.74%
Jan 1 2007	2.20	4.48	10.00	2.70	2.10	2.2	-3.96%	11.27%	6.52%	20.21%
Apr 1 2007	0.50	0.32	0.00	0.00	0.00	0.00	-3.45%	11.71%	6.52%	20.21%

\*\*Does not include VHA increases